Efficiency through light

ANNUAL REPORT 2012

LPKF
Laser & Electronics

LPKF Laser & Electronics AG at a glance

Consolidated revenue as of 31 December

		2012	2011	2010	2009	2008
Revenue	EUR million	115.1	91.1	81.2	50.7	45.4
Revenue by region						
Germany	EUR million	13.2	13.3	10.7	10.9	17.8
Other Europe	EUR million	14.5	10.3	10.3	8.8	8.0
North America	EUR million	22.2	22.0	13.5	5.3	5.5
Asia	EUR million	63.3	43.2	45.0	24.5	12.7
Other	EUR million	1.9	2.3	1.7	1.2	1.4
Revenue by segment						
Electronics Development Equipment	EUR million	19.4	18.1	15.2	13.5	15.0
Electronics Production Equipment	EUR million	55.7	45.2	51.8	26.5	15.7
Other Production Equipment	EUR million	38.1	25.5	11.4	8.8	12.7
All other segments	EUR million	1.9	2.3	2.8	1.9	2.0

Consolidated financial key figures as of 31 December

		2012	2011	2010	2009	2008
EBIT	EUR million	20.4	15.2	17.3	7.0	3.1
EBIT margin	%	17.7	16.7	21.3	13.7	6.8
Consolidated net profit after non-controlling interests	EUR million	13.5	9.9	12.1	4.7	1.8
Net margin before non-controlling interests	%	12.4	11.4	15.5	9.3	5.1
ROCE (Return on Capital Employed)	%	26.4	23.4	31.6	15.7	7.4
Cash and cash equivalents	EUR million	2.5	5.6	13.0	10.3	6.0
Equity ratio	%	58.1	55.6	70.3	69.7	68.5
Cash flow from operating activities	EUR million	17.1	3.3	13.5	11.5	6.4
Investments in property, plant and equipment and intangible assets	EUR million	12.8	14.9	8.1	4.0	3.3
Earnings per share, diluted	EUR	1.21	0.90	1.10	0.43	0.17
Dividend per share	EUR	0.50*	0.40	0.40	0.20	0.00
Orders on hand	EUR million	34.3	25.2	12.5	14.7	10.3
Incoming orders	EUR million	124.1	104.0	78.9	56.0	48.1
Employees**	Number	690	602	466	384	374

* AGM proposal
** excl. trainees and workers in minor employment

Miniaturization
brings momentum

LPKF Laser & Electronics AG designs and engineers **machinery for micro material processing**. At the heart of such equipment lies **a tool, the laser beam**, which offers **high-precision** surface machining. The ongoing trend for miniaturization is paving the way for the use of laser technology in the industrial production of especially small or delicate parts.

LPKF's laser systems are used **in various sectors**: in the **electronics and automotive industry**, in **polymer technology applications**, and for the **manufacture of solar panels**. Machines made by LPKF not only **design**, process and cut out **PCBs** but can even replace them entirely by employing **laser direct structuring (LDS)** techniques. In many areas, laser technology is replacing conventional methods of production.

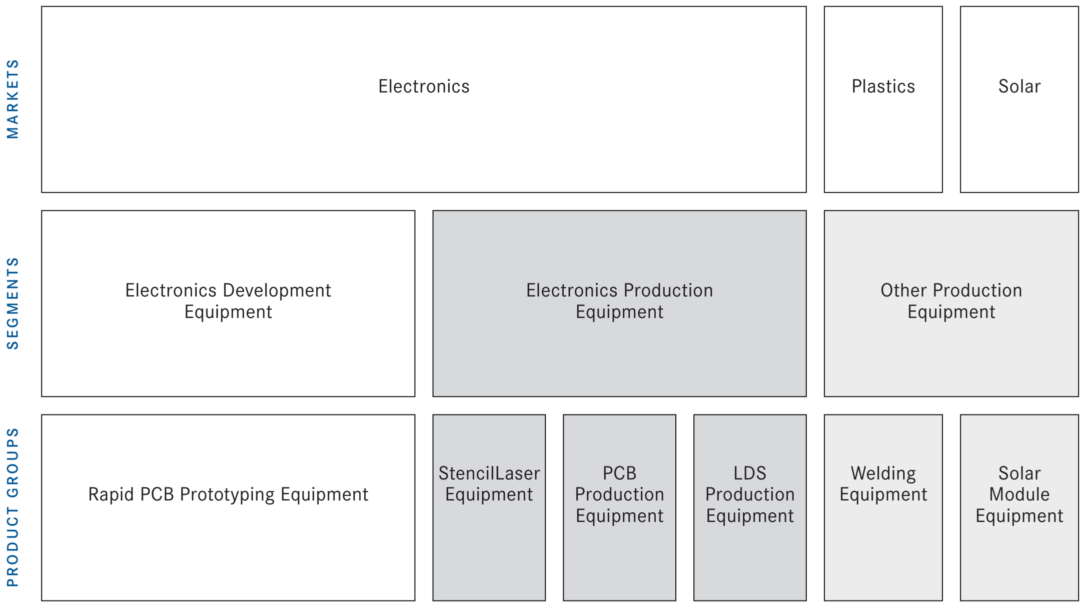
The Group's success stems from its **expertise and experience** in the fields of laser technology and drive/control systems, supplemented by **in-house software development work**. A process of **continuous improvement** and the discovery of new application scenarios have made LPKF into what it is today: a highly **profitable mechanical engineering business** and a world-class **laser specialist**.

LPKF is **headquartered in Garbsen near Hanover, Germany**. The company maintains a broad-based global presence, with a **workforce of 690** based at sites **in Europe, Asia and the US**. The export share was 89% in the 2012 financial year. With revenue of EUR 115.1 million, LPKF can look back on **another record year.** Earnings before interest and taxes (EBIT) were EUR 20.4 million. The LPKF Laser & Electronics AG share has been listed on **Deutsche Börse's TecDAX** since September 2012. In the 2012 financial year, the LPKF share gained 66% to close at EUR 15.75.

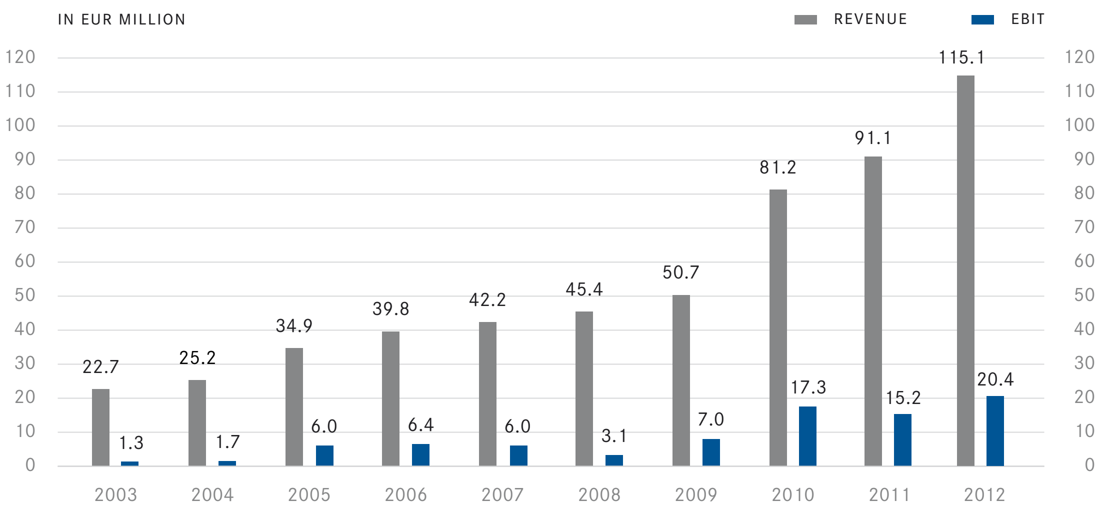
LPKF
Laser & Electronics

LPKF Laser & Electronics AG
— overview

Markets, segments and product groups

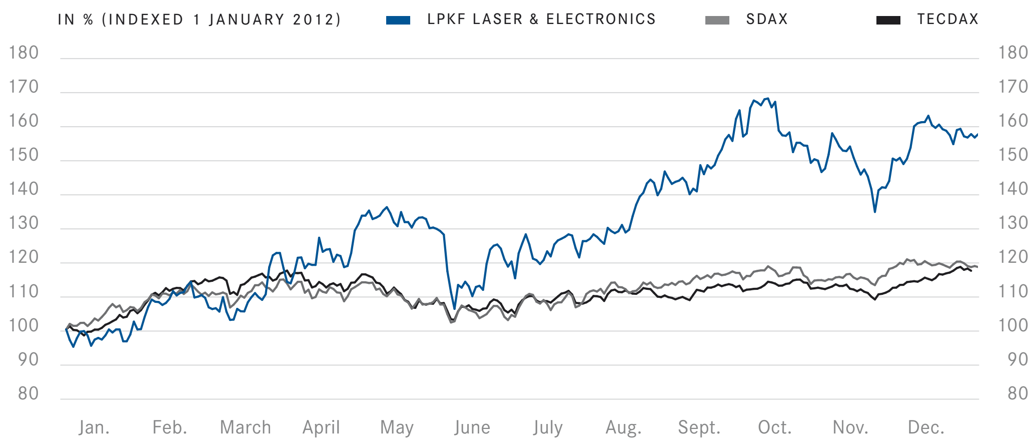


Revenue and EBIT



LPKF sites worldwide

Performance of the LPKF share in 2012



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Chairman's statement

Laser technology continues to make inroads

Our primary goal, to pass the 100-million-euro mark for revenue in 2012 – while keeping profitability high – has been achieved.

Dr. Ingo Bretthauer (Chief Executive Officer)

LADIES AND GENTLEMEN,

The positive performance of the LPKF Group continued unabated in 2012. With revenue growth of 26 %, we have now managed to achieve double-digit growth for a fourth consecutive year. It is especially pleasing that all segments contributed to this result. At EUR 20.4 million – and a gain of 34 % on the previous year – earnings joined revenue in reaching a new record high. Our primary goal, to pass the 100-million-euro mark for revenue in 2012 – while keeping profitability high – has been achieved. Our shareholders should also benefit from our company's positive performance. The Supervisory Board and Management Board will recommend a dividend payment of 50 cents per share to the Annual General Meeting.

Electronics Production Equipment maintained its position as the largest segment. This division consists of the three product groups LDS Production Equipment, PCB Production Equipment and Stencil-Laser Equipment. Our fastest rate of growth in the last financial year was achieved by our range of compact systems for PCB separation. This success further justifies our chosen strategy of seeking to replace conventional mechanical processing systems with laser-based systems. Accordingly, we will pursue our expansion of our portfolio in this area and will launch further innovative products on the market before the end of 2013.

We start the year 2013 with full order books and positive feedback from our markets.

The LDS business continues to be our biggest source of revenue in the Electronics Production Equipment segment. We also made gains here in 2012, with business picking up especially in the last six months. Ultimately, this also enabled us to revise our forecast upwards in the course of the year. In addition, the high level of incoming orders – boosted in particular by new customers from Korea – provided us with record orders on hand by the end of 2012.

Other Production Equipment – consisting of the two product lines Solar Module Equipment and Welding Equipment – developed into the second-largest segment in 2012. In our solar business, we produce laser systems that are deployed in the manufacture of thin film solar cells. Despite very weak conditions in the overall market, a major order acquired at the end of 2011 enabled us to expand our position significantly and progress to being the world's leading supplier of such systems. This major order will continue to bring in revenue – although at a decreasing rate – until early 2014. Accordingly we assume revenue in 2013 will be slightly lower for this product group.

The Welding Equipment product group also turned in an outstanding performance, with significant growth achieved not just in revenue but also in earnings. The order backlog and volume of projects under negotiation both grew so rapidly that this segment ultimately came close to capacity by the end of the 2012 financial year. In the light of these developments, we have decided to raise capacity significantly by acquiring a facility in 2013, and thus lay the foundations for further growth within this product group.

Gains were also made by our longest-standing product group, Rapid PCB Prototyping. While growth here was not as strong as in the other segments, this was only to be expected last year after the extraordinarily high growth experienced in 2011. In this segment, too, we will continue to pursue consolidation of our global market dominance. We will also be launching a wholly new range of laser-based prototyping products on the market in 2013.

Our workforce rose to 690 employees at the close of the year. Despite the difficult conditions, we are very pleased that LPKF has been able to acquire a large number of highly qualified members of staff. I believe our positive corporate culture plays a key role here. I would like to take a moment to thank all of our staff for their outstanding work in the 2012 financial year.

Our Management Board was augmented by a new role at the close of 2012. Since then, our new COO Dr.-Ing. Christian Bieniek has been handling the rising number of operational challenges generated by a company growing at the speed achieved by LPKF. In particular, Dr.-Ing. Bieniek will be promoting significantly more widespread use of synergies throughout the Group and continue to improve capacity sharing between our sites. It is our firm belief that we still have major untapped potential here. Indeed, this was a key reason for our major focus on the ORG200 internal organization project in 2012. All of this should help us to also establish the organizational foundations for further growth.

My heartfelt thanks – and those of my Management Board colleagues – are also due to the members of our Supervisory Board. Despite personnel changes in the Supervisory Board, our sound, constructive collaboration was able to continue unaffected. Contact between Management Board and Supervisory Board not only featured an above-average number of joint sessions, but was also marked by a high level of communication between meetings.

The solid progress made by our company has also been reflected in the performance of the LPKF share. With the upward trend continuing in early 2013, I am especially pleased that our shareholders are also seeing significantly better performance in terms of share price than the rest of the market. One particular highlight was, quite naturally, acceptance into the TecDAX in September 2012. This has made our share attractive to other groups of investors, a fact that has boosted short-term revenue while also influencing our share price.

We start the year 2013 with full order books and positive feedback from our markets. As long as electronics continue to become smaller and more compact, laser technology has a strong hand. We are working on making the production of these electronic components even more efficient: with light.

Garbsen, Germany, March 2013

Dr. Ingo Bretthauer
(Chief Executive Officer)

The Management Board
of LPKF Laser & Electronics AG

Since December 2012, the Management Board has consisted of four members. Their areas of responsibility reflect the core functions of the Company, ensuring the Group's leadership team is well-positioned for further growth.

DR. INGO BRETTHAUER [1]
Chief Executive Officer (CEO)
Strategy, Marketing and Sales

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

KAI BENTZ [2]
Chief Financial Officer (CFO)
Finance, Human Resources and Organisation

Born 1971, member of the Management Board since 2007 – Upon completion of his degree in economics at the University of Hanover, Kai Bentz worked for a large international accounting and auditing firm. After qualifying as a tax advisor, he joined LPKF in 2002.

BERND LANGE [3]
Chief Technology Officer (CTO)
Technology, Research and Development

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

DR.-ING. CHRISTIAN BIENIEK [4]
Chief Operating Officer (COO)
Production, ERP and Administration

Born in 1967, member of the Management Board since late 2012 – Christian Bieniek studied mechanical engineering (with a focus on manufacturing technology) before completing his doctorate at TU Braunschweig. He then worked in a number of companies, including a position as Head of Operations for a leading vehicle and mechanical engineering business. He has held the position of COO at LPKF since December 2012.

[1]

[2]

[3]

[4]

Ten questions for the **Management Board**

1. In 2012, LPKF again posted record revenue and passed the 100-million-euro mark with a figure of EUR 115.1 million. At EUR 20.4 million, year-on-year operating income was also significantly higher. Was your forecast too pessimistic, Dr. Bretthauer?

Bretthauer: For LPKF, 2012 developed more positively than we had expected at the start of the year. In the third quarter in particular, we saw very strong performance from LDS systems. We therefore revised our forecast upwards over the course of the year. We believe it is important that we communicate our personal expectations as precisely and reliably as possible, adjusting these during the year as required. This is greatly appreciated by our shareholders.

2. LPKF has made the grade: with a listing in the TecDAX, the Company is now one of Deutsche Börse's 30 leading tech stocks. How do you plan to use the capital market for LPKF in the future, Mr. Bentz?

Bentz: I am very pleased that we are now listed in the TecDAX. Even before our acceptance, we were seeing a considerable uptake in investor interest and a steady increase in the value of our share. All of the options for growth financing are therefore open to us: whether via equity or borrowings and with or without the use of banks.

3. Research and development are the lifeblood of a technology leader like LPKF. What will be the key areas here over the next few years?

Lange: As a general rule, our laser systems are replacing standard manufacturing techniques, and are supporting major trends for digitalization, miniaturization and greater flexibility. Our target markets are very dynamic and new chances for deploying lasers appear on a regular basis. At the same time, rapid progress is being made in laser technology. Our development activities focus on exploiting the very latest opportunities for laser technology and on developing innovative techniques for our markets. We are investing heavily here, and are increasingly focusing on complex manufacturing procedures.

4. In 2012, LDS once again delivered strong growth, although its performance was overshadowed by the 155 % growth shown by PCB Production Equipment. Does this give you a new favorite for driving revenue growth in the future?

Bretthauer: We were very pleased to see how our systems for PCB cutting performed so well in 2012. Clearly, our new products are well aligned here with a trend towards the use of laser technology. Accordingly, PCB Production Equipment has thus become a very important business pillar and growth driver in a very short space of time. We will bolster this pleasing development by pressing ahead with the expansion of our product and service portfolio.

5. The solar market did not recover in 2012. Do you still believe that LPKF is favorably positioned with its commitment to the thin film technology sector?

Lange: The solar market is going through a consolidation phase, with a lot of negative press. Significant technological breakthroughs – especially for thin film solar cells – are often underreported, however. And yet development is on the right track here: as solar cell efficiencies improve, we are slowly but surely getting closer to a solar market free of subsidies. The specific benefits offered by thin film solar cells have a major part to play here. We will continue to pursue and advance our work in this exciting field.

6. In 2012, Welding Equipment reported surprisingly high revenue growth of 32.0 %. What's the state of play with profitability in this product group?

Bretthauer: Alongside positive revenue growth, profit in this segment has also improved significantly. We are convinced that our team in Erlangen is on the right track for achieving sustainable, profitable growth. In early 2013, we therefore decided to significantly expand capacities at our Erlangen site. This project is the largest single investment ever made in the history of the LPKF Group and thus clearly indicates that we intend to achieve even greater successes in the laser plastic welding segment.

7. Dr. Bieniek, you were appointed to the LPKF AG Management Board in early December 2012. What were your first impressions of this company?

Bieniek: From the very beginning, one aspect that really struck me was the passion and enthusiasm with which my LPKF colleagues tackle the task of resolving what are often highly challenging customer requirements. LPKF's strengths here clearly stem from the interdisciplinary and highly creative teamwork shown by all employees throughout the Company. I also think the highly positive corporate culture plays a key role here.

8. In 2012, the LPKF Group hired a total of 88 new employees. Has LPKF also found it harder to find well-qualified specialist staff?

Bentz: We are definitely seeing a huge demand for highly qualified specialist personnel. On the other hand, LPKF managed to attract a whole host of high quality applicants in 2012. Our development departments were a major focus for hiring activities. Applicants are attracted by our highly dynamic business model, innovative technologies and the fact that we offer a great many career models and personal flexibility. Word of mouth is also important, however: time and again, we have applicants come to us who have heard about us from friends or acquaintances. And we have a very positive corporate culture. After all: we don't just want to hire good employees – we also want to enjoy working with them as long as possible. Our low employee turnover rates – such as 2.8 % at our Garbsen site – show how well we are succeeding here. Promotion to the TecDAX has had a very positive effect on our reputation. We've also been pleased to notice this effect when recruiting specialists outside Lower Saxony.

9. In late 2011, the Supervisory Board launched a project with the working title ORG200, intended to prepare the Company's organizational aspects for further growth. Are there any initial successes to report here?

Bieniek: The ORG200 project is proceeding apace. Alongside many specific actions targeting the optimization of high-level Group processes and structures, we have also noticed significant improvements to Company communications. Numerous Group-wide specialist committees have been established, in which synergies are being identified and best practice methods are being discussed. The focus in 2013 is on implementing the measures we have agreed.

10. What is your planned investment volume for the next few years?

Bentz: As with previous years, 2013 will once again see us investing heavily in our growth segments. The largest sum here will be the EUR 14 million we are investing in the expansion of production facilities for our Welding Equipment product group. For the year as a whole, we plan to make total investments of over EUR 20 million. In 2014 and the years that follow, our investment activities are likely to return to a much lower level of less than 10 % of revenue as currently planned.

Report of the Supervisory Board

Optimal chances for sustained profitable **growth**

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

LADIES AND GENTLEMEN,

LPKF Laser & Electronics AG grew again in financial year 2012, lifting consolidated revenue from EUR 91.1 million to EUR 115.1 million, an increase of 26%. We are pleased not only about this growth as such, but also about the fact that increased revenue was reported by all segments. It is notable in this context that the profitability of the Other Production Equipment segment, including the Welding Equipment and Solar Module Equipment product groups, improved substantially and has reached an EBIT margin exceeding 10%. While this does not mark the end of efforts to boost profitability, it is an accomplishment that deserves particular mention, along with our thanks to the employees in Erlangen and Suhl.

Monitoring and advising

In the 2012 financial year, the Supervisory Board closely monitored the successful performance of LPKF Laser & Electronics AG and fulfilled its duties pursuant to the law and Articles of Incorporation. Last financial year, the Supervisory Board held twelve meetings, five of which were not regularly scheduled. All three members of the Supervisory Board participated in all meetings. In some cases, the meetings were held without the Management Board present. The Supervisory Board passed resolutions after considering the opportunities and risks where required by the law, the Articles of Incorporation or the rules of procedure. The Management Board presented to the Supervisory Board proposals requiring its approval in accordance with the Articles of Incorporation and rules of procedure of the Management Board, and the Supervisory Board approved them, if necessary after amending the proposals submitted. In addition, the Supervisory Board monitored the legality, propriety and fitness for purpose of the Management Board's actions.

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

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

Main focus of the advice

Due to the Company's strong growth and resulting new hires, the Supervisory Board along with the Management Board began in 2011 to consider projects to ensure that the Company's structure and organization would be able to sustainably manage the revenue and workforce growth occurring.

Corporate development planning was a focus of the Supervisory Board's activities in the first five months of 2012. Above all, the Supervisory Board with the help of a management consultant considered the issue of whether the size of the Management Board and the structure of the second management level were suitable to handle the challenges of this pace of growth. These deliberations concentrated mainly on boosting the efficiency of the organization and preparing it for further growth. At the same time, the aim was to reduce the burden on individual high performers and prevent them from experiencing health issues. The Supervisory Board held meetings addressing the "Organization" project on 5 January, 10 January, Given the positive business performance in the reporting year and the positive outlook for 2013, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 23 May 2013 that it pay a dividend of EUR 0.50 per share.

25 January, 20 April and 14 May 2012, in some cases without the Management Board present. The key results of this consulting activity were the creation of the new position of Chief Operating Officer (COO), who is principally responsible for technical support, production and purchasing/logistics, as well as the associated revision of the rules of procedure for the Management Board (including the new schedule of responsibilities). In the rules of procedure, the Supervisory Board highlighted the Management Board Chairman's right to exercise control within the Management Board.

At the same time, the Supervisory Board approved an amended LPKF Group organizational structure and LPKF Group rules along with the ORG200 implementation project aimed at adapting the organizational structure and processes and the hierarchies of the LPKF Group in line with this growth. The core objective of the ORG200 project is to strengthen the Group's identity. A Group identity is the prerequisite for optimal leveraging of synergies in the Group. The Supervisory Board also supported this goal symbolically by holding meetings at the Group's Suhl and Erlangen sites and plans to hold other meetings at other Group sites as well. The ORG200 project is continuing. The Management Board and Supervisory Board consulted with one another continually about the status of implementation throughout 2012.

At a one-and-a-half day strategy meeting on 10 and 11 October 2012, the Management Board and Supervisory Board along with the management consultant working on the ORG200 project and Group executives discussed the Group's strategy and the development of the divisions. Currently, the results of the project are being analyzed, and the Management Board and Supervisory Board will deliberate on the conclusions drawn.

The growth of the Company also occasioned necessary investments in buildings and space. At the Garbsen site, the Company was fortunately able to take over space from a neighboring company, thus securing contiguous land and building space for further growth as well. The Supervisory Board has since approved additional investments of this type for the high-growth Plastic Welding business in Erlangen. Improving the compliance system (adhering to statutory regulations and the Group's internal corporate guidelines) and the effectiveness of the risk management system have been and continue to be particular concerns for the Supervisory Board. The Supervisory Board therefore addressed compliance and risk management issues repeatedly. An external company was hired to conduct internal auditing, among others at the Tianjin site, which led to improved reporting and risk management.

In the last quarter of 2012, compliance-related issues arose in connection with the interest in LPKF Laser & Elektronika d.o.o., which the Supervisory Board will continue to handle into 2013. One result of the investigation was the dismissal of one of the managing directors of LPKF Laser & Elektronika d.o.o.

Committees

The Supervisory Board of LPKF Laser & Electronics AG has not formed any committees; each committee would be required to have at least three persons, i. e., all of the members of the Supervisory Board. It is therefore not possible to delegate individual responsibilities of the full Supervisory Board to committees staffed with only a sub-set of the members of the Supervisory Board.

Corporate Governance and Declaration of Compliance

In 2012, the Supervisory Board also intensively discussed the implementation of corporate governance standards in the Company. LPKF Laser & Electronics AG reports extensively on corporate governance in the Corporate Governance Report. On 7 December 2012 and again on 4 March 2013, the Management Board and Supervisory Board issued the annual Declaration of Compliance in accordance with Section 161 German Stock Corporation Act (Aktiengesetz) which reports deviations from the recommendations and outlines the Supervisory Board's objectives for its composition. The declarations are also reproduced in the Corporate Governance Report. Additionally, the Declaration of Compliance is publicly available on the Internet at http://www.lpkf.com/investor-relations/corporate-governance/declaration-compliance.htm. LPKF Laser & Electronics AG fulfills the majority of the recommendations and is committed to the Corporate Governance Code as an integral part of its corporate governance activities. No conflicts of interest arose in the reporting year (see "Potential conflicts of interest"); the independence of the members of the Supervisory Board was ensured.

The Supervisory Board rewrote its rules of procedure in 2012 as a result of the new composition of the Supervisory Board (see "Appointments and resignations").

Audit of the annual and consolidated financial statements

As resolved by the Company's Annual General Meeting, the Supervisory Board engaged PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) to audit the 2012 annual and consolidated financial statements. Both the single-entity and consolidated financial statements were audited by the auditors and issued with an unqualified auditors' report. The auditor participated in the Supervisory Board meetings on 4 March 2013 and 25 March 2013 and reported on the audits of the annual and consolidated financial statements. Furthermore, after reviewing the risk early warning system, the auditor of the financial statements confirmed that the Management Board executed the measures required by the German Stock Corporation Act to identify risks that could endanger the continued existence of the Company as a going concern.

The documents concerning the annual and consolidated financial statements and the reports prepared by PwC were submitted to the members of the Supervisory Board for inspection and review in a timely manner. The representatives of the auditor reported on the main findings of their audit at the relevant Supervisory Board financial meetings, especially providing explanations on the financial position, cash flows and profit or loss of the Company and the Group as well as further information. There were no circumstances that cast doubt on the impartiality of the auditor. The auditor reported on these activities along with the auditing of the financial statements to the Supervisory Board as agreed.

The Supervisory Board discussed PwC's audit reports and the documents relating to the financial statements at length with the representatives of the auditor and examined them meticulously. The Supervisory Board reached the conclusion that the reports comply with the legal requirements of Sections 317 and 323 of the German Commercial Code (Handelsgesetzbuch) in particular. At its meetings on 4 March and 25 March 2013, the Supervisory Board agreed with result of the auditor's audit and approved the annual financial statements and the consolidated financial statements prepared by the Management Board. The annual financial statements of LPKF Laser & Electronics AG are thereby adopted.

Given the positive business performance in the reporting year and the positive outlook for 2013, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 23 May 2013 that it pay a dividend of EUR 0.50 per share, allocate EUR 11,200,000.00 of the remaining accumulated profits to retained earnings and carry forward EUR 4,509,091.27 to new account.

Appointments and resignations

Mr. Bernd Hildebrandt stepped down as a member and Chairman of the Supervisory Board for personal reasons effective at the end of the 2012 Annual General Meeting. The Supervisory Board would like to take this opportunity to again warmly thank Mr. Hildebrandt for his many years of service, which were formative to the Company, and for his outstanding teamwork. Dipl.-Ing. Bernd Hackmann was elected in his place as a member of the Supervisory Board at the Annual General Meeting in 2012. With the experience he gained when he was formerly at the Company and additional positions he has held in the meanwhile, Mr. Hackmann contributes to effectively and continually advancing our Supervisory Board work.

In the course of its reorganization, the Supervisory Board elected Mr. Hackmann as Deputy Chairman and Dr. Heino Büsching as Chairman. The Supervisory Board is pleased that Dr.-Ing. Christian Bieniek has occupied the new Management Board position of COO since 1 December 2012 and wishes him success in his new job.

Potential conflicts of interest

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

Thanks

The Supervisory Board would like to thank the Management Board and all of the LPKF Group's employees worldwide for their excellent work in financial year 2012. With their extraordinary commitment, they all contributed to the LPKF Group once again generating impressive revenue growth and very good earnings.

Garbsen, Germany, March 2013

Dr. Heino Büsching
Chairman of the Supervisory Board

Product group overview
for the LPKF Group

ELECTRONICS DEVELOPMENT EQUIPMENT

ELECTRONICS PRODUCTION EQUIPMENT

RAPID PCB PROTOTYPING EQUIPMENT
(Production of PCB prototypes)

From the concept to the PCB inside a single day: With LPKF's process technology, even demanding types of PCB can be manufactured in an in-house electronics laboratory without the use of chemicals, rapidly transforming layouts into series-ready prototypes or small batches. Confidential layout data does not leave Company premises.

LPKF is a global market leader in the use of mechanical and laser systems for the structuring of PCB layouts. The LPKF ProtoLaser U3 processes even hard-to-work materials such as metal-coated ceramics and flexible PCB materials with a previously unattained level of precision, or etches invisible structures onto glass. Research departments and labs worldwide benefit from the new opportunities offered by in-house PCB prototyping.

STENCILLASER EQUIPMENT
(Manufacture of stencils for solder paste printing)

The stencils in question are guides used for the printing of solder paste on PCBs. The minuscule electronics components and highly integrated modules are positioned on this solder paste and then soldered fast to the PCB. The degree of accuracy of such stencils makes a key contribution to error-free PCB production.

The laser brings all of its advantages to bear on stencil manufacture: the cutting process generates zero mechanical stress. Complex stencils feature several hundred thousand openings for solder paste printing. The quality of the stencil does not depend just on the hardware, however, but also on the efficiency of the code routines controlling the machine components and the laser. StencilLasers were the first laser systems manufactured by LPKF. Thanks to continuous improvements, LPKF has maintained its position as the global market leader in this machine segment to the present day.

PCB PRODUCTION EQUIPMENT
(PCB processing with lasers)

The trend towards miniaturization in electronic equipment is resulting in thinner, irregularly shaped PCBs. At the same time, circuits and modules are creeping ever closer to the edges of the boards. Faced with such conditions, standard separation methods like milling or punching fail regularly – while lasers can shine. The laser can cut even irregularly formed contours from rigid, rigid-flexible or flexible PCBs, drill holes or separate single circuit boards from larger backing plates – with low mechanical or thermal stresses, almost no dust and in close proximity to modules or circuits.

LPKF's MicroLine series has acquired an outstanding reputation worldwide in electronics manufacturing. During the production of high-quality, delicate interconnect devices, such as for smartphones or tablets, flexible and rigid-flexible PCBs are cut with the laser into the various kinds of filigree contours required.

OTHER PRODUCTION EQUIPMENT

LDS PRODUCTION EQUIPMENT

(Manufacture of molded interconnect devices)

In 2010, the LPKF Fusion3D 6000 received the distinguished Hermes Award as an innovation in the manufacture of molded interconnect devices. The LDS process uses a patented laser technology to engrave molded plastic modules with conductive traces – saving both space and weight.

Since then, LPKF has made continuous enhancements to the LDS process and the Fusion3D laser. The current generation of machines offers a lower-cost entry into using LDS technology and can also process larger modules. A new prototyping method helps developers during product design. LPKF's experts help customers and potential customers with brand new combinations of materials and sample applications.

In the years to come, LDS technology and the laser systems that it deploys will continue to remain key factors ensuring long-term growth.

WELDING EQUIPMENT

(Laser plastic welding)

Laser plastic transmission welding can compete with the best of them: It is more precise than competing techniques, hygienic, particulate-free, does not mechanically stress the workpiece and can offer quality assurance options in the welding process.

Where dependable, visually appealing weld seams are required, laser plastics welding is the method of choice. LPKF sells to all of the leading suppliers to the automotive industry, has established a good reputation in the medical market and is increasingly successful in the consumer segment. This is all down to our clear focus on the customer: Standard systems are easily modified to suit customer needs, and modules in the Smart - Weld series are specially designed for integration into the customer's own production lines.

LPKF holds a portfolio of technological patents – such as for continuous quality assurance in the welding process, for example.

SOLAR MODULE EQUIPMENT

(Structuring of thin film solar cells)

While the entire solar industry is stagnating, business is brisk at LPKF: The LPKF Allegro LaserScriber is the reason behind a notable boost to efficiency for thin film solar cells. Wafer-thin layers are applied one after another to the carrier material – usually glass – and each is then separated into thin strips using the laser. By selecting an appropriate geometric layout, the result is a monolithic series-connected array, ensuring the current/voltage conditions match the electrical requirements.

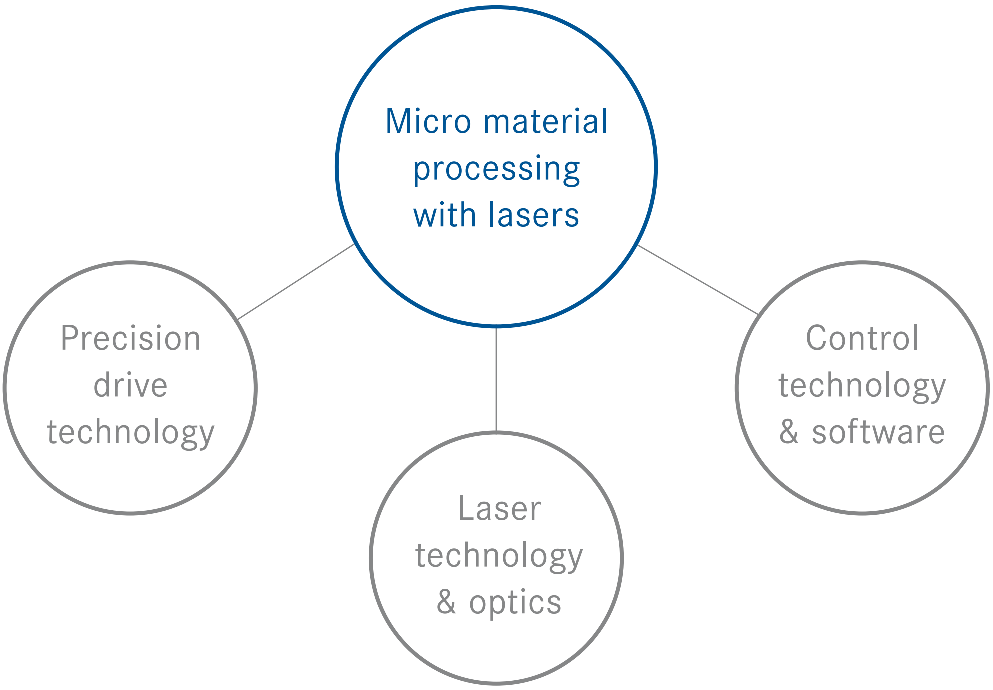
The solar modules' efficiency factor depends on the precision of processing. The technology used by LPKF regulates thermal deformation during coating so effectively that the finished solar module always possesses a high efficiency factor. A major plant production order will run until early 2014. The Allegro system enables LPKF to demonstrate its superior technical expertise in mechanical engineering, control systems and optics in equal measure.

Our know-how

THE SECRET OF OUR SUCCESS …

Micro material processing with lasers

At LPKF, everything revolves around **surface processing** with a range of laser beam formats. Such processing takes place at the **microscopic level** – i. e. at a scale that is sometimes invisible to the human eye. This is where our expertise lies – and where we are always seeking to improve our know-how. Our broad spectrum of skills forms the basis for all of the products we offer to our customers. The unique **combination of specialist expertise** as outlined below generates a **wide variety of application scenarios**, such as the high-precision cutting out of populated PCBs, for example, or the structuring of thin film solar cells.



Our know-how

LPKF precision engineering – redefining accuracy

Extreme **precision** is the key **benefit offered by a laser** in comparison to other tools – such as milling machines or punches. Yet precision in **micro material processing** starts with the table systems that form the foundation on which our machines are built.

Even without a laser, LPKF's ProtoMat works at resolutions of up to 2 micrometers.

The laser beam can work precisely at tolerances of **hundredths of a millimeter** only if it is part of an extremely stable and precise system. Accordingly, many of our laser systems use a **granite substructure**. In a fraction of a second, the X and Y axes bring the modules to the exact spot at which the laser beam is then deployed.

Laser technology and optics

Fiber lasers, UV lasers, CO_2 lasers, infrared lasers – there are **many types of laser sources** with a huge range of properties. We even build some of them ourselves. Of particular value here is our **long-standing experience** in using laser sources, and the **know-how** it has given us. We know exactly which laser source is right for a particular material. And yet that's just the beginning. The laser beam must be positioned and focused **in three dimensions** in only fractions of a second. Our machines achieve this with **high-precision optics**. They aggregate and guide the focused laser beam at an astounding speed and **with maximum precision** over the three-dimensional surface – no matter how complex.

The proportion of R&D spend on software is steadily increasing and is currently around 50 %.

Our know-how

Control technology and software

We use both internal and external training courses to develop our employees' expertise.

Together with data processing systems, **electronic control technology** ensures that the laser beam is guided efficiently over the material. The **significance of software** in this area has grown immensely in recent years, while control technology systems are increasingly based on standard components. The **software computes the fastest path** that the laser beam is able to traverse on the material in order to complete its task. Accordingly, software has a truly decisive influence on the **efficiency of our laser systems** and thus the benefit for our customers.

… EAGER TO INNOVATE FOR SUCCESS.

In just under 40 years, LPKF has developed from an ‘ideas factory’ to an international company that employs some 700 members of staff worldwide and is now listed on the German TecDAX stock index. For nearly 40 years, entrepreneurship and the will to innovate have been the driving force behind our success.

Our machinery

EFFICIENT PRODUCTION WITH LASER TECHNOLOGY...

LPKF ProtoLaser U3

A **universal system for the electronics lab** – and beyond: with the **LPKF ProtoLaser U3**, we have created a system that is capable of **drilling, cutting and structuring** not just normal circuit boards, but coated and uncoated ceramics, invisible conductive glass coatings and PCBs constructed from traditional materials. The result: Even demanding prototypes or low-volume series can be produced **in the in-house lab**, without confidential data leaving company premises.

LPKF ProtoLaser U3 – a laser processing 'Swiss army knife' in a compact form factor.

Our machinery

LPKF Fusion3D 1500

A look inside an LDS system.

With our **patented LDS (Laser Direct Structuring) procedure**, we possess a technology that is capable of universal deployment for the manufacture of **molded interconnect devices**. Although the LDS procedure has become very widespread in recent years, the market nonetheless continues to grow.

3D modules in larger form factors – the most recent development in 3D LDS structuring has swept aside earlier obstacles to the procedure. The LPKF Fusion3D 1500 can structure **modules of up to 40 cm** in length, thus ushering in the deployment of LDS technology **for tablets and notebook computers**.

LPKF Fusion3D 1500 – also capable of structuring modules larger than the processing unit's scanning area.

Our machinery

LPKF MicroLine 6000 P

LPKF MicroLine 6000 P – this top-of-the-line system integrates into customer infrastructure and can be extended with automated handling systems.

The importance of **laser PCB separation** continues to grow as electronics products become increasingly smaller and more delicate. Unlike milling or punching machinery, lasers exert no mechanical forces on the PCB. Lasers are also able to **cut in the vicinity of sensitive electronic components or circuits** and can be flexibly configured for variable product runs. The LPKF MicroLine 6000 P is our **top-of-the-range system for industrial manufacturing**. It is suitable for 24/7 use and features **particularly high availability**, thanks to its innovative components.

... PRECISION STARTS AT THE SUBSTRUCTURE.

The LPKF MicroLine 6000's granite base forms a rock-solid foundation for ensuring that the laser's potential for precision is translated into equally precise processed PCBs. We also use this substructure for our LPKF-Fusion systems.

Our customers

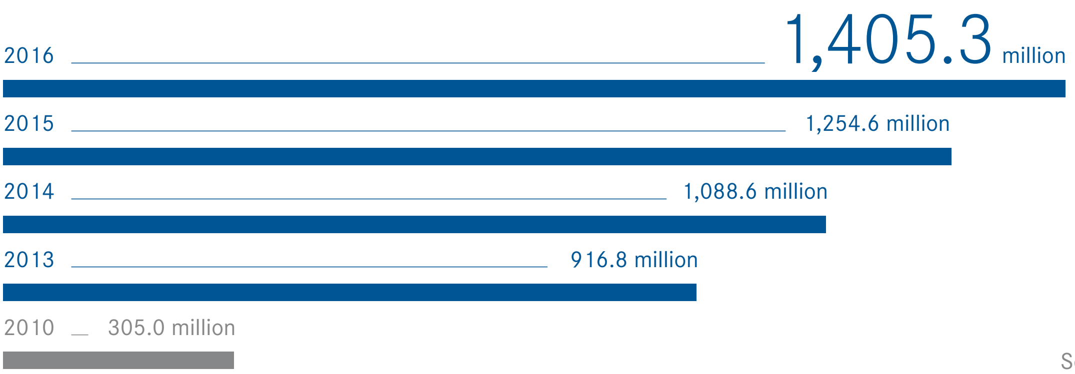
ONE IN TWO SMARTPHONES HAVE LPKF INSIDE …

The limits of transparency

All of the work we do **revolves around our customers**. Their needs are our goals. We are proud that our machinery is used by some of the world's **most distinguished companies**. There is only one drawback, however: we can't say who they are. This is a shame, but it's understandable: anyone investing in laser technology generally does so to gain a **competitive edge in manufacturing**. This isn't something one tells the competition.

On the other hand, it's pleasing to know that, in all likelihood, we are all customers of our own company – or customers of our customers – since **LPKF technology** can be found in **half of all smartphones**, in many vehicles and recently even in sports shoes.

Projected sales for smartphones worldwide



Source: IDC

Our customers

The ultralight adizero prime is a spiked running shoe that weighs exactly 153 g. The sprint frame construction guarantees a perfect balance between lightness and stability. It supports the foot and transmits force directly to the ground.

Adhesives are history

In the past ten years, a **constant stream of new applications** has been developed **for laser plastics welding**. As one example, the **microfluidic applications** market has seen very dynamic growth in recent years.

Traditional bonding methods such as adhesives are increasingly reaching their limits. Laser welding is establishing itself as a **viable solution**. And LPKF is taking a leading role. Happily, **new application scenarios** continue to appear.

One recent example is the running shoe shown to the left. Parts of its **innovative sole** have been welded **with laser systems from LPKF**.

Efficient production

Customers involved in the **bulk manufacture** of electronic modules such as cell phone antennas or sensors choose to invest in an LPKF laser system when this enables them to design **significantly more efficient** production processes. Typical advantages could include a **lower rejection quota** or a **higher rate of throughput**, for example. Such investments always depend on achieving a **measurable efficiency gain**.

Sennheiser electronic GmbH & Co. KG uses LPKF laser systems for the manufacture and development of headphones, microphones and integrated audio solutions.

Our customers

Laser technology conquers the Asian markets

In South Korea in particular, there is a keen interest in efficient production techniques.

Asia has been a key **electronics manufacturing** region for many years now. For those of our customers who manufacture in Asia, many businesses are **North American corporations** who make their investment decisions in the USA. **Growing interest in laser technology** as a production tool is increasingly being shown by **Asian companies**, however. In 2012, LPKF recorded 55 % of its revenue in the Asian region. LPKF now operates at **seven sites** in China alone.

... SMALL, LIGHT AND MOBILE.

As long as the trend towards miniaturization persists, laser technology has a strong hand.

Mobile phones, which are becoming both smaller and more powerful, are exceptionally demanding in terms of their electronic innards. Every square millimeter of space counts. It therefore makes sense to use a laser to cut out the circuit carriers.

Our **markets**

LPKF WORLDWIDE — WITH A FOCUS ON DYNAMIC GROWTH MARKETS …

Laser technology – on course for industrial production

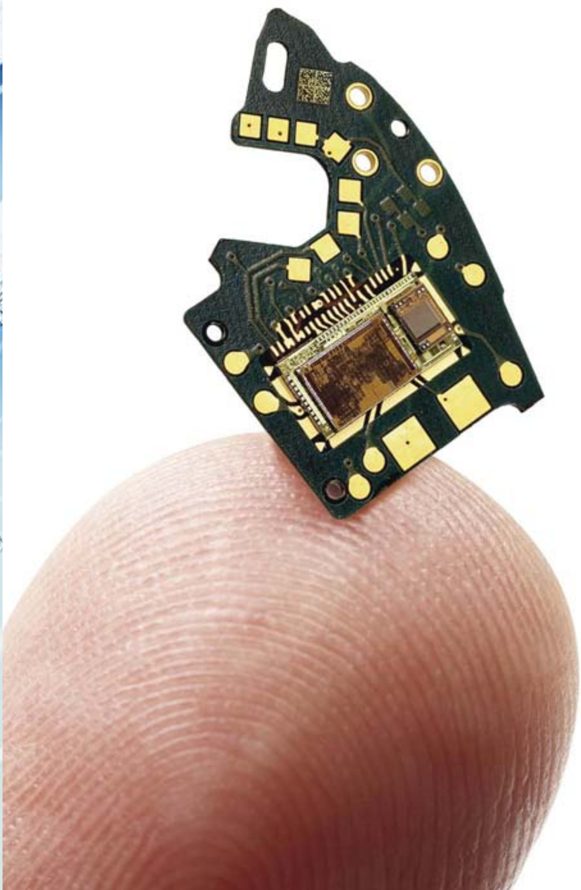
In just a single generation, **microelectronics** has changed our world and our way of life, driven by advances in physics, but above all by the **trend towards miniaturization**. This has had ground-breaking repercussions for the international manufacturing and automation systems sectors, and is fueling a **growing market need** for increasingly **smaller and lighter modules** in almost every area of **electronics production** worldwide.

Shanghai is an important electronics manufacturing center in China and is the location of our largest Chinese subsidiary.

Our markets

For shared success

Laser-based processing has now become indispensable for a wide variety of materials: lasers structure, weld, cut and etch a different modules, components and consumer products, ensuring **high levels of productivity and quality**. We supply laser technology for micro material processing while aiming to achieve even **greater efficiency** for our customers' **production processes**. Our key markets include electronics production and design, the plastics processing sector, the automotive industry, medical technology and photovoltaics.



Wherever large numbers of electrical and mechanical functions need to be packed into a tiny space, cutting and structuring lasers from LPKF are used. PCB lasers enable delicate circuit carriers to be cut out without adversely affecting sensitive components and circuits. With the LDS procedure, molded interconnect devices (MIDs) can be structured as miniature-format modules.

Global sales and service

We distribute and service our products in a **global network** consisting of four production facilities in Europe, sales subsidiaries in the USA, China and Japan and over 60 dealer offices spread across the world. Our sales subsidiaries are managed by employees who have an intimate knowledge of the needs of their markets. LPKF is ideally positioned for the future, enabling it to serve its **relevant customer segments** and acquire new clients.

Our markets

International network events

Every two years, we host an event for all of our sales staff at one of **LPKF's overseas sites**. This offers a chance to learn about new developments, discuss the latest market trends and **share experiences**.

LPKF expands office in Shenzhen/China.

We are systematically expanding our **presence in Asia**: With the expansion of its Shenzhen office, LPKF is strengthening its commitment to China in order to be able to meet the **increasing demand** for laser technology. LPKF's international subsidiaries are located in the immediate vicinity of the leading production centers.

… CULTIVATING CUSTOMER CONTACTS AND NEW OPPORTUNITIES WORLDWIDE.

In the three major economic regions of Asia, Europe and the Americas, LPKF is going for growth with increased sales and service activities.

Our **employees**

PEOPLE AT LPKF: CREATIVE AND COMMITTED ...

Personality and professionalism

The success of our company is crucially dependent on our employees. These are the people whose daily efforts focus on ensuring that LPKF can sell the **best laser machines worldwide**. We are proud of the **many remarkable individuals** who pull out all the stops for our company. With passion and great dedication, they act independently to develop **new ideas and creative solution strategies** for making our machinery even better. Many of our employees aspire to making a real, creative difference during their day-to-day work. They do not wish to merely sell equipment, but to convince our customers that they can achieve even **greater efficiency in their production processes by using our laser machines**. This involves intimate, long-standing collaboration with our customers in order to understand where hidden potential lies.

Employees 2012

Worldwide 100 %	Europe 84 %
690	581
USA 5 %	**Asia 11 %**
30	79

Our **employees**

Industry expertise secures a technological edge

The technological edge needs qualified staff.

We can achieve our goals only if we have adequate numbers of **qualified employees and management staff** on board. The hiring of suitable new employees is therefore a top priority. Our **partnerships with colleges, working groups and research facilities** have an important part to play here.

Laser technology is a field that fascinates many engineers and technology specialists. And we offer them a **challenging set of tasks** in this area. Our employees' inquisitiveness, knowledge and wealth of experience – coupled with a passion for our products – constitute our most valuable asset.

Yet **knowledge and experience** alone are not enough to develop new products and launch them successfully on the market. Our employees are **well qualified** and **highly motivated**, since they can fully realize their potential at LPKF. They impress our customers with **their work and their expertise**.

An international network

At LPKF, we believe in **fostering communication between staff and management**, regardless of departmental or international boundaries. This creates mutual trust and enables the kind of **knowledge transfer** without which our position as a technology leader would be untenable.

In 2012, we launched our **ORG200** project as a strategy for future growth aimed at strengthening **international teamwork** within the Group and facilitating even greater knowledge transfer among our colleagues.

Our **employees**

The challenge of training for tomorrow's technologies

LPKF apprentices get to know all of our departments.

We invest in our junior employees to ensure that we can rely on **well-qualified personnel** in the future. Every year, around 15 young people start their training at LPKF for commercial and technical professions. By working their way through a range of departments, our **trainees** are prepared in great detail for their careers.

We challenge our trainees by giving them **their own projects** and **a wide range of responsibilities**. We are pleased to say that most of our trainees stay on to work at our company **after completing their training**.

… WHAT PLASTICS WELDING IS CAPABLE OF.

LPKF employees inspect the quality of a weld seam on a vehicle taillight.

The LPKF share

Breakthrough into TecDAX territory

Annual General Meeting 2012: Chief Executive Officer Dr. Ingo Bretthauer presents details of the LPKF Group's business development and prospects to around 350 shareholders. The 2013 Annual General Meeting will be held at the Hanover Congress Center on 23 May.

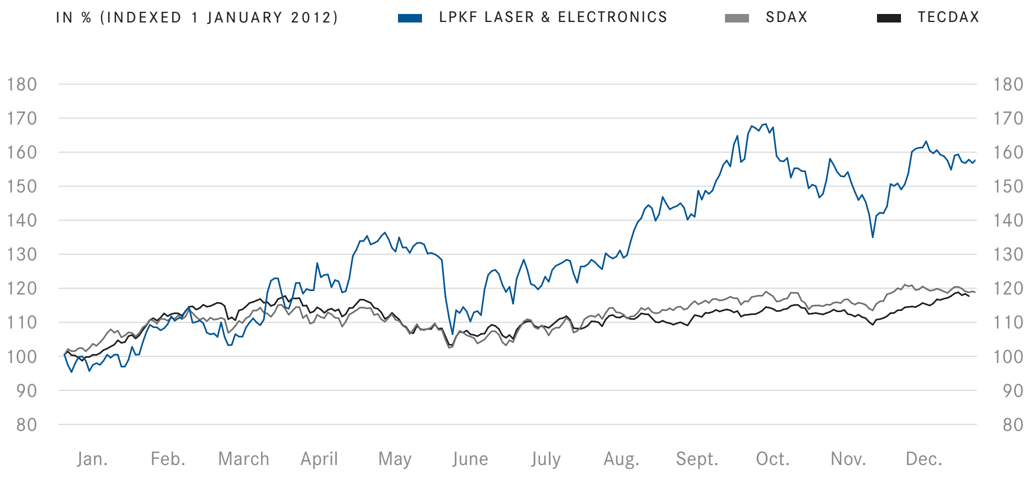
The LPKF share performed very positively last year. Year-on-year, our **share price rose** by 66 %, a figure that is considerably better than the TecDAX's gain of 21 %. Excitement was increasing among our staff and our shareholders during the year's first half as there was a chance that LPKF would be **promoted to the TecDAX index**. It became a reality on 6 September 2012. This promotion substantially **boosted investor interest** in our company. The share price rose sharply again at the end of the year.

CLOSING THE YEAR IN A FESTIVE MOOD: THE STOCK MARKETS IN 2012

The stock markets did well in 2012, despite the debt crisis and anxieties about inflation, the euro crisis and recession. Shareholders who managed to stay the course were richly rewarded, with some investors enjoying double-digit returns on the German and US stock markets last year. One shining example was the DAX, which made gains of almost 30 % between January and December 2012 to achieve its strongest growth since 2003. The strong performance in the markets also benefited mid-sized stocks in the MDAX, which closed the year at 11,914 points. Recording growth of 34 % for the year, it even managed to outperform the DAX. In the technology-oriented stocks segment, the TecDAX reported a gain of 21 % for the year, closing the year on 828 points.

And yet the German stock market charted a very rough course in 2012. Before April, the DAX made steady gains, rising to over 7,000 points. Speculation about euro-critical election results in Greece and a slide to the left by the French gave rise to new doubts about the currency union, causing the DAX to slump to less than 6,000 points in a matter of weeks. In June, the index made solid gains of 9 %, before ultimately closing the year with a sensational 7,612 points. This compares to 5,898 points on the last day of trading in 2011.

PERFORMANCE OF THE LPKF SHARE IN 2012



KEY FIGURES ON THE LPKF SHARE

	2012	2011
Number of shares as of 31 December	11,134,794	11,100,940
High (XETRA)	EUR 17.00	EUR 14.64
Low (XETRA)	EUR 9.30	EUR 7.60
Closing price at year's end (XETRA)	EUR 15.75	EUR 9.49
Market capitalization at year's end	EUR 175.4 million	EUR 104.2 million
Average daily trading volume (shares)	40,386	31,888
Earnings per share, diluted	EUR 1.21	EUR 0.90
Dividend per share	EUR 0.50 (AGM proposal)	EUR 0.40

The competition just could not keep up: The EuroStoxx 50, which lists the key euro zone stocks, gained around 16 % in 2012, thus performing only half as well as the DAX. New York's key Dow Jones Industrial index and the US Nasdaq tech stocks market had to be content with gains of 7 % and 15 %, respectively. The Japanese Nikkei 225 index also lagged behind the DAX, recording a plus of 22 %.

MARKET CAPITALIZATION AND SHAREHOLDER STRUCTURE

The free float for our shares now is 100 %. On 31 December 2012, our share price was EUR 15.75 and thus some 66 % higher than the year's opening price. The share's positive performance began even before mid-year 2012: After starting the year at EUR 10.00, the share rose 40 % to EUR 13.98 by 6 September 2012 – the day of entry into the TecDAX. This equates to a market capitalization of EUR 156 million; on 31 December 2012, the Company's market capitalization was EUR 175 million.

DIVIDEND POLICY

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

In view of the solid development of operations in 2012 and the good prospects for the new financial year, the Management Board and the Supervisory Board intend to propose to the Annual General Meeting on 23 May 2013 that a dividend of EUR 0.50 per share be paid. Based on the closing price for 2012, this would correspond to a dividend yield of 3.2 %.

CORPORATE COMMUNICATIONS NOW CENTERED AROUND INVESTOR RELATIONS

In 2012, we restructured our Corporate Communications unit with the aim of strengthening the LPKF Group's public profile. With the exception of product-related advertising, which remains the task of the Marketing department, Corporate Communications handles all of the topics that impact our company and its overall corporate image. In its work, Corporate Communications focuses on investor relations, which is now supplemented by public relations work alongside internal communications. In the future, we want to present LPKF to an even broader spectrum of interested parties while continuing to focus on transparent and authentic communications.

Members of the Management Board held over 165 one-on-one talks with institutional investors in 2012, at over 20 investor conferences and road shows in Germany and other European countries. We also held numerous meetings with small shareholders. Their keen interest has led to a high level of participation at our Annual General Meetings. As one example, we welcomed over 300 shareholders to our Annual General Meeting in Hanover on 31 May 2012 – all of whom were keen to acquire first-hand knowledge of our Company's economic situation. Once the quarterly figures have been announced, some shareholders also use the opportunity offered to discuss the latest company developments directly over the Internet with members of the Management Board.

Another factor that decisively influenced our investor relations activities was Deutsche Börse's decision to accept our company for listing in the index of the 30 largest German tech stocks – the TecDAX. Even during the first six months, the expectation of an imminent TecDAX listing generated stronger public interest, which we actively promoted by increasing our presence in the financial and business trade press. As a result, we were able to significantly raise our public profile. Our step up into the TecDAX also then enabled us to catch the attention of investors who consider index membership when selecting their investments.

IR CONTACT

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

LPKF Laser & Electronics AG
Bettina Schäfer
Corporate Communications Manager
Tel.: +49 5131 7095-1382
E-mail: investorrelations@lpkf.com

Corporate Governance

Sustainable value creation and efficient collaboration

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

The actions of the LPKF Group's management and supervisory bodies are guided by the principles of responsible and good corporate governance. The Management Board reports on issues of corporate governance in this chapter – also on behalf of the Supervisory Board – pursuant to both Article 3.10 of the German Corporate Governance Code and Article 289a (1) of the German Commercial Code (Handelsgesetzbuch). This chapter also contains the statement on corporate governance pursuant to Section 289a German Commercial Code. You will find the remuneration report in the Group management report on page 55.

Statement on corporate governance

1. PROCEDURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

LPKF AG is an enterprise incorporated according to German law, on which the German Corporate Governance Code is based. The dual management system comprising the Management Board and the Supervisory Board as corporate bodies, both of which have distinct responsibilities, is a fundamental element of German corporate law. The Management Board and the Supervisory Board of LPKF AG work together closely and in an atmosphere of trust in managing and supervising the Company. The Management Board of LPKF AG consisted of three members until 30 November 2012. Since 1 December 2012, it has comprised four members. They are responsible for managing the Company's business in the interests of the Company and with the aim of creating sustainable value.

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

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

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

The Supervisory Board of LPKF AG consists of three members. At the most recent Supervisory Board election during the Annual General Meeting on 4 June 2009, the Supervisory Board members were elected individually as recommended by the German Corporate Governance Code. Effective at the end of the Annual General Meeting on 31 May 2012, the Chairman of the Supervisory Board resigned and a new member of the Supervisory Board was elected. All election proposals concerning potential Supervisory Board members shall consider the expertise, abilities and professional experience that are required for carrying out the respective tasks as well as issues of diversity.

According to Article 5.4.1 sentence 5 GCGC, the corporate governance report shall disclose the specific objectives of the Supervisory Board with regard to its composition in view of the Company's international activities, potential conflicts of interest, an age limit to be specified for Supervisory Board members, the independence of Supervisory Board members and diversity, the latter particularly in terms of an adequate proportion of women, and the status of implementation.

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

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

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

c) Specifying an age limit
The age limit for members of the Supervisory Board was set at 70 years by resolution of the Supervisory Board on 20 November 2006.

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

e) Diversity
The composition of the Supervisory Board of LPKF Laser & Electronics AG should reflect as broad as possible a spectrum of professional expertise and experience in various areas relevant to the Company. In filling future vacancies, the Supervisory Board will continue to also seek out suitable female candidates in view of the functional objectives of the Supervisory Board. Assuming equal qualifications, female candidates will be given preference. Both the Management Board and the Supervisory Board are obliged to observe the corporate interests of LPKF AG. There were no conflicts of interest in the financial year just ended that would have had to be disclosed to the Supervisory Board without delay. No member of the Management Board held more than three appointments to the supervisory boards of listed stock corporations not belonging to the Group.

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

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

2. CORPORATE GOVERNANCE REPORT

LPKF implements the recommendations and suggestions of the German Corporate Governance Code (GCGC) apart from a few exceptions. The Management Board and the Supervisory Board jointly issued the updated 2012/2013 Declaration of Compliance on 7 December 2012 and again on 4 March 2013 pursuant to Section 161 German Stock Corporation Act (Aktiengesetz). The Declaration is permanently made public on LPKF AG's website.

Declaration of Compliance of LPKF Laser & Electronics AG for the 2013 financial year with the Corporate Governance Code in accordance with Section 161 German Stock Corporation Act (Aktiengesetz)

The Management Board and the Supervisory Board of LPKF Laser & Electronics AG acknowledge and accept the recommendations of the Government Commission on the German Corporate Governance Code (GCGC) dated 26 May 2010, and declare that these recommendations have been observed since the last declaration was issued on 9 December 2011. LPKF has complied with the recommendations as amended on 15 June 2012 from 13 November 2012 and will continue to comply with them. The following exceptions apply:

No multi-year assessment basis for variable remuneration of Management Board members (Article 4.2.3 (2) GCGC)

The Management Board receives a profit-sharing bonus based on the Group EBIT with respect to a specific financial year. If a loss is reported in the following financial year, this loss may be subsequently taken into consideration under certain circumstances.

No cap on variable Management Board remuneration for extraordinary developments (Article 4.2.3 (3) sentence 4 GCGC)

Unlike the profit-sharing bonuses for the Management Board, the provisions of the 2001 stock option plan that expired in July 2012 did not contain caps for unforeseen developments.

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

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

No formation of Supervisory Board committees (Article 5.3.1 and 5.3.2 GCGC)

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

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

Remuneration of Supervisory Board members comprises a fixed and a variable, performance-based component. The variable remuneration component for Supervisory Board members is based on the dividend paid for the respective financial year just ended and is in compliance with the legal provision stipulated in Section 113 (3) German Stock Corporation Act. Using the dividend as the basis for calculating variable remuneration ensures that the interests of both the Supervisory Board and the shareholders are aligned.

3. SHAREHOLDERS AND ANNUAL GENERAL MEETING

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

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

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

4. RISK MANAGEMENT

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

5. TRANSPARENCY

LPKF regularly, immediately and simultaneously informs the participants in the financial markets and interested members of the public about the commercial situation of the Group and any new facts. The annual report, the half-yearly financial report and the quarterly financial reports are published within the specified deadlines. Press releases, and ad hoc announcements where stipulated, provide information on current events and new developments. All of the information is published in printed form and via suitable electronic media such as email and the Internet. The www.lpkf.com website also provides comprehensive information on the LPKF Group and LPKF shares.

A financial calendar lists the scheduled dates for the most important regular events and publications such as the Annual General Meeting, annual report and quarterly financial reports. The calendar is published well in advance of the scheduled events and is made available permanently on the LPKF AG website.

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

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

7. ACCOUNTING AND AUDITING

LPKF AG prepares its consolidated financial statements and its interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statements of LPKF AG are prepared in accordance with the German Commercial Code. The consolidated financial statements are prepared by the Management Board, audited by the auditor of the financial statements and reviewed by the Supervisory Board. The interim reports and the half-yearly financial reports are discussed by the Supervisory Board and the Management Board before publication. The consolidated financial statements and the annual financial statements of LPKF AG were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, the auditor elected by the 2012 Annual General Meeting. The audits were conducted in accordance with German auditing standards and taking the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors (IDW) into account. The International Standards on Auditing were also taken into account. The audits also assessed the risk management and compliance with the reporting obligations defined for proper corporate governance pursuant to Section 161 German Stock Corporation Act.

LPKF AG also entered into a contract with the auditor pursuant to which they must notify the Supervisory Board immediately, while the audit is in progress, of any grounds for excluding them, any partiality on their part as well as any material findings and events. Nothing of this nature arose in the course of the audit covering the 2012 financial year.

8. COMPLIANCE — PRINCIPLES GOVERNING CORPORATE ACTIONS AND BUSINESS ACTIVITIES

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

The position of Compliance Manager was created to ensure successful integration of compliance not only into activities in Germany, but also internationally. LPKF AG considers it particularly important to build a compliance structure for the Group that makes compliance guidelines binding on all LPKF employees worldwide and is suitable for effectively preventing compliance violations for the benefit of the Group as a whole. The e-mail address compliance@lpkf.com was also set up for this purpose. Internal and external opportunities have thus been created to disseminate compliance-relevant information and handle questions and comments on the topic.

The current focus of compliance activities is analyzing material risks. In this context, audits are conducted to determine which compliance-relevant functions, responsibilities, and structures exist in the LPKF Group and the extent to which they are already interlinked. This type of compliance inventory and documentation is currently being performed at the Garbsen site and will subsequently be carried out at all LPKF sites.

In parallel, the existing LPKF mission was expanded into a comprehensive compliance code. The goal of this code of conduct is to guarantee uniform ethical and legal standards throughout the entire Group.

The next step is to form a Compliance Committee comprising, among others, representatives from the finance, internal auditing, occupational health and safety, legal, and investor relations departments. This Committee will meet regularly to exchange information on compliance-relevant issues and review the effectiveness of existing compliance measures and, if necessary, introduce additional measures.

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

An internal audit at subsidiary LPKF Laser & Elektronika d.o.o. raised compliance-relevant questions in the last quarter of 2012 that the Supervisory Board and Management Board will continue to address after the end of 2012. One result of the investigation was the dismissal of one of the managing directors of LPKF d.o.o.

For the remuneration report, please see page 55 of the Group management report.

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

LPKF as an employer

Growing together – diversity is the key

There is no shortage of young professionals. Trainees and many young employees safeguard the future of the company.

LPKF is simply unstoppable: We once again recorded **strong growth** in 2012. To support this kind of growth, we have pursued an active hiring program and continue to be on the lookout for qualified specialist staff. Our 602 employees at the close of 2011 became 690 by the end of 2012. Over the last ten years, we have therefore more than tripled our workforce, while revenue has more than quadrupled during the same period. Our major plus is our laser technology: fascinating, fit for the future and not just appealing to young professionals.

OUTLOOK

Laser technology is one of the world's most exciting industries, offering an attractive sector to work in with great future potential. We are world leaders in several of its areas. Since September 2012, LPKF has been TecDAX-listed, which confirms our successes in recent years. Yet employees can look forward to more than just an exciting technology. Prospects are good at LPKF for those offering know-how and commitment. And we foster our especially dedicated staff with personal development options such as further training or career-integrated degree courses. At LPKF, all of our employees get the chance to fully develop their potential.

IN GOOD COMPANY

A friendly corporate atmosphere and a direct management style ensure that our employees feel at home here. Something that is reflected in our very low employee turnover rate.

For us, the company is what counts – both in and out of the office. A wide range of group activities organized by our employees – such as sailing, skiing or motorcycle tours – ensure that people know each other personally. In addition, LPKF has fielded its own dragon boat team for six years now, which participates successfully in a number of competitions. These not only challenge our ambitious rowers but inspire our entire workforce to encourage and cheer on our team. Families are also included in many activities, such as family parties, kids' costume parties or handicraft afternoons in the run-up to Christmas.

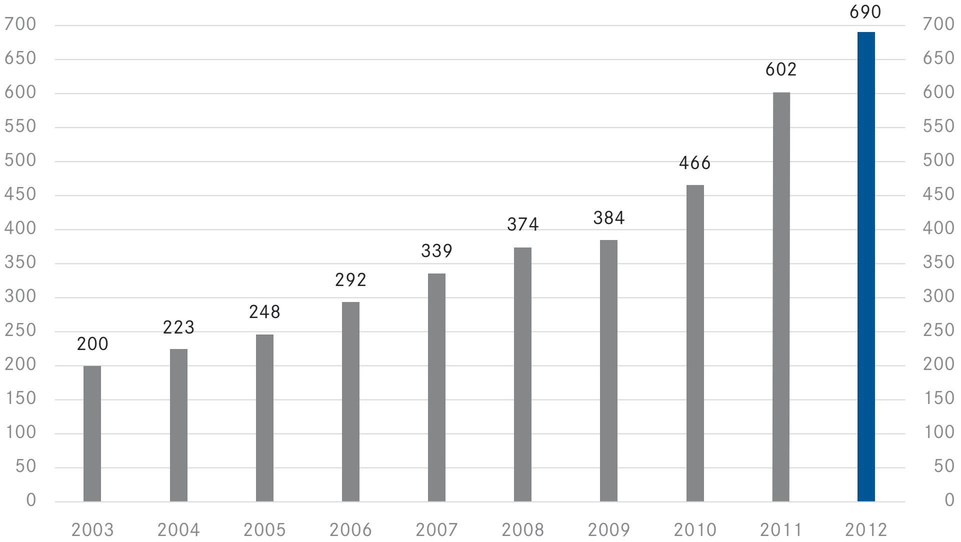
THE FUTURE

Whether as a graduate, a qualified trainee or as a school-leaver: We offer career starters a wide range of options for joining, thereby ensuring we make a key investment in the future of our company. Every year, around 15 young men and women – including mechatronics technicians, industrial clerks and IT specialists – start their training at LPKF. For our trainees, a college entrance qualification is not a hiring condition. Quite the opposite: Anyone with a good set of school grades and who is able to show dedication and enthusiasm can soon become part of our team. The chances of being hired after successfully completing training with us remain as high as ever.

LEARNING TO LEAD

We offer participation in a management development program to talented employees, giving them the opportunity to acquire or further improve their leadership skills. The program is organized in association with the Institute for Management Development (Institut für Managemententwicklung, IME). Participants in the three-day course not only work with the topic of 'leadership' itself but also familiarize themselves with practical management tools. This program enables us to prepare potential managers well in advance of upcoming leadership challenges.

NUMBER OF EMPLOYEES IN THE LPKF GROUP BETWEEN 2002 AND 2012



DIVERSITY

With sites in Germany, Slovenia, China, Japan and the USA, we maintain a broad-based international presence. Accordingly, it is important that we acknowledge other cultures. As a result of their work in teams spanning the globe, our employees gain valuable intercultural skills. This broad-minded approach is particularly helpful in our on-site work with overseas customers. A good mix of younger and older employees shows that we offer attractive personal development prospects for staff at any stage in their careers and that multiple generations work hand in hand at our company. We also have a steadily increasing proportion of women in management roles.

United in success: LPKF's dragon boat team pulls out all the stops.

Colleague Sebastian Sparrer and his daughter making Christmas stars at our kids' handicraft event.

On the road together: The annual motorcycle tour offers LPKF a chance to get to know colleagues based at other sites.

Group Management Report 2012
LPKF Laser & Electronics AG

I. Business and economic environment

1. GROUP STRUCTURE AND BUSINESS ACTIVITIES

In many sectors, the innovative processes developed by LPKF replace established techniques.

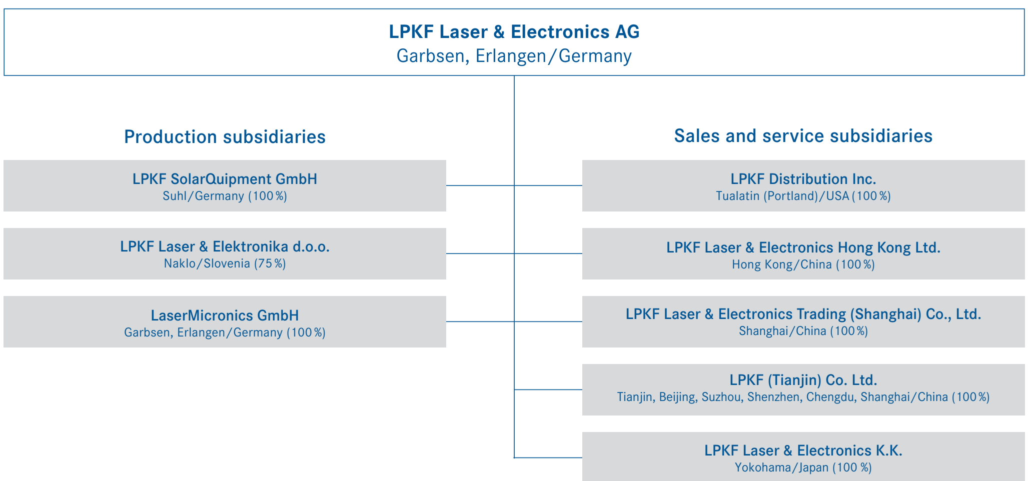
The LPKF Group develops and produces material processing systems. The Company has become one of the world's leading laser technology providers on the strength of its technical leadership in a number of areas of laser micro material processing. The LPKF Group has specialist know-how in the fields of laser technology, optics, drive and control technology and software. LPKF's laser systems are used primarily in the electronics industry, in polymer technology applications and for the manufacture of solar panels. In many sectors, the innovative processes developed by LPKF replace established techniques. The LPKF Group generates 89 % of its revenue abroad. LPKF Laser & Electronics AG is listed in the TecDAX segment of the German Stock Exchange. The Group had 690 employees worldwide on the reporting date.

1.1. Legal structure of the Group

The legal structure of the LPKF Group changed in the 2012 financial year. LPKF Motion & Control GmbH was merged with LPKF SolarQuipment GmbH by inclusion effective 1 January 2012. On 8 March 2012, LPKF Laser & Electronics Trading (Shanghai) Co., Ltd. was founded as a new subsidiary in Shanghai.

As of 31 December 2012, LPKF AG had eight subsidiaries, which together with the parent company form the basis of consolidation.

GROUP STRUCTURE



1.2. Operating segments

Electronics Development Equipment

In the Electronics Development Equipment segment, LPKF supplies everything required by developers of electronic equipment to manufacture and assemble printed circuit board prototypes largely without the use of chemicals. In addition to the development departments of industrial customers, the Company primarily supplies public organizations such as research institutes, universities and schools. Customers in this segment mainly make their purchasing decisions on the basis of their available budgets.

ELECTRONICS DEVELOPMENT EQUIPMENT SEGMENT

EUR million	2012	2011	Change in %
Revenue	19.4	18.1	+7.4
EBIT	3.2	4.1	–21.6

Electronics Production Equipment

The following product lines comprise the Electronics Production Equipment segment:

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

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

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

ELECTRONICS PRODUCTION EQUIPMENT SEGMENT

EUR million	2012	2011	Change in %
Revenue	55.7	45.2	+23.2
EBIT	12.7	10.5	+21.1

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

OTHER PRODUCTION EQUIPMENT SEGMENT

EUR million	2012	2011	Change in %
Revenue	38.1	25.5	+49.1
EBIT	5.0	1.5	+232.5

All other segments
The all other segments category mainly includes undistributed costs and income.

ALL OTHER SEGMENTS

EUR million	2012	2011	Change in %
Revenue	1.9	2.3	–16.8
EBIT	–0.6	–0.9	+33.8

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

1.4. Sites

LPKF Laser & Electronics AG
Garbsen, Germany: Group headquarters, production, development, sales & marketing and services – Production and development facilities have been expanded further and office space modernized at the Garbsen site in the course of continued positive business performance. In 2012, the site reaped the benefits of the excellent performance of the Electronics Production Equipment segment and was able to significantly boost year-over-year revenue.

Capacity at the Erlangen site will be expanded in 2013.

Erlangen, Germany: Production, development, sales and services – The Erlangen-based laser systems business for plastic welding again generated significant revenue and earnings growth in 2012. Demand from the automotive, pharmaceutical engineering and consumer markets has been so strong that the production capacity is reaching its limits. The international business, particularly with North America and Asia, is also growing markedly. Incoming order volume as of the end of the year considerably exceeds the prior-year figure. Capacity at the Erlangen site will be expanded and the international sales network grown further in 2013.

Sites of subsidiaries

Tualatin, near Portland, USA: Sales and services – After a weak start, revenue rebounded considerably in the second half of the year, and it was able to reach the high prior-year level as a result. Earnings improved slightly over the previous year. Revenue generated by systems for electronics development was up. Welding equipment was also popular among customers from the automotive industry as well as the medical technology and consumer electronics sectors. Multinational corporations headquartered in the United States continue to strongly favor LPKF systems for their production in Asia. This trend intensified again compared with the previous year. LPKF hired additional staff in Tualatin to serve these customers even more effectively. In early 2013, the North American subsidiary was able to move into 200 m^2 of additional new office space.

Suhl, Germany: Development, sales, production and services – The Group's subsidiary LPKF SolarQuipment GmbH is located at the Suhl site.

The main focus of business in Suhl is on the Solar Module Equipment product group, which is part of the Other Production Equipment segment. Due to extraordinary demand, the laser systems business for scribing thin film solar panels generated strong revenue growth, good earnings and very high order levels in the 2012 financial year, bucking the general market trend. In December 2011, SolarQuipment GmbH signed a general agreement entailing a total volume of about EUR 43 million regarding the delivery of laser systems for manufacturing solar cells. The bill and hold transactions under this general agreement were fulfilled and delivered according to schedule in 2012. Fulfillment of the remaining orders from this general agreement is expected to be wrapped up in 2014.

Naklo, Slovenia: Production, development, services and sales – The Slovenian subsidiary concentrates on the manufacturing of products for the Electronics Development Equipment segment and on the development and production of laser sources and systems for the LPKF Group. The 2012 financial year was a very successful one for this entity thanks to the positive development of the PCB Production Equipment product group (Electronics Development Equipment segment) and its significance as an intragroup supplier for other businesses too.

It is very important for LPKF to maintain competent and timely services in the region.

Hong Kong, China: Services – Because a large portion of revenue is generated in Asia, it is very important for LPKF to maintain competent and timely services in the region. The Hong Kong office thus has become even more significant as the local service hub for the whole of Asia. This subsidiary again generated positive earnings in the 2012 financial year.

Tianjin, China: Sales and services – As in previous years, exports to Asia remained strong, focusing largely on the manufacture of electronics in China. This subsidiary's earnings exceeded targets. It maintains offices in Tianjin, Beijing, Shenzhen, Suzhou, Chengdu and Shanghai.

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

Yokohama, Japan: Sales – LPKF Laser & Electronics K.K., which was established in 2010, provides sales support to local distributors and is in the process of establishing its own customer base in both the Electronics Production Equipment segment and the Other Production Equipment segment. The Japanese market possesses great significance for LPKF owing to its technological edge.

In 2012, the Japanese subsidiary sold its first laser direct structuring system. Several promising customer projects are in an extended prototype phase. In Japan, it is common for technologies to be intensively and extensively tested before a decision to buy is made.

1.5. Production and procurement

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

Electronics Production Equipment is mainly manufactured in Garbsen.

The welding equipment is produced at LPKF AG's branch in Erlangen, Germany. Solar module equipment is produced in Suhl.

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

1.6. Sales

Overall, the Group is represented by subsidiaries or distributors in 76 countries.

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

1.7. Management and control

Organization of management and control

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

The following persons were members of the Management Board of LPKF AG in financial year 2012:

- Dr. Ingo Bretthauer, Chairman of the Management Board (CEO)
- Bernd Lange (CTO)
- Kai Bentz (CFO)
- Dr.-Ing. Christian Bieniek (COO), since 1 December 2012

There were changes in the composition of the Supervisory Board in the 2012 financial year.

There were changes in the composition of the Supervisory Board in the 2012 financial year. Bernd Hildebrandt stepped down from his position of Chairman of the Supervisory Board effective at the end of the Annual General Meeting on 31 May 2012. Bernd Hackmann was newly elected to the Supervisory Board. Dr. Heino Büsching took over as Chairman. As of 31 December 2012, the Supervisory Board consisted of the following members:

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

1.8. Legal and economic factors

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

2. CORPORATE MANAGEMENT, GOALS AND STRATEGY

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

In a complex and dynamic economic environment, the value of the LPKF Group depends on the Group's ability to realize new opportunities and respond to challenges. Special attention is given to strengthening its financial resources, enhancing its innovative capabilities, and safeguarding jobs. All of this is in the best interests of LPKF's customers, business partners, employees and, last but not least, its shareholders.

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

All activities are aimed at furthering the commercial success of LPKF's customers.

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

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

LPKF's products and internal processes are designed to be environmentally-friendly.

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

2.1. Key performance indicators

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

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

%	2012	2011	2010	2009	2008
EBIT margin	17.7	16.7	21.3	13.7	6.8

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

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

%	2012	2011	2010	2009	2008
ROCE	26.4	23.4	31.6	15.7	7.4

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

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

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

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

EUR million	2012	2011	2010	2009	2008
Net working capital	44.6	39.7	27.0	20.4	22.5

One of the Company's aims in 2012 was to ensure that this KPI would develop at a lower rate than the revenue development.

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

%	2012	2011	2010	2009	2008
Net working capital ratio	38.8	43.6	33.3	40.2	49.6

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

Target/actual comparison of planning and realization
In March 2012, the consequences of the debt crisis on the economy were very difficult to predict. The Management Board forecast revenue of between EUR 100 and 105 million assuming stable performance of the global economy, which corresponded to an increase of around 15 % as against the previous year. The growth was expected in all segments, and the EBIT margin was anticipated to be between 15 % and 17 % for 2012.

On the whole, revenue in the year under review amounted to EUR 115.1 million, far exceeding expectations and topping the previous year's figure by 26 %.

The EBIT margin rose to 17.7 % due to a comparably lower increase in staff costs and other operating expenses.

On the whole, revenue in the year under review amounted to EUR 115.1 million, far exceeding expectations and topping the previous year's figure by 26 %. In fact, the revenue growth extended to all segments, with Electronics Production Equipment reporting the highest absolute growth thanks to robust demand for laser cutting systems. The Electronics Production Equipment and Other Production Equipment segments outperformed their own revenue targets. The EBIT margin rose to 17.7 % and operating income totaled EUR 20.4 million due to a comparably lower increase in staff costs and other operating expenses.

At 26.4 %, the Group again substantially surpassed its minimum return-on-capital-employed (ROCE) target of 10.0 %. Net working capital grew primarily as a result of larger inventories and receivables. The increase in revenue reduced the net working capital ratio to 39 %, thus also achieving this target.

2.2. Strategy

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

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

The Solar Module Equipment product group, whose figures are reported in the Other Production Equipment segment, is in a unique situation because of an ongoing large order. Despite the continuing crisis in the solar market, LPKF believes that this industry holds new growth potential in the medium to long term.

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

Strategic Group structure, equity investments

LPKF's strong equity base provides financial security and stability.

The Group regularly examines whether it is necessary to adapt the Group structure to changing market conditions. LPKF's strong equity base provides financial security and stability and enables the Company to pursue the long-term enhancement of its products and business.

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

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

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

3. RESEARCH AND DEVELOPMENT

3.1. Focus of R&D activities

The focus of the R&D activities was on further developing its system control software.

Almost all development projects are oriented on meeting market needs. The focus of LPKF's R&D activities in 2012 was on further developing its system control software. Also at the forefront of activities was the effort to modernize and update the Group's product portfolio. The goal of new developments in the Electronics Production Equipment segment was to add further value for customers. The activities to upgrade production systems were aimed at improving their price-performance ratio. There was also a focus on adding new functions and features and ensuring high availability under industrial operating conditions.

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

3.2. R&D expenses, investment and ratios

Continuous investment in near-to-market developments are of crucial importance to a technology-oriented Group such as LPKF. The Group invested EUR 10.0 million in research and development in 2012. This corresponds to 8.7% of revenue.

3.3. R&D employees

The number of employees in the Group's R&D departments rose to 144 during the reporting period, up from 114 the previous year.

3.4. R&D results

In the year under review, performance-boosting software and hardware components were implemented or refined for LPKF's laser cutting and structuring systems. Solutions for prototyping LDS parts were developed to launch new LDS-based products and projects. Moreover, development began on a number of new machines scheduled for market launch in 2013.

3.5. Multi-period overview of R&D

	2012	2011	2010	2009	2008
R&D expenses in EUR million	10.0	8.7	8.5	5.6	5.4
in % of revenue	8.7	9.6	10.4	11.0	11.9
R&D employees	144	114	96	82	83

4. OVERVIEW OF THE COMPANY'S DEVELOPMENT

4.1. General economic environment

In 2012, the global economy again lost steam according to the Kiel Institute for the World Economy (IfW – Institut für Weltwirtschaft). However, global economic growth seems to have passed its low point. Nonetheless, the outlook is fraught with uncertainty, particularly with regard to the sovereign debt crisis in the euro zone and the future direction of financial policy in the United States. After an only moderate increase in worldwide production of 3.8 % in 2011, the IfW believes that the global economy grew by only 3.2 % on average for 2012. The rise in the gross domestic product of the developed economies was quite muted. In the euro zone, overall economic production in 2012 contracted by 0.5 %, according to EUROFRAME, a group of European economic research institutes. This was due to a weaker foreign trade environment, pronounced financial market uncertainty and the strong damper put on the economy by financial policy. Likewise, the growth of the German economy was moderate at only 0.7 % as per the Federal Statistical Office. The pace of economic growth also fell off sharply in developing and emerging countries whose economies had expanded powerfully in the recovery phase immediately following the financial crisis. Despite the recession in Southern Europe and the still unresolved debt crisis, indicators increasingly point to a recovery of the international industrial economy and global trade, probably starting in the second half of 2013.

4.2. Sector-specific environment

For many years now, LPKF AG has pursued the goal of manufacturing products for various industries to ensure independence from the cyclical performance of individual sectors. The electronics industry, especially consumer electronics, the plastics processing industry as well as the automotive and solar industries, are the Group's key markets.

The German mechanical engineering industry is doing well, according to the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, or VDMA). This key industrial sector will close out 2012 with record revenue of EUR 209 billion. This revenue figure exceeds even the all-time high in 2008 by one billion. Thanks in particular to the surge in demand in the United States (+20.1 %) after three quarters, 2012 proceeded much better than anticipated. The automotive and aviation industries invested especially heavily here. Trade with Latin America (+10.7 %) and Southeast Asia (+21.4 %) was positive for German mechanical engineering firms. However, the largest foreign market, China, grew weaker after years of regular double-digit growth rates. For 2013, the industry remains optimistic on the whole despite certain unfavorable trends in some segments and has kept its production growth forecast at 2 %.

Smartphones and tablets generated the most revenue for the consumer electronics industry once again in 2012.

Smartphones and tablets generated the most revenue for the consumer electronics industry once again in 2012. The U.S. Consumer Electronics Association (CEA) estimates that EUR 797 billion in global revenue was generated from electronic equipment in 2012. Once again, it was the emerging economies that reported the highest revenue growth. For the first time, the mass market was successfully developed with the sale of equipment in the low-price segment. Further growth to EUR 833 billion (+4 %) is projected for 2013.

According to industry experts at Bloomberg New Energy Finance (BNF), EUR 106.7 billion was poured into the solar industry worldwide in 2012. Investments in photovoltaic systems thus declined by 9 % from the record year of 2011.

The worldwide automotive market, in which the German automotive industry holds a disproportionately strong position, experienced very satisfactory growth in 2012. According to the German Automotive Industry Association (Verband der Automobilindustrie – VDA), in 2012 the global automotive market expanded by 4 % to just over 68 million vehicles. Especially outside of Western Europe, this momentum is carried mainly by the Chinese market and the key US market, which has regained strength. German passenger car manufacturers were able to boost their market share in China to 22 % and gain market share in the United States for the seventh year in a row. More vehicles were thus sold in the People's Republic of China than in Europe for the first time ever. The Western European auto market is expected to shrink by around 8 % in 2012 to almost 11.8 million units. Only a slight weakening of 3 % is subsequently anticipated for 2013.

The plastics processing industry saw a slight upturn in revenue for 2012. According to the German Plastics Processing Industry Association (Gesamtverband Kunststoffverarbeitende Industrie, or GKV), revenue rose from EUR 55.9 billion in 2011 to EUR 56.2 billion in 2012. At the end of the breakneck race to catch up after the 2009 crisis, growth has therefore again largely returned to a normal pace.

5. DISCLOSURES RELATED TO ACQUISITIONS

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

On 31 December 2012, the subscribed capital of LPKF AG was EUR 11,134,794.00 following drawdowns from Contingent Capital for both the exercise of options and the capital increase related to the acquisition of the non-controlling interest in LPKF Motion & Control GmbH. It had been EUR 11,100,940.00 the previous year. The share capital is divided into 11,134,794 ordinary shares (no-par shares). There are no preferred shares. One no-par share represents a pro-rata interest of EUR 1.00 in the share capital. The rights and duties under the no-par shares comply with the relevant requirements of the German Stock Corporation Act, specifically, in Sections 12, 53a ff., 118 ff. and 186. Both the exercise of voting rights and the transfer of shares are subject solely to statutory limits.

2012 was the last year in which options could be exercised.

In accordance with the resolution of the Annual General Meeting on 17 May 2001, the share capital was conditionally increased by up to EUR 600,000.00, specifically, by issuing up to 600,000 no-par bearer shares (Contingent Capital 2001). Since 2012 was the last year in which options could be exercised, the contingent capital as of the reporting date was EUR 0.00.

The resolution of the Annual General Meeting on 10 June 2010 had authorized the Management Board to increase the Company's share capital until 9 June 2015 by up to EUR 5,400,000.00 with the approval of the Supervisory Board (Authorized Capital 2010) by issuing up to 5,400,000 new shares, once or repeatedly, with a pro-rata interest of EUR 1.00 in the capital (no-par bearer shares) in return for contributions in cash or in kind. Shareholders shall generally be granted a subscription right in that connection. The Management Board is authorized, however, to exclude shareholders' subscription right with the approval of the Supervisory Board. Following the partial drawdown of EUR 50,000.00 in previous years and further partial drawdown in 2012 in the amount of EUR 25,604.00 for issuing 25,604 new shares by resolution of the Management Board with the approval of the Supervisory Board subject to the exclusion of shareholders' subscription right, the remaining authorization as of the reporting date was EUR 5,324,396.00.

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

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

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

6. COMPENSATION REPORT

Basic features of the remuneration system

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

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

The fixed remuneration comprises both the base salary, which is paid in equal monthly installments, and benefits. The benefits include a company car for both official and private use, as well as insurance contributions for individual members of the Management Board, particularly in connection with health insurance and retirement plans.

Furthermore, the members of the Management Board are also paid variable performance-based remuneration conditioned on multi-year performance targets that gives them a share in the Group's profit pursuant to its consolidated earnings before interest and taxes (EBIT) in the financial year ended. If negative EBIT is reported for the following year, in certain circumstances the given loss may be taken into account retroactively. A cap has been stipulated for this component of remuneration. The potential variable component of remuneration may exceed the fixed component.

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

The Supervisory Board is currently developing a new remuneration system for the Management Board.

The Supervisory Board is currently developing a new remuneration system for the Management Board. This is expected to include more remuneration components that provide a long-term incentive. Variable remuneration will be based on achieving EBIT targets as well as on other key performance indicators.

Compensation of the Management Board

The current members of the Management Board were paid total remuneration of EUR 1,653 thousand (2011: EUR 1,501 thousand) for their activities in the 2012 financial year.

EUR thsd.		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek	Total
Fixed remuneration	2012	282	239	184	18	723
(including benefits)*	2011	257	230	174	0	661
Performance-based remuneration	2012	375	315	240	0	930
(provisions)	2011	300	307	233	0	840
Performance-based remuneration	2012	0	0	0	0	0
(supplementary payments or reversals of provisions)	2011	0	0	0	0	0
Total remuneration	2012	657	554	424	18	1,653
	2011	557	537	407	0	1,501

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

As in the previous year, the maximum agreed variable remuneration was reached for the 2012 financial year.

The performance-based remuneration for 2012 shall not be paid until the 2013 financial year. Provisions were recognized to this end as of at the reporting date.

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

As in the 2011 financial year, no stock options were granted to the members of the Management Board in the 2012 financial year and in the previous two years.

The number of the stock options granted to members of the Management Board developed as follows:

		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek
Portfolio of options as of 1 Jan. 2012	Number	0	0	3,300	0
Exercised in the 2012 financial year	Number	0	0	3,300	0
Expired in the 2012 financial year	Number	0	0	0	0
Portfolio as of 31 Dec. 2012	Number	0	0	0	0

Commitments to members of the Management Board upon termination

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

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

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

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

Total remuneration of former members of the Management Board

Provisions were recognized for EUR 438 thousand (previous year: EUR 454 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

Shareholdings of members of the Company's corporate bodies

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

	31 March 2012	30 June 2012	30 Sept. 2012	31 Dec. 2012
Management Board				
Dr. Ingo Bretthauer	30,000	30,000	30,000	25,000
Bernd Lange	47,510	47,510	47,510	47,510
Kai Bentz	7,000	10,300	10,300	10,300
Dr.-Ing. Christian Bieniek	0	0	0	0
Supervisory Board				
Dr. Heino Büsching	4,000	4,000	4,000	5,000
Bernd Hackmann	N.A.	62,800	62,800	62,800
Prof. Dr.-Ing. Erich Barke	1,000	1,000	1,000	1,000
Bernd Hildebrandt	721,177	N.A.	N.A.	N.A.

Compensation of the Supervisory Board

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

In addition, each member of the Supervisory Board is paid remuneration amounting to EUR 1,000.00 for each percentage point by which the dividend distributed to shareholders exceeds 4 % of the share capital. The variable component cannot be specified at this time because it has not been determined to date whether a dividend will be paid for the 2012 financial year and in what amount. A dividend of EUR 0.40 per share was paid in 2012 for the 2011 financial year, resulting in total variable remuneration of EUR 108 thousand for the Supervisory Board (previous year: EUR 108 thousand).

The expenses for members of the Supervisory Board were as follows:

EUR thsd.		Bernd Hildebrandt (Chairman until 31 May 2012)	Dr. Heino Büsching (Chairman from 31 May 2012)	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2012	33	72	35	40	180
	2011	80	60	0	40	180
Variable remuneration	2012	36	36	0	36	108
	2011	36	36	0	36	108
Total remuneration	2012	69	108	35	76	288
	2011	116	96	0	76	288

II. Profit or loss, cash flows and financial position

1. PROFIT OR LOSS

1.1. Development of revenue

The LPKF Group closed the 2012 financial year with revenue of EUR 115.1 million.

The LPKF Group closed the 2012 financial year with revenue of EUR 115.1 million, up from EUR 91.1 million the previous year. This is due, among other factors, to additional deliveries on the large order for solar scribers in the Other Production Equipment segment, which was able to boost revenue by 49.1 %. Increased sales of MicroLine series machinery in the Electronics Production Equipment segment led to revenue growth of 23.2 % here. In addition, revenue in the Electronics Development Equipment segment was up 7.4 % from the previous year.

Revenue by operating segment was as follows:

EUR million	2012	2011
Electronics Production Equipment	55.7	45.2
Electronics Development Equipment	19.4	18.1
Other Production Equipment	38.1	25.5
All other segments	1.9	2.3
	115.1	**91.1**

The following table shows the revenue by region:

%	2012	2011
Asia	55.0	47.4
Germany	11.5	14.7
Europe without Germany	12.6	11.3
North America	19.3	24.2
Other	1.6	2.4
	100.0	**100.0**

The majority of the solar scribers shipped were installed in Asia. The increase in sales of MicroLine systems in the Electronics Production Equipment segment stemmed particularly from American customers. Since some of these products invoiced to customers were also ultimately installed in Asia, particularly China, the Asia region remains LPKF's most important market. Further growth is projected here for subsequent years as well.

1.2. Development of orders

At EUR 124.1 million, orders received during the reporting period were 19 % up on the previous year's level.

At EUR 124.1 million, orders received during the reporting period were 19 % up on the previous year's level of EUR 104.0 million. Orders on hand rose from EUR 25.2 million as of the close of 2011 by 36 % to EUR 34.3 million as of the 2012 reporting date.

1.3. Development of main income statement items

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

Production costs for prototypes and application systems of EUR 0.5 million and capitalized development costs of EUR 2.8 million are shown in own work capitalized. Other operating income was up slightly (+EUR 0.1 million) from the previous year. This development is largely due to the continuing measurement of a debtor's warrant for an additional purchase price tranche for the takeover of the minority interest in LPKF Motion & Control GmbH in the amount of EUR 0.7 million. Income from the reversal of provisions (–EUR 0.3 million) and asset disposals (–EUR 0.3 million) decreased.

The material cost ratio relative to revenue and changes in inventories rose minimally from 28.8 % in the previous year to 30.6 %. A change in the product mix was the main contributor to this development. Furthermore, the material cost ratio in the previous year had received a boost in the amount of EUR 0.6 million from a one-time effect associated with the introduction of the new ERP system.

The rise in staff costs was more than compensated by a stronger growth in revenue.

The ratio of staff costs to total revenue is 30.5 %, compared to 32.3 % the previous year. The rise in staff costs, which stemmed mainly from the increase in the number of employees and ongoing salary increases, was thus more than compensated by a stronger growth in revenue.

Depreciation, amortization and impairment losses grew to EUR 7.2 million from EUR 4.8 million in the previous year. Of this figure, EUR 0.4 million (previous year: EUR 0.0 million) was attributable to impairment losses on capitalized development costs. Otherwise, the increase is due to high capital expenditure.

Other operating costs grew by EUR 3.4 million to EUR 25.0 million. The rise is mainly the result of higher warranty costs (+EUR 1.2 million) and consulting costs due to factors including the ORG200 organizational development project (+EUR 0.8 million). Higher travel costs (+EUR 0.5 million) and higher property and leasing costs (+EUR 0.5 million) also contributed to this increase.

The Group generated earnings before interest and taxes (EBIT) of EUR 20.4 million.

The Group generated earnings before interest and taxes (EBIT) of EUR 20.4 million (previous year: EUR 15.2 million), corresponding to an EBIT margin of 17.7 % (previous year: 16.7 %).

The measurement of the liability arising from the additional purchase price tranches for LPKF Motion & Control GmbH resulted in a decline in the financial result of EUR 0.2 million. Expenses related to investment financing and performance of the general agreement for the delivery of solar scribers also reduced the financial result.

The increase in tax expense stems mainly from earnings; current taxes account for EUR 5.1 million and deferred taxes for EUR 0.1 million. The tax ratio is 26.8 % (previous year: 29.6 %). Non-controlling interests accounted for EUR 0.8 million in earnings (previous year: EUR 0.4 million). Consolidated net profit for the year after taxes and minority interests is EUR 13.5 million, compared to EUR 9.9 million the previous year.

1.4. Multi-period overview of profit or loss

	2012	2011	2010	2009	2008
Revenue (EUR million)	115.1	91.1	81.2	50.7	45.4
EBIT (EUR million)	20.4	15.2	17.3	7.0	3.1
Material cost ratio (%)	30.6	28.8	28.1	30.0	32.4
Staff cost ratio (%)	30.5	32.3	28.9	35.4	37.4
Tax rate (%)	26.8	29.6	28.2	30.3	19.3
EBIT/employee (EUR thsd.)	31.2	27.5	39.6	18.7	8.4

2. CASH FLOWS

2.1. Principles and goals of financial management

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

Derivatives are used only to hedge foreign exchange rates and interest rates.

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

2.2. Statement of cash flows

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

EUR million	2012	2011
Cash flow from operating activities	17.1	3.2
Cash flow from investing activities	–12.3	–14.1
Cash flow from financing activities	–7.7	3.2
Changes in cash and cash equivalents due to foreign exchange rates	–0.2	0.2
Change in cash and cash equivalents	–2.9	–7.7
Cash and cash equivalents on 1 Jan.	5.6	13.1
Cash and cash equivalents on 31 Dec.	2.5	5.6
Composition of cash and cash equivalents:		
Cash on hand, bank balances	5.0	7.0
Bank overdrafts	–2.5	–1.4
Cash and cash equivalents on 31 Dec.	2.5	5.6

The Group's cash and cash equivalents fell from EUR 5.6 million to EUR 2.5 million. Cash used in the intensive investing activities in 2012 and cash used in financing activities slightly exceeded the cash generated from operating activities.

The decline in cash and cash equivalents stemmed mainly from the repayment of loans at the same time deposits from new borrowings were reduced. After the reporting date, short-term financing was obtained via current account liabilities.

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

The Company's cash flow remains very robust.

2.3. Multi-period overview of cash flows

EUR million	2012	2011	2010	2009	2008
Cash flow from operating activities	17.1	3.2	13.5	11.5	6.4
Net liabilities to banks	13.1	8.3	–10.5	–6.7	0.6

(–) Balance (+) Liability

3. FINANCIAL POSITION

3.1. Analysis of financial position and capital structure

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

	31 Dec. 2012		31 Dec. 2011	
	EUR million	%	EUR million	%
Non-current assets	39.8	39.2	34.7	38.7
Current assets	61.7	60.8	54.9	61.3
Assets	**101.5**	**100.0**	**89.6**	**100.0**
Equity	59.0	58.1	49.8	55.6
Non-current liabilities	10.8	10.6	13.8	15.4
Current liabilities	31.7	31.3	26.0	29.0
Equity and liabilities	**101.5**	**100.0**	**89.6**	**100.0**

LPKF's financial position remains very robust, as indicated by the continued high equity ratio of 58.1 %.

LPKF's financial position remains very robust, as indicated by the continued high equity ratio of 58.1 % (previous year: 55.6 %) among other things. The increase in non-current assets during the reporting year stems particularly from investments in machinery software and the further expansion of the Company's Garbsen site.

The excellent order situation as of the reporting date resulted in an increase in inventories. Current assets also increased due to higher trade receivables arising from the excellent revenue of recent months. Current bank balances and cash on hand were down EUR 2.0 million from the previous year.

Fully 159 % of the non-current assets are funded through equity (previous year: 155 %).

Equity has risen mainly on account of positive earnings and deposits from the exercise of options and payment of purchase price tranches from the issuance of shares despite outflows from dividend payments. Liabilities to banks grew by EUR 2.7 million primarily due to the utilization of bank overdraft credit lines and project financing. Current liabilities mainly include other provisions, which were up EUR 1.5 million from the previous year as a result of an increase in warranty obligations and provisions for bonuses. This item also contains trade liabilities, which increased by EUR 2.1 million. Advances received on orders grew EUR 1.2 million year over year. With these exceptions, there has been no substantial change in the balance sheet structure.

3.2. Multi-period overview of the financial position

	2012	2011	2010	2009	2008
Fixed asset ratio (%)	36.5	35.8	30.8	32.1	34.5
Inventory ratio (%)	32.4	29.4	25.7	25.1	29.2
Net working capital (EUR million)	44.6	39.7	27.0	20.4	22.5
Sales outstanding (days)	57	63	52	75	81

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

3.3. Investments

EUR 12.8 million were invested in intangible assets and property, plant and equipment in the 2012 financial year.

EUR 12.8 million were invested in intangible assets and property, plant and equipment in the 2012 financial year, a decline of EUR 2.1 million from the previous year. Additions included the costs of further expansion of space and renovation of part of a building at the Garbsen site in the amount of EUR 2.2 million, additional expenses for the further development of machinery software (EUR 2.9 million) and investments in operating equipment (EUR 2.0 million). The planning for the 2013 financial year stipulates an investment focus on expanding plastic welding activities, and further expansion of the Garbsen site, in development areas and in prototyping. On the whole, investments are slated to top those of the reporting year. These investments, along with investments in prior years, are a major element of LPKF's growth strategy.

3.4. Employees

LPKF's basic philosophy is to tie employees to the Company on a long-term basis. But many new recruits were initially hired for limited periods only so that the Company could maintain the flexibility it needs in the use of human resources. Temporary staff were also employed to cover short-term needs. Having significantly expanded personnel in 2012, plans call for the selected hiring of more staff in 2013 depending on the business climate, primarily for the development departments and here and there for revenue-related areas.

Internal and external training options in all segments, as well as other means of obtaining qualifications, are offered to LPKF's employees as part of personnel development. In particular, LPKF trains mechatronic technicians and industrial business assistants in order to acquire properly qualified young staff. The Group employed 37 trainees as of the reporting date.

3.5. Non-financial performance indicators

Motivated, highly-qualified staff that identifies with LPKF is the key to success – especially for a technology company like LPKF. Low levels of sick leave and employee turnover are important indicators of LPKF's success in actually achieving this goal. At 2.9 %, the sick leave percentage in the LPKF Group was below the average for the metal working and electronics industry (2011: 4.5 %). The employee turnover rate in the Group was 6.3 %.

4. OVERALL APPRAISAL OF THE GROUP'S ECONOMIC SITUATION

As far as revenue and earnings are concerned, 2012 was the best year in the Company's 36-year history.

The Company's economic situation can be considered extremely robust in the 2012 financial year yet again. As far as revenue and earnings are concerned, 2012 was the best year in the Company's 36-year history. Building on that, LPKF will continue to post excellent earnings and achieve a high return on the capital employed.

III. Events after the reporting period

DISCLOSURES ON PARTICULARLY SIGNIFICANT EVENTS

In view of the strong growth expected for the Welding Equipment business, the Management Board resolved to expand capacity considerably.

In view of the continued strong growth expected for the Welding Equipment business at the Erlangen site, the Management Board with the approval of the Supervisory Board resolved to expand capacity considerably and make the associated investments of up to EUR 14.0 million.

There were no other reportable events after the reporting date.

IV. Risk report

1. DESCRIPTION OF THE INTERNAL CONTROL SYSTEM

1.1. Overview

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

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

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

In the 2010 financial year, an external auditor was engaged to perform internal auditing tasks and to prepare a multi-year internal auditing plan for the Group on the basis of the Group's strategy and the risk assessment carried out by the Management Board. In 2012, audits were conducted at LPKF AG and two subsidiaries. The unified ERP system for managing processes and workflows that was implemented at LPKF AG and its Suhl-based subsidiary will also be installed in certain departments of the Company's Chinese subsidiary in the 2013 financial year. Subsequent implementation of this system at further Group companies is planned. This process serves to further optimize process structure and improve transparency. The Company will continue to focus on the ongoing development of its structural and workflow organization in view of the Group's envisioned growth.

The Company will continue to focus on the ongoing development of its structural and workflow organization in view of the Group's envisioned growth.

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

1.2. Risk and opportunity management system

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

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

Opportunity management is designed to enable the Company to identify and assess business and development opportunities as best as possible and strengthen its competitive position. LPKF takes account of its growth and the increasing complexity of its business by setting up a central Group strategy department, expanding its innovation and product management and refining its operating processes.

LPKF takes account of its growth and the increasing complexity of its business by setting up a central Group strategy department.

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

The risk early warning system is reviewed annually by a public auditor.

In order to record and control risks, existing instruments such as the risk management manual and the reporting tools are updated continuously and the daily implementation of the risk management system is documented. Risk management discussions of all types are always recorded in minutes. As in previous years, existing and potential risks were reassessed and the reporting system was reviewed to ascertain its efficiency in managing risks in the 2012 financial year. A database-supported reporting system has been installed at Group companies. The quality management system pursuant to DIN EN ISO 9001:2008 is another important element of the risk early warning system and for ensuring structured business processes. The implementation of the recommendations of the German Corporate Governance Code, which plays an important part in the cooperation between the Supervisory Board and the Management Board, is yet another instrument for limiting and managing risks.

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

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

The importance of computerized IT process controls has increased with the implementation of a new ERP system.

LPKF's internal control system is based on process-integrated and process-independent measures. The process-integrated measures mainly involve manual process controls such as the principle of dual control. The importance of computerized IT process controls has increased with the implementation of a new ERP system at the German Group companies. Process-integrated and process-independent control is ensured by specific Group functions such as Group Accounting, the Group risk manager and the compliance officer, which are based at the Group's headquarters.

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

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

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

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

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

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

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

However, personal judgments, defective controls and criminal acts in particular cannot be fully excluded despite these measures. This could limit the effectiveness of the internal control system, which means that even the strict application of regulations provides no absolute guarantee for the correct, complete and punctual recording of all matters in the accounts.

2. SPECIFIC RISKS

The risk management process currently involves dealing in detail with the following specific risks which could have a significant impact on the LPKF Group's business, as well as its financial position, cash flows and profit or loss. Other opportunities and risks which are currently unknown, or which are currently (still) considered negligible, could also have a positive or negative impact on LPKF.

2.1. Business risks

Business in LPKF's target markets is cyclical.

LPKF is operating internationally in an ever faster changing environment. The Company's customers are exposed to considerable cost and competitive pressures as well as curtailed investment budgets. Business in LPKF's target markets is cyclical, with particularly strong fluctuations especially in the electronics industry as well as the automotive and solar industry. In part, these industry cycles are staggered timewise in different markets such that LPKF's broad market positioning helps to balance matters somewhat. While both the electronics and the automotive industry expanded significantly in 2012, the solar energy market was in crisis the second year in a row. But the Company's subsidiary that is engaged in the Solar Module Equipment product group succeeded nonetheless in generating substantial revenue growth and positive earnings. Economic fluctuations have a strong impact on the investment in production equipment. Especially in markets outside Asia, customers' willingness to expand capacities or introduce new technologies is therefore limited. New investments are often only made when future utilization of such equipment appears assured by concrete orders from customers. The Electronics Production Equipment and the Other Production Equipment segments are usually more exposed to cyclic fluctuations than the more budget-driven Electronics Development Equipment segment.

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

Ensuring the high level of quality required by customers places great demands on development and production processes.

The systematic development of new technologies and business segments is generally associated with the risk that the planned business model fails to meet its targets. There is the risk, especially in connection with new technologies or machine types, that deliveries might be delayed or that formal acceptance procedures might not take place at all or only later. Ensuring the high level of quality required by customers places great demands on development and production processes. Especially systems and components that have been newly developed from scratch entail a risk of high quality costs.

The Company seeks to cover these through insurance policies if there are existent risks from product liability. Confidentiality agreements entailing penalties apply in individual cases.

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

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

Last but not least, the global political situation may also pose risks affecting the development of LPKF's business. The risks involved here include possible changes in laws, e. g. with respect to the import of capital goods to China. Recent years have seen the increasing implementation of tariff and non-tariff barriers to trade. The euro exchange rate against the Japanese yen and the US dollar must also be mentioned as a potential risk. Key Asian currencies are pegged to the US dollar. This can have negative effects on sales in Asia, even if invoicing in these countries is carried out on a euro basis. Most of the Group's competitors come from non-euro countries and therefore have competitive advantages when the euro is very strong compared to these currencies. The current performance of the euro vis-à-vis the currencies in LPKF's key markets boosts its competitiveness.

2.2. Dependence on suppliers

The procurement of components and services from external suppliers is associated with basic risks involving extended delivery times, changes in prices, and quality. LPKF does not directly depend on one or more suppliers outside the Group. But the potential number of suppliers for laser sources, a few software modules and other special components is limited. Business activity can be impacted primarily by price fluctuations and the availability of materials. At this time, there are no signs of significant price pressures in procurement. Due to the slowdown of the economy, there are hardly any delays in supplies of individual components.

2.3. Dependence on customers

The distribution of revenue by region shows a clear shift to Asia.

The distribution of revenue by region shows a clear shift to Asia, China in particular. While it reflects prevailing market conditions, it has resulted in the Group's evolving dependence on international customers that base most of their manufacturing in China. However, the LPKF Group is not materially dependent on particular customers. Instead, the customer base has broadened, particularly in the Electronics Production Equipment segment, and a breakthrough was made in the manufacture of larger components, such as antennas for laptops and tablets. In contrast, the dependency on a single customer increased considerably in the Solar Module Equipment product group operated by the subsidiary LPKF SolarQuipment GmbH after it received a large order. Due to the ongoing difficult business situation in the solar industry, there is an increased risk of order cancellations and defaults in this case in particular. This risk is deemed to be fairly low given contractually stipulated payment terms and other conditions. To date, however, the major customer has met its payment obligations as required.

Nonetheless, if the solar market continues to be weak, the loss of this major customer or other major orders could have a negative impact on the Group's revenue and earnings if, for example, capacities cannot be wound down fast enough or used by other divisions, or if trade receivables remain unpaid.

2.4. Exchange rate fluctuations

The exchange rates between foreign currencies and the euro can undergo major fluctuations. For LPKF, the main fluctuations are those with regard to the US dollar, the Chinese renminbi and the Japanese yen. Fluctuations in exchange rates can have a positive as well as a negative effect on earnings. Counter measures are permanently reviewed and implemented to the degree possible. LPKF closes hedging transactions to protect itself against exchange rate risks involving business transactions invoiced in foreign currencies. This part of the risk management is handled by the parent Company in Garbsen, Germany, also on behalf of subsidiaries and branch offices. In accordance with the risk management strategy, most of the foreign currency cash flow is either used for procuring materials in the dollar countries or hedged by engaging in forward exchange transactions or acquiring put options.

2.5. Use of financial instruments

The Company uses financial instruments exclusively to hedge exchange rate and interest rate risks. The instruments used for this purpose are subject to price fluctuations resulting from changes in interest rates and exchange rates. There is also the risk that an issuer could default. In some cases, the Company undertakes vis-à-vis a bank to make payments in foreign currencies at a specific time. This is associated with the risk that cash flows from the underlying transaction either fail to arrive or are delayed. This transaction then would have to be serviced by buying on the spot market at what may be an unfavorable exchange rate.

2.6. Development

LPKF's success significantly depends on the speed and quality with which new products can be developed to market readiness.

The competitive situation and the rapidly changing technological requirements are associated with risks. LPKF's success significantly depends on the speed and quality with which new products can be developed to market readiness. Permanent follow-up is also carried out by the Supervisory Board and the Management Board. This follow-up is an integral part of the risk management system which aims to review the sustainable value of new developments and integrate these findings into the product strategy. In addition to achieving cost benefits by investing in LPKF's technology, LPKF's customers can also enjoy competitive benefits and harness the associated market opportunities. In the markets, some of which can be quite cyclic, there is an additional risk when the capacity and willingness to invest in new technology diminishes in response to the state of the economy. LPKF's technologies are also protected by patents.

2.7. Patent risks

The LPKF Group owns 43 patent families, and most of them are international.

The LPKF Group owns 43 patent families, and most of them are international. LPKF continually applies for new patents thanks to its intense development activities, in addition to acquiring the industrial property rights of third parties. LPKF considers the obtaining of patent rights to be the most effective way of preventing its R&D investments to be devalued by copyists. In the laser direct structuring (LDS) business in particular, commercial success also depends on the patent situation. LPKF learned of several patent infringements in this area during the reporting period and took legal action. The Company will continue to closely monitor the respective market in the reporting periods to come. It cannot preclude that existing or new industrial protection rights of third parties might have an impact on the financial condition of LPKF. There is also the risk that competitors might successfully challenge LPKF's patents. This risk is counteracted through comprehensive innovation management and close collaboration with patent attorneys.

The patent for LDS technology was contested in two Asian countries. Accordingly, LPKF has stepped up the offensive in defending its intellectual property. In Korea, LPKF obtained a temporary injunction against the infringer of a patent. In China, LPKF is involved in a legal dispute to protect the Chinese LDS patent; the trial court decided against LPKF. The duration and outcome of this dispute cannot be predicted at this time.

2.8. Personnel risks

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

2.9. Financial risks

Considerable freedom exists for financing due to the high unused credit lines and the Company's liquid assets.

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

2.10. IT risks

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

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

Both the risks for the global economy and the risks from the sovereign debt crisis have risen compared to the previous year. However, many analysts expect the global economy to recover slightly in 2013. The major order won in December 2011 by a subsidiary in the Other Production Equipment segment means that the Group's dependence on a single customer will be higher in the two subsequent years. LPKF is faced with increasing attacks on its LDS patent, especially from China. For the rest, LPKF's overall risk exposure from individual risks has not changed much compared to the previous year thanks to the positive development of its business at this time.

LPKF is faced with increasing attacks on its LDS patent, especially from China.

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

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

The auditor of the financial statements reviewed LPKF AG's risk early warning system set up pursuant to the German Stock Corporation Act (Aktiengesetz). This review revealed that the existing Group-wide risk early warning system is fit for purpose, meets the requirements of the German Stock Corporation Act and is suitable for detecting developments that jeopardize the Company's continued existence as a going concern at an early stage.

V. Anticipated developments

1. BUSINESS OPPORTUNITIES

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

Miniaturization and increasingly fast model changes are trends which favor the use of LPKF's technologies.

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

The Company's ongoing development activity maintains its edge over the competition in key product markets.

LPKF's strategy to build on its core competencies and enter different markets has a stabilizing effect against the backdrop of cyclical markets. The various markets served by LPKF undergo asynchronous and different industry cycles. The Company's ongoing development activity maintains its edge over the competition in key product markets. For instance, the demand for plastic welding systems has risen sharply. LPKF is already among the world's leading suppliers of this technology, and this division's revenue has been growing very robustly for years. Since profitability has now also reached a suitable level, LPKF aims to further develop its leadership position in the welding equipment market. To this end, capacity at the Erlangen site will be expanded and the international sales network grown further.

Opportunities for growth in the years to come are primarily seen in the Electronics Production Equipment and Other Production Equipment segments. This gives the LPKF Group a very strong foundation for positive performance in 2013 and beyond.

2. OVERALL APPRAISAL OF THE GROUP'S PROBABLE PERFORMANCE

The International Monetary Fund (IMF) forecasts global economic growth of 3.5 % for 2013. The global economy's prospects for expansion depend particularly on whether decisive political steps are taken in the euro zone and the United States to stabilize confidence. Growth would then ramp up to 4.1 % in 2014. In the euro zone, IMF economists project another year of recession. GDP in this region will drop by 0.2 % in 2013. The IMF expects the euro zone countries to return to the black again only in 2014. In Germany, the gross domestic product is anticipated to increase 0.6 %. Growth is then likely to pick up speed in Germany in 2014 at 1.4 %. The strongest growth among the industrialized countries is projected for the United States at 2.1 %. According to estimates by the International Monetary Fund, the weakness in the global economy will not leave the emerging economies unscathed. In 2013, the IMF still puts China's growth at 8.2 % (–0.2 percentage points) and India's at 6 % (–0.6), while Brazil will record 4 % (–0.7). In contrast to this rather pessimistic outlook, the World Bank believes that a serious euro crisis has mostly been averted. The financial markets have regained a large measure of trust in the euro zone.

The performance of the sectors relevant to LPKF is closely tied to the general economic climate. Thus the German Engineering Federation (VDMA) anticipates only moderate growth of 2 % in 2013, but considers it possible that Germany's exports could perform better than assumed in the annual economic report. The U.S. Consumer Electronics Association (CEA) looks forward to growth of 4 % in worldwide sales of electronics products to EUR 833 billion. Smartphones and tablets will be responsible for most of this growth, but the TV segment also promises to be a major driver.

According to the German Automotive Industry Association (Verband der Automobilindustrie – VDA), the global passenger car market, which grew by 4 % in 2012 to more than 68 million units, will continue to expand again in 2013. Experts believe that the market will close in on the 70-million mark this year. This momentum is coming principally from the Chinese market and the key U.S. market, which has regained strength. The international markets are said to hold growth opportunities.

The German photovoltaic industry will again be under pressure in 2013 from the steep lowering of feed-in tariffs. According to the photovoltaic market report by the California-based market search firm IHS iSuppli, 2013 will be a good year for the photovoltaic industry worldwide. In the first quarter, industry experts think new worldwide photovoltaic capacity will shrink to 6.7 GW due to seasonal influences, but for the rest of the year demand is expected to grow to a total of 35 GW by year-end.

The German Plastics Processing Industry Association (Gesamtverband Kunststoffverarbeitende Industrie, or GKV) also projects sideways movement for its industry in the first half of 2013 in line with general economic forecasts and then expects business to pick up in the second half of the year.

LPKF AG will introduce a number of new and refined products in 2013 as well. Development work continues to focus on boosting customer benefits. The product range of the Electronics Development Equipment segment is being expanded to include high-quality laser systems for prototyping electronic components and molded interconnect devices (MIDs). A new generation of PCB production equipment is creating revenue in the Electronics Production Equipment segment. In the coming years, the importance of orders to equip high-volume production lines with machinery will continue to grow while that of orders for deliveries to customers' development areas will continue to decline.

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

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

Revenue in financial year 2012 reached EUR 115.1 million and, with growth of 26 %, exceeded the prior-year figure. Operating income (EBIT) even rose 34 %, while the EBIT margin was 17.7 % – again a figure well above average for the industry. The strong revenue growth in the financial year under review was due in part to a large order from the solar industry. In view of the continuing weakness of the solar market, LPKF is preparing for a decline in revenue in the Solar Equipment product group and therefore expects a temporary slowdown in revenue development for 2013.

On the whole, the Management Board expects the LPKF Group to generate revenue of EUR 115 to EUR 120 million for 2013. The EBIT margin should be between 15 % and 16 % in 2013.

On the whole, the Management Board expects the LPKF Group to generate revenue of EUR 115 to EUR 120 million for 2013 assuming stable performance by the global economy. Revenue growth is planned for all segments outside the solar energy business. Provided the material cost ratio remains largely the same, staff costs rise due to the new hires and other expenses stay near current levels, costs will rise somewhat more sharply than revenue. The EBIT margin should be between 15 % and 16 % in 2013.

The Management Board expects a stable economic environment in both 2014 and 2015, with revenue growth of 10 % per year on average and a slight increase in the EBIT margin.

VI. Responsibility statement

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

Garbsen, Germany, 25 March 2013

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

Consolidated financial statements 2012 LPKF Laser & Electronics AG

Consolidated financial statements for the 2012 financial year
in accordance with International Financial Reporting Standards (IFRS)

Consolidated statement of financial position as of 31 December 2012

Assets

EUR thsd.	Note	31 Dec. 2012	31 Dec. 2011
Non-current assets			
Intangible assets	10		
Software		4,563	2,530
Goodwill		74	74
Developments costs		3,792	4,631
		8,429	**7,235**
Property, plant and equipment	10		
Land, similar rights and buildings		20,243	18,744
Plant and machinery		3,104	3,061
Other equipment, operating and office equipment		3,888	2,875
Advances paid and construction in progress		1,429	152
		28,664	**24,832**
Financial assets			
Other borrowings		6	25
		6	**25**
Restricted securities	14	271	241
Receivables and other assets			
Trade receivables	12	25	255
Income tax receivables	13	226	267
Other assets	13	301	193
		552	**715**
Deferred taxes	16	1,854	1,631
		39,776	**34,679**
Current assets			
Inventories	11		
(System) parts		20,124	16,017
Work in progress		3,889	3,630
Finished products and goods		8,549	6,323
Advances paid		318	388
		32,880	**26,358**
Receivables and other assets			
Trade receivables	12	21,134	19,368
Income tax receivables	13	769	330
Other assets	13	1,964	1,820
		23,867	**21,518**
Cash and cash equivalents	15	5,022	7,006
		61,769	**54,882**
		101,545	**89,561**

Consolidated statement of financial position as of 31 December 2012

Equity and liabilities

EUR thsd.	Note	31 Dec. 2012	31 Dec. 2011
Equity			
Subscribed capital	17	11,135	11,101
Capital reserves		5,599	5,338
Other retained earnings		7,000	7,000
Cash flow hedge reserves		–123	–129
Revaluation surplus		5	–16
Share-based payment reserve		490	490
Currency translation reserve		–556	–346
Net retained profits		33,423	24,345
Non-controlling interests	18	2,036	1,978
		59,009	**49,761**
Non-current liabilities			
Provisions for pensions	19	0	0
Non-current liabilities to banks	21	8,346	11,368
Deferred income from grants	3	363	395
Other non-current liabilities		36	70
Deferred taxes	16	2,051	1,976
		10,796	**13,809**
Current liabilities			
Tax provisions	20	412	895
Other provisions	20	5,097	3,634
Current liabilities to banks	21	9,753	3,981
Trade payables	21	5,906	3,805
Other liabilities	21	10,572	13,676
		31,740	**25,991**
		101,545	**89,561**

Consolidated income statement

from 1 January to 31 December 2012

EUR thsd.	Note	2012	2011
Revenue	1	115,082	91,113
Changes in inventories of finished goods and work in progress		2,854	1,458
Other own work capitalized	2	3,282	2,846
Other operating income	3	2,471	2,375
		123,689	**97,792**
Cost of materials	4	36,051	26,687
Staff costs	5	35,140	29,473
Depreciation, amortization and impairment losses	6	7,178	4,757
Other operating expenses	7	24,957	21,630
Operating profit		**20,363**	**15,245**
Finance income	8	56	110
Finance costs	8	845	605
Earnings before tax		**19,574**	**14,750**
Income tax	9	5,247	4,363
Consolidated net profit		**14,327**	**10,387**
Of which attributable to			
Shareholders of the parent company		13,519	9,945
Non-controlling interests		808	442
		14,327	**10,387**
Earnings per share (basic)	23	EUR 1.22	EUR 0.90
Earnings per share (diluted)	23	EUR 1.21	EUR 0.90

Consolidated statement of comprehensive income

from 1 January to 31 December 2012

EUR thsd.	Note	2012	2011
Consolidated net profit		**14,327**	**10,387**
Other comprehensive income			
Changes in the value of available-for-sale financial assets		30	–28
Of which fair value changes recognized directly in equity		30	–35
Of which recognized in profit or loss from the sale of securities		0	7
Fair value changes from cash flow hedges		9	–184
Currency translation differences		–210	403
Difference resulting from the acquisition of non-controlling interests		0	–8,636
Deferred taxes		–12	63
Other comprehensive income		**–183**	**–8,382**
Total comprehensive income		**14,144**	**2,005**
Of which attributable to			
Shareholders of the parent company		13,336	3,242
Non-controlling interests		808	–1,237

Consolidated statement of cash flows

from 1 January to 31 December 2012

EUR thsd.	Note	2012	2011
Operating activities			
Consolidated net profit		14,327	10,387
Income taxes		5,247	4,363
Interest expenses		845	605
Interest income		– 56	– 110
Depreciation and amortization		7,178	4,757
Gains from the disposal of non-current assets including reclassification to current assets		– 176	– 32
Non-cash currency differences in non-current assets		55	– 161
Changes in inventories, receivables and other assets		– 9,004	– 13,035
Changes in provisions		1,831	– 978
Changes in liabilities and other equity and liabilities		3,149	4,353
Other non-cash expenses and income		– 228	– 654
Interest received		56	107
Income taxes paid		– 6,097	– 6,347
Net cash flows from operating activities		**17,127**	**3,255**
Investing activities			
Investments in intangible assets		– 5,734	– 4,304
Investments in property, plant and equipment		– 7,073	– 10,645
Investments in financial assets		0	0
Proceeds from disposal of financial assets		19	5
Proceeds from disposal of non-current assets		508	813
Interest received		0	3
Net cash used in investing activities		**– 12,280**	**– 14,128**
Financing activities			
Dividend payment		– 4,440	– 4,402
Dividend payment to non-controlling interests		– 750	– 158
Interest paid		– 654	– 605
Payments for the acquisition of non-controlling interests		– 3,533	– 3,263
Proceeds from issue of capital		47	257
Proceeds from borrowings		10,800	12,975
Cash repayments of borrowings		– 9,157	– 1,569
Net cash used in financing activities		**– 7,687**	**3,235**
Change in cash and cash equivalents			
Change in cash and cash equivalents due to changes in foreign exchange rates		– 251	187
Change in cash and cash equivalents		– 2,840	– 7,638
Cash and cash equivalents on 1 Jan.		**5,586**	**13,037**
Cash and cash equivalents on 31 Dec.		**2,495**	**5,586**
Composition of cash and cash equivalents			
Cash and cash equivalents		5,022	7,006
Overdrafts		– 2,527	– 1,420
Cash and cash equivalents on 31 Dec.	22	**2,495**	**5,586**

Consolidated statement of changes in equity

as of 31 December 2012

EUR thsd.	Subscribed capital	Capital reserves	Other retained earnings	Cash flow hedge reserve
Balance as of 1 Jan. 2012	11,101	5,338	7,000	–129
Consolidated total comprehensive income				
Consolidated net profit	0	0	0	0
Additions from measurement of cash flow hedge	0	0	0	9
Additions from market valuation of securities	0	0	0	0
Deferred taxes on changes recognized directly in equity	0	0	0	–3
Currency translation differences	0	0	0	0
Consolidated total comprehensive income	**0**	**0**	**0**	**6**
Transactions with owners				
Proceeds from capital increases	34	261	0	0
Distribution to owners	0	0	0	0
Balance as of 31 Dec. 2012	**11,135**	**5,599**	**7,000**	**–123**

EUR thsd.	Subscribed capital	Capital reserves	Other retained earnings	Cash flow hedge reserve
Balance as of 1 Jan. 2011	11,006	4,556	7,000	0
Consolidated total comprehensive income				
Consolidated net profit	0	0	0	0
Additions from measurement of cash flow hedge	0	0	0	–184
Additions from market valuation of securities	0	0	0	0
Difference resulting from the acquisition of non-controlling interests	0	0	0	0
Deferred taxes on changes recognized directly in equity	0	0	0	55
Currency translation differences	0	0	0	0
Consolidated total comprehensive income	**0**	**0**	**0**	**–129**
Transactions with owners				
Expenses for options granted	0	0	0	0
Proceeds from capital increases	95	782	0	0
Distribution to owners	0	0	0	0
Balance as of 31 Dec. 2011	**11,101**	**5,338**	**7,000**	**–129**

Revaluation surplus	Share-based payment reserve	Currency translation reserve	Net retained profits	Equity before non-controlling interests	Non-controlling interests	Total
–16	490	–346	24,345	47,783	1,978	49,761
0	0	0	13,519	13,519	808	14,327
0	0	0	0	9	0	9
30	0	0	0	30	0	30
–9	0	0	0	–12	0	–12
0	0	–210	0	–210	0	–210
21	**0**	**–210**	**13,519**	**13,336**	**808**	**14,144**
0	0	0	0	295	0	295
0	0	0	–4,441	–4,441	–750	–5,191
5	**490**	**–556**	**33,423**	**56,973**	**2,036**	**59,009**

Revaluation surplus	Share-based payment reserve	Currency translation reserve	Net retained profits	Equity before non-controlling interests	Non-controlling interests	Total
4	484	–741	25,751	48,060	3,373	51,433
0	0	0	9,945	9,945	442	10,387
0	0	0	0	–184	0	–184
–28	0	0	0	–28	0	–28
0	0	0	–6,949	–6,949	–1,687	–8,636
8	0	0	0	63	0	63
0	0	395	0	395	8	403
–20	**0**	**395**	**2,996**	**3,242**	**–1,237**	**2,005**
0	6	0	0	6	0	6
0	0	0	0	877	0	877
0	0	0	–4,402	–4,402	–158	–4,560
–16	**490**	**–346**	**24,345**	**47,783**	**1,978**	**49,761**

Consolidated notes 2012
LPKF Laser & Electronics AG

A. Basic information

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

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

Osteriede 7
30827 Garbsen

These consolidated financial statements were approved for publication by the Management Board on 25 March 2013.

B. Basis of preparation of the consolidated financial statements

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

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

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

The following standards that were amended, revised or issued prior to the reporting date were applied in the 2012 financial year:

Standard / interpretation		Mandatory application	Adopted by the EU-Commission[1]	Effects
IFRS 7	Amendment – Disclosures on Transfers of Financial Assets	01 July 2011	22 Nov. 2011	Currently no effects; depending on future transactions

1) On 31 Dec. 2012

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

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

The following standards that were amended, revised or issued prior to the reporting date were not applied in the 2012 financial year:

Standard / interpretation		Mandatory application	Adopted by the EU-Commission [1]	Effects
IFRS 1	Amendment – First-time Adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	01 Jan. 2013	11 Dec. 2012	None
IFRS 1	Amendment – First-time Adoption of IFRS: Government Loans	01 Jan. 2013	No	None
IFRS 7	Amendment – Disclosures on Offsetting a Financial Asset and a Financial Liability	01 Jan. 2013	13 Dec. 2012	None
IFRS 9	Financial Instruments: Classification and Measurement	01 Jan. 2015	Outstanding	Subject to review by Management
IFRS 10	Consolidated Financial Statements	01 Jan. 2014	11 Dec. 2012	None
IFRS 11	Joint Arrangements	01 Jan. 2014	11 Dec. 2012	None
IFRS 12	Disclosures of Interests in Other Entities	01 Jan. 2014	11 Dec. 2012	None
IFRS 13	Fair Value Measurement	01 Jan. 2013	11 Dec. 2012	Subject to review by Management
IFRS 7 and IFRS 9	Mandatory Effective Date and Transition Disclosures	01 Jan. 2015	Outstanding	Subject to review by Management
IFRS 10, IFRS 11, IFRS 12	Transitional provisions	01 Jan. 2013	Outstanding	None
Various	Annual improvement project 2009 – 2011	01 Jan. 2013	Outstanding	None
IAS 1	Amendment – Presentation of Components of Other Comprehensive Income	01 July 2012	05 June 2012	Effects are described in the notes below
IAS 12	Amendment – Deferred Taxes: Recovery of Underlying Assets	01 Jan. 2012	11 Dec. 2012	None
IAS 19	Employee Benefits (revised 2011)	01 Jan. 2013	05 June 2012	Effects are described in the notes below
IAS 27	Separate Financial Statements (revised 2011)	01 Jan. 2014	11 Dec. 2012	None
IAS 28	Investments in Associates and Joint Ventures (revised 2011)	01 Jan. 2014	11 Dec. 2012	None
IAS 32	Amendment – Disclosures on Offsetting a Financial Asset and a Financial Liability	01 Jan. 2014	13 Dec. 2012	None
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01 Jan. 2013	11 Dec. 2012	None

1) On 31 Dec. 2012

According to a European Commission pronouncement, the new IFRS 10, IFRS 11 and IFRS 12 standards and the amended IAS 27 and IAS 28 standards must be applied no later than 01 January 2014.

In June 2011, amendments to IAS 1 “Presentation of Financial Statements” relating to the presentation of other comprehensive income were published. The key amendment comprises grouping items of other comprehensive income according to whether or not they can be reclassified to profit or loss in the future (known as “recycling”). The basic option for presenting items of other comprehensive income before or after tax remains in force. However, the taxes associated with items presented before tax must be recognized separately for both groups of items. The amendments must be applied in reporting periods beginning on or after 01 July 2012.

The final version of the amendments to IAS 19 “Employee Benefits” was also issued in June 2011. The amendments to this standard eliminated the existing option for recognizing actuarial gains and losses. Since the corridor method applied by LPKF AG to date will no longer be permitted in the future, the full amount of actuarial gains and losses will have to be recognized immediately directly in equity starting with the 2013 financial year. The amounts in equity will remain there and will not be reclassified to profit or loss in subsequent periods either. As a result, the income statement will remain permanently free of the effects of actuarial gains and losses going forward. Another future change comprises calculating the income from plan assets using the same interest rate that is used for discounting plan liabilities. In the future, past service cost will also be recognized in full in profit or loss in the period in which the associated plan amendments occurred. Moreover, additional reporting requirements arise from the amended standard. The amendments must be applied in reporting periods beginning on or after 01 January 2013.

According to IAS 8.30 f., disclosures relating to the expected effects of IAS 19 Revised must be made in the financial statements in the year of initial application as long as these are known or can be reliably estimated. LPKF will switch to immediate recognition of actuarial gains and losses in other comprehensive income in 2013 due to amendment of the standard to eliminate what is known as the corridor method. The switch will result in the recognition of actuarial gains and losses in equity in the form of a reduction of equity amounting to approximately EUR 254 thousand. No noteworthy effects on net pension expense/income are expected.

The IFRS 13 “Fair Value Measurement” standard released in May 2011 standardized the guidelines for determining fair value, which had previously been set out differently in individual standards. Extensive reporting requirements were also introduced.

BASIS OF CONSOLIDATION

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

Name	Registered seat	Equity interest (previous year) %	Equity EUR thsd.	Result for the financial year ended EUR thsd.
Fully consolidated				
LaserMicronics GmbH	Garbsen/Germany	100.0 (100.0)	1,139.5	245.5
LPKF SolarQuipment GmbH	Suhl/Germany	100.0 (100.0)	2,833.3	1,224.5
LPKF Laser & Elektronika d.o.o.	Naklo/Slovenia	75.0 (75.0)	8,816.3	3,222.4
LPKF Distribution Inc.	Tualatin (Portland)/USA	100.0 (100.0)	3,609.2	618.8
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0 (100.0)	5,444.4	1,788.2
LPKF Laser & Electronics Trading (Shanghai) Co. Ltd.	Shanghai/China	100.0 (–)	8.4	–1.0
LPKF Laser & Electronics (Hong Kong) Ltd.	Hong Kong/China	100.0 (100.0)	548.4	370.3
LPKF Laser & Electronics K.K.	Yokohama/Japan	100.0 (100.0)	–439.2	–263.2

The equity and earnings figures for the financial year just ended concern the financial statements as of 31 December 2012 and represent the balances pursuant to the local financial statements prior to reconciliation for purposes of groupwide recognition and measurement.

LPKF Motion & Control GmbH was merged into LPKF SolarQuipment GmbH effective 1 January 2012.

C. Consolidation principles

The consolidated financial statements are based on the financial statements as of 31 December 2012 of the companies included in the consolidated financial statements, which were prepared in accordance with uniform accounting policies.

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

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

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

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

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

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

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

D. Currency translation

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

If the annual financial statements of a subsidiary are prepared in a functional currency other than the euro, the assets and liabilities are translated into euros at an average exchange rate at the reporting date. Expenses and income were translated at the average annual exchange rate. The translation differences are recognized directly in equity as a currency translation reserve until the subsidiary is disposed of. The consolidated figures were calculated based on the following exchange rates:

	Closing rate		Average exchange rate	
1 euro = currency x	**31 Dec. 2012**	**31 Dec. 2011**	**2012**	**2011**
US dollar	USD 1.3194	USD 1.2939	USD 1.2856	USD 1.3917
Chinese renminbi yuan	CNY 8.2207	CNY 8.1588	CNY 8.10942	CNY 8.9961
Hong Kong dollar	HKD 10.226	HKD 10.051	HKD 9.97256	HKD 10.834
Japanese yen	JPY 113.61	JPY 100.20	JPY 102.62	JPY 111.03

E. Critical accounting and measurement estimates and assumptions

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes assessments and assumptions that concern the future. Estimates based on these assessments and assumptions often do not correspond to actual facts in the future. The estimates and assumptions associated with a significant risk of triggering material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed in the following.

(A) Estimated impairment of goodwill
In accordance with the accounting policy described in note 10.1, the Group tests goodwill for impairment annually and whenever there is a concrete indication of possible impairment. The recoverable amount of cash generating units (CGUs) was determined based on a calculation of their value in use. These calculations must be based on assumptions made by the management on 31 December 2012.

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

(C) Provisions
Accounting for provisions involves making assumptions regarding probability, maturity and risk level. Actuarial calculations are used to determine the obligation from defined-benefit pension commitments and the obligation from a long-term bonus program launched in 2012. The amount of the pension provisions is essentially dependent on the life expectancies on which it is based, and the choice of discount rate which is redetermined every year. The discount rate is based on the interest rate paid on high-quality corporate bonds in that currency in which the benefits are paid and whose maturities correspond to the pension obligations. Detailed information is provided in note 19 describing pension provisions. An option pricing model is used to calculate the value of the obligation arising from the long-term bonus program settled in cash due to the influence exerted by LPKF’s share price. Another material factor is the performance of the EBIT margin, which is derived from the Group’s planning. Detailed information is provided in note 20 describing other provisions.

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

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

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

(E) Fair value of derivative and other financial instruments
The fair value of financial instruments not traded on an active market is determined by applying suitable valuation techniques selected from a large number of methods. The assumptions applied in this context are largely based on the market conditions existing on the reporting date.

(F) Accounting changes
No accounting changes were made in these financial statements.

F. Segment reporting

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

Primary segment reporting is based on the following segments:

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

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

The segment information was determined as follows:

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

EUR thsd.		Electronics Production Equipment	Electronics Development Equipment	Other Production Equipment	Other	Total
External revenue	2012	55,644	19,447	38,055	1,936	115,082
	2011	45,154	18,101	25,532	2,326	91,113
Operating result (EBIT)	2012	12,733	3,221	4,989	–580	20,363
	2011	10,514	4,107	1,500	–876	15,245
Assets	2012	34,506	14,236	27,671	25,132	101,545
	2011	33,693	15,933	17,225	22,710	89,561
Liabilities	2012	7,138	2,806	7,415	25,177	42,536
	2011	6,703	3,081	5,002	25,014	39,800
Investments	2012	4,642	3,697	2,088	2,379	12,806
	2011	4,587	2,983	1,221	6,158	14,949
Depreciation and amortization	2012	4,175	1,837	926	240	7,178
	2011	2,664	1,078	743	272	4,757
Other non-cash expenses	2012	1,126	347	315	37	1,825
	2011	1,175	416	176	582	2,349

At EUR 20.2 million, around 17% of consolidated revenue was generated from business with one major customer in 2012. This revenue is shown in the Other Production Equipment segment.

GEOGRAPHICAL SEGMENTS

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

EUR thsd.		Germany	Rest of Europe	North America	Asia	Other	Total
External revenue	2012	13,188	14,509	22,234	63,240	1,911	115,082
	2011	13,350	10,253	22,006	43,174	2,330	91,113
Assets	2012	80,885	9,791	4,934	5,935	0	101,545
	2011	68,594	9,134	4,932	6,901	0	89,561
Investments	2012	10,310	1,383	224	889	0	12,806
	2011	13,446	779	297	427	0	14,949

G. Consolidated income statement

1. REVENUE

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

Revenue of EUR 115,082 thousand includes contract revenue of EUR 20,206 thousand (previous year: EUR 11,885 thousand) that was determined using the POC method in accordance with IAS 11. The POC method is applied if the total revenue, the total costs and the degree of completion of a construction contract can be reliably determined. The revenue to be recognized is determined based on the ratio of the costs incurred as of the reporting date relative to the estimated total costs. If the total costs are likely to exceed revenue, the expected loss is immediately recognized in its entirety.

2. OTHER OWN WORK CAPITALIZED

Own work capitalized by the Group concerned non-current assets amounted to EUR 3,282 thousand (previous year: EUR 2,846 thousand). This comprises own work for plant and machinery used by Group companies for production as well as prototype development projects capitalized during 2012 which are intended for permanent use in Group operations. Research costs are immediately expensed when they are incurred. Costs incurred in the context of development projects (in connection with the design and test runs of new or improved products) are recognized as intangible assets if the criteria of IAS 38.57 are met. Other development costs which do not meet these criteria are expensed on an accrual basis. Previously expensed development costs are not recognized as assets in subsequent reporting periods. Development costs recognized as intangible assets are amortized on a straight-line basis over their useful lives – up to a maximum of five years – from the time they become usable.

3. OTHER OPERATING INCOME

EUR thsd.	2012	2011
Income from the measurement of liabilities, minority interests	738	0
Research and development grants	499	311
Income from currency translation differences	250	430
Income from the reversal of provisions	204	552
Reversal of deferred income from grants	30	1
Income from the reversal of write-downs	22	215
Income from the disposal of non-current assets	8	316
Income from insurance payments	4	63
Other	716	487
	2,471	**2,375**

The fair value measurement of the liabilities for remaining portions of the purchase price for LPKF Motion & Control GmbH gave rise to income of EUR 738 thousand.

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

Grants received for capitalized development costs and other assets which have been recognized as deferred income are reversed on an accrual basis in accordance with the useful life of the associated capitalized development costs and other assets. The same accounting procedure applies to a grant for building costs in Suhl totaling EUR 413 thousand, which is being reversed on an accrual basis through the item deferred income from grants.

4. COST OF MATERIALS

EUR thsd.	2012	2011
Cost of (system) parts and purchased goods	35,521	26,527
Cost of purchased services	530	160
	36,051	**26,687**

5. STAFF COSTS AND EMPLOYEES

EUR thsd.	2012	2011
Wages and salaries		
Expenses for wages	29,415	24,740
Share-based payment recognized in profit or loss	0	6
Other	650	463
	30,065	**25,209**
Social security costs and pension costs		
Employer's contribution to social security	4,700	3,969
Pension costs	201	168
Employers' liability insurance associations	174	127
	5,075	**4,264**
	35,140	**29,473**

The item, social security costs and pension costs, includes contributions of EUR 1,714 thousand (previous year: EUR 1,369 thousand) to Germany's statutory pension scheme. There were ongoing pension payments of EUR 15 thousand arising from pension obligations in financial year 2012 (also see note 19).

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

	2012	2011
Production	183	146
Sales & marketing	112	115
Research and development	129	105
Service	96	82
Administration	133	106
	653	**554**

In addition, there were 23 workers in minor employment and 37 trainees as of 31 December 2012.

The standardization of job descriptions within the Group resulted in restructuring between the divisions. The previous year's figures were adjusted accordingly.

6. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

Depreciation, amortization and impairment losses on non-current assets are shown in the statement of changes in non-current assets (note 10). An impairment loss of EUR 350 thousand was recognized on capitalized development costs was recognized in the reporting year (previous year: EUR 0 thousand).

7. OTHER OPERATING EXPENSES

EUR thsd.	2012	2011
Advertising and sales expenses	4,810	4,166
Travel, meals/entertainment	2,983	2,473
Rent, ancillary rental costs, leases, land and buildings costs	1,857	1,352
Legal and consulting costs	1,770	932
Third-party work	1,670	1,700
Sales commission	1,618	2,284
Repair, maintenance, operating requirements	1,475	1,608
Additions to warranty provision	1,300	149
Voluntary benefits, training and further education	875	546
Trade fair costs	800	658
Development consumables	722	796
Exchange rate losses	676	379
Vehicle costs	670	564
Insurance, contributions, other costs	653	504
Telephone, postage, telefax	608	584
Supervisory Board remuneration incl. reimbursement of expenses	296	298
Investor relations	277	340
Financial statements preparation, publication and auditing costs	246	237
Bank charges	230	247
Office supplies, books, software	189	191
Additions to allowance on receivables and bad debts	117	272
Adjustment of liabilities for non-controlling interests	0	372
Other	1,115	978
	24,957	**21,630**

In 2012, total research and development costs were EUR 9,963 thousand (previous year: EUR 8,718 thousand). Besides EUR 2,046 thousand for materials and other costs (previous year: EUR 2,035 thousand), they also contain EUR 7,917 thousand (previous year: EUR 6,683 thousand) in additional costs for staff as well as depreciation, amortization and impairment losses, among other things.

8. FINANCIAL RESULT

EUR thsd.	2012	2011
Finance income		
Other interest and similar income	56	110
Finance costs		
Interest and similar expenses	–845	–605
	–789	**–495**

The other interest income arose from overnight and time deposits totaling EUR 13 thousand (previous year: EUR 8 thousand). At EUR 637 thousand (previous year: EUR 249 thousand), the other interest expense was incurred in connection with long-term loans as well as short-term money market loans.

The fair value measurement of the liability for remaining portions of the purchase price for LPKF Motion & Control GmbH, which has been merged into LPKF SolarQuipment GmbH in the meantime, gave rise to interest expense of EUR 191 thousand (previous year: EUR 277 thousand).

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

9. INCOME TAXES

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

EUR thsd.	2012	2011
Corporate income tax and solidarity surcharge	3,709	2,789
Trade tax	1,716	1,270
	5,425	**4,059**
Of which related to prior periods	54	0
Deferred taxes	–178	304
	5,247	**4,363**

The German entities of the LPKF Group are subject to trade tax of 14.0 % or 15.1 %, depending on the applicable trade tax assessment rate. As in the previous year, a corporate income tax rate of 15.0 % plus a solidarity surcharge of 5.5 % on corporate income tax applies. Foreign income taxes are calculated on the basis of the laws and regulations applicable in the individual countries. The income tax rates applicable to the foreign entities vary between 16.5 % and 38.9 %.

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

Reconciliation of estimated and actual tax expense:

EUR thsd.	2012	2011
Consolidated net profit before income taxes	19,574	14,750
Anticipated tax expense 30.0 % (previous year: 30.0 %)	5,872	4,425
Effect of different tax rates	–551	–487
Effect of statutory tax rate changes	0	39
Effect of unrecognized deferred tax assets	–99	26
Tax-free income	–5	–171
Trade tax additions and deductions	39	22
Tax effect of non-deductible operating expenses	168	127
Effects from differences without accounting for deferred taxes	–164	312
Other prior-period tax refunds/supplementary payments	54	–4
Other differences	–67	74
Effective tax expense 28.4 % (previous year: 29.6 %)	**5,247**	**4,363**

The effects from differences (excluding deferred taxes) arise from the fair value recognition of the debtor's warrants in connection with the acquisition of the non-controlling interests in LPKF Motion & Control GmbH.The Group tax rate for the 2012 financial year and subsequent years is deemed to be 30 % (previous year: 30 %).

H. Consolidated statement of financial position

ASSETS

10. FIXED ASSETS

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

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

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

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

	Cost					
EUR thsd.	**Balance on 1 Jan. 2011**	**Translation differences**	**Addition**	**Reclassi-fication**	**Disposal**	**Balance on 31 Dec. 2011**
Intangible assets						
Software	2,605	1	1,818	811	0	5,235
Goodwill	74	0	0	0	0	74
Development costs	12,208	0	2,486	0	0	14,694
Rights of use	2	0	0	0	0	2
Advances paid	811	0	0	–811	0	0
	15,700	**1**	**4,304**	**0**	**0**	**20,005**
Property, plant and equipment						
Land, similar rights and buildings	14,862	59	7,095	1,314	0	23,330
Plant and machinery	5,927	128	1,120	314	840	6,649
Other equipment, operating and office equipment	5,561	36	1,973	0	202	7,368
Advances paid and construction in progress	1,794	0	457	–1,628	471	152
	28,144	**223**	**10,645**	**0**	**1,513**	**37,499**
Financial assets						
Other borrowings	44	0	0	0	19	25
	44	**0**	**0**	**0**	**19**	**25**
	43,888	**224**	**14,949**	**0**	**1,532**	**57,529**

10.1 Intangible assets

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

Goodwill
As a rule, the goodwill arising from business combinations (capitalized differences arising from acquisition accounting) is assumed to have an unlimited useful life. The carrying amount of the goodwill is compared to the recoverable amount at every reporting date. The goodwill is written down if its carrying amount exceeds its recoverable amount. It is assigned to a cash generating unit for an impairment test. Based on the Other Production Equipment segment, a detailed planning period of three years and an appropriate rate of return on capitalization are applied. There was no impairment loss on goodwill in 2012, just as in the previous year.

Depreciation, amortization and impairment losses						Residual carrying amounts	
Balance on 1. Jan. 2011	**Translation differences**	**Addition**	**Reclassi-fication**	**Disposal**	**Balance on 31 Dec. 2011**	**Balance on 31 Dec. 2011**	**Previous year**
1,874	1	830	0	0	2,705	2,530	731
0	0	0	0	0	0	74	74
8,295	– 2	1,768	0	– 2	10,063	4,631	3,913
2	0	0	0	0	2	0	0
0	0	0	0	0	0	0	811
10,171	**–1**	**2,598**	**0**	**– 2**	**12,770**	**7,235**	**5,529**
3,948	5	633	0	0	4,586	18,744	10,914
3,259	40	839	0	550	3,588	3,061	2,668
3,969	19	687	0	182	4,493	2,875	1,592
0	0	0	0	0	0	152	1,794
11,176	**64**	**2,159**	**0**	**732**	**12,667**	**24,832**	**16,968**
0	0	0	0	0	0	25	44
0	**0**	**0**	**0**	**0**	**0**	**25**	**44**
21,347	**63**	**4,757**	**0**	**730**	**25,437**	**32,092**	**22,541**

Development costs

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

EUR thsd.	2012	2011
Electronics Production Equipment	1,867	2,561
Electronics Development Equipment	1,925	1,846
Other Production Equipment	0	224
	3,792	**4,631**

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

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

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

	Years
Software	3
Development costs	3 – 5

10.2 Property, plant and equipment

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

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

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

They are deemed to have the following useful lives:

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

Bank loans totaling EUR 6,268 thousand (previous year: EUR 6,674 thousand) are secured by land and buildings.

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

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

10.3 Financial assets

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

11. INVENTORIES

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

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

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

Inventories were written down below cost by EUR 41 thousand (previous year: EUR 242 thousand) to their net realizable value.

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

EUR thsd.	2012	2011
Electronics Production Equipment	15,635	13,536
Electronics Development Equipment	7,004	6,352
Other Production Equipment	10,019	6,217
Other	222	253
	32,880	**26,358**

12. TRADE RECEIVABLES

EUR thsd.	2012	2011
Nominal amount of receivables	21,458	19,920
Specific valuation allowance incl. currency losses	–299	–297
Receivables after valuation allowances, discounts and currency losses	**21,159**	**19,623**

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

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

EUR thsd.	2012	2011
Production costs incl. result of construction contracts	20,206	11,885
Progress billings	–12,519	–8,726
Advances received	–2,867	–1,969
Receivables from construction contracts	**4,820**	**1,190**

Customer-specific construction contracts with a capitalized balance are shown in receivables from contract production if the manufacturing costs incurred exceed the advances received, taking into account the shares in the profit and the net realizable value. In 2012, no balances were due to customers in cases where the advances received exceed the manufacturing costs including tax profits and losses.

The residual carrying amount of the trade receivables is EUR 25 thousand (previous year: EUR 255 thousand) and concerns receivables with remaining maturities of more than one year.

Default risk as of 31 December 2012

Trade receivables and receivables from borrowings and other assets in EUR thsd.	Carrying amount as of 31 Dec.	of which not impaired and not past due	Not impaired but past due since				
			less than 30 days	between 30 and 60 days	between 60 and 90 days	between 90 and 360 days	more than 360 days
2012	**22,831**	16,900	3,389	675	773	906	49
2011	**22,258**	14,890	4,235	763	444	1,000	579

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

Valuation allowances recognized on trade receivables and borrowings in EUR thsd.	2012	2011
Balance on 1 Jan.	**297**	**373**
+ Additions	77	262
– Reversals (allowances not required)	14	215
– Use (allowances required)	61	123
+/– Currency differences (foreign currency receivables)	0	0
Balance on 31 Dec.	**299**	**297**

There were no proceeds from derecognized receivables in the 2012 financial year (previous year: EUR 1 thousand).

13. OTHER ASSETS AND INCOME TAX RECEIVABLES

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

EUR thsd.	2012	2011
Input tax receivables	1,184	934
Income tax receivables	995	597
Prepaid expenses	599	447
Other	482	632
Total	**3,260**	**2,610**

Rights to reimbursement of corporate income and trade taxes are reported in tax receivables. Corporate income tax receivables with a remaining maturity of more than one year amount to EUR 226 thousand (previous year: EUR 267 thousand).

14. RESTRICTED SECURITIES

Shares in funds are shown in this item, as in the previous year. They must be designated as available for sale and measured at fair value as of the reporting date. The securities were pledged to a bank as collateral and thus are reported as restricted securities.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand EUR 5 thousand (previous year: EUR 5 thousand) and primarily bank balances EUR 5,017 thousand (previous year: EUR 7,001 thousand); they are reported at their nominal value. Cash and cash equivalents in foreign currencies are translated at the respective reporting date exchange rate.

16. DEFERRED TAXES

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

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

The capitalized deferred tax assets encompass deferred taxes on intercompany profits.

The deferred tax liabilities largely concern capitalized development costs and trade receivables. The deferred taxes consist of the following:

Deferred tax assets

EUR thsd.	2012	2011
Tax loss carryforwards	189	434
Intangible assets	223	0
Trade receivables	43	42
Provisions	133	106
Other liabilities	53	0
Elimination of intercompany profits and other deductible temporary differences	1,173	939
Other	185	147
Netting of deferred tax assets and liabilities	–145	–37
Total	**1,854**	**1,631**

Deferred tax liabilities

EUR thsd.	2012	2011
Capitalized development costs	1,136	1,387
Property, plant and equipment	93	127
Trade receivables	918	427
Other	49	72
Netting of deferred tax assets and liabilities	–145	–37
Total	**2,051**	**1,976**

Within the next 12 months, EUR 1,464 thousand in deferred tax assets and EUR 976 thousand in deferred tax liabilities will be realized.

Deferred tax assets were recognized for losses amounting to EUR 189 thousand although the company has a history of losses, and no corresponding deferred tax liabilities exist. At this company, income planning is therefore positive. Deferred taxes fell by EUR 99 thousand due to the utilization of tax loss carryforwards, tax credits and temporary differences not deemed recoverable to date.

No deferred tax liabilities were recognized on EUR 684 thousand in temporary differences related to investments in subsidiaries and branches.

EQUITY AND LIABILITIES

17. SUBSCRIBED CAPITAL

The Management Board was authorized by resolution of the Annual General Meeting on 10 June 2010 to increase the Company's share capital, with the approval of the Supervisory Board, by up to EUR 5,400,000.00 (Authorized Capital) until 9 June 2015, through one or more issues of up to 5,400,000 new shares in return for contributions in cash or in kind. Following the partial drawdown of EUR 50,000.00 in previous years and further partial drawdown in 2012 in the amount of EUR 25,604.00 for issuing 25,604 new shares by resolution of the Management Board with the approval of the Supervisory Board subject to the exclusion of shareholders' subscription right, the remaining authorization as of the reporting date was EUR 5,324,396.00.

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

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

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

Shareholders' statutory subscription right is excluded.

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

The base price is derived from the average closing price of the LPKF's shares in XETRA trading at the Frankfurt stock exchange in the 10 trading days prior to the issue of the option. The base price is at least EUR 1.00.

The new no-par shares that are acquired by exercising the options are entitled to participate in the profits in the financial year in which the options were exercised. The shares required to fulfill the exercised options rights shall be made available by way of contingent capital increases. The Company's share capital shall be conditionally increased by up to EUR 600,000.00 through the issuance of up to 600,000 new no-par bearer shares. The contingent capital increase shall only be implemented for the purpose of the Stock Option Program 2001 and only to the extent of the options granted. Article 4 of the Articles of Incorporation of LPKF Laser & Electronics AG have been amended accordingly. As of the reporting date, the contingent capital was EUR 0.00 because options were exercised in 2012.

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

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

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

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

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

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

No more options were issued in financial years 2008 to 2012. All six tranches were exercised or expired as of 31 December 2012. None of the options issued were exercisable as of the reporting date.

The changes in the option portfolio outstanding in the 2012 financial year were as follows (previous year's figures in parentheses):

	Average base price per option/ EUR	Number of options
Balance on 1 January 2012	5.71 (5.63)	20,562 (77,439)
Granted	0 (0)	0 (0)
Forfeited	0 (0)	0 (0)
Expired	5.71 (4.35)	12,312 (11,550)
Exercised	5.71 (5.67)	8,250 (45,327)
Balance on 31 December 2012	**0.00 (5.71)**	**0 (20,562)**

Share-based payment transactions settled on the basis of equity instruments are measured at fair value as of the grant date. This fair value was expensed over the vesting period. The measurement was based on a Monte Carlo simulation. No expenses were recognized under the Stock Option Program in the 2012 (previous year: EUR 6 thousand).

A total of 8,250 stock options were exercised in 2012, lifting subscribed capital and capital reserves by EUR 8 thousand and EUR 39 thousand, respectively.

The Company's share capital amounts to EUR 11,134,794.00. It is denominated in 11,134,794 no-par bearer shares with an interest in capital of EUR 1.00 per share.

The premium of EUR 38,857.50 that was paid in connection with the exercise of the options was recognized in capital reserves.

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

The revaluation surplus from the financing instruments is EUR 5 thousand (previous year: EUR –16 thousand); it changed due to the positive development of securities' fair value.

The recognition of hedges resulted in cash flow hedge provisions of EUR –123 thousand (previous year: EUR –129 thousand).

18. NON-CONTROLLING INTERESTS

Non-controlling interests in subsidiaries have changed as follows:

EUR thsd.	**2012**	**2011**
Balance on 1 January	1,978	3,373
Additions (+)/disposals (–)	58	–1,395
Balance on 31 December	**2,036**	**1,978**

The changes in the current year primarily arise from the share of third-party shareholders in the Group's profit for the year. There was also a distribution to such shareholders during the reporting year.

19. PROVISIONS FOR PENSIONS

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

The pension provisions reported in the statement of financial position comprise only defined-benefit obligations to former Management Board members of the parent company for which fixed pension payments have been stipulated. The plan is financed through payments to a fund and to insurance companies. The provisions in the statement of financial position for defined benefit plans corresponds to the present value of the defined benefit obligation (DBO) less the fair value of the plan assets adjusted by past service cost not recognized in profit or loss. The DBO is calculated annually by an independent actuary using the projected unit credit method. The DBO's present value is determined by discounting the expected future cash outflows at the interest rate of high-quality corporate bonds. This entailed a measurement using the corridor method in accordance with IAS 19 – which was carried out for the last time as of 31 December 2012 – whereby actuarial gains and losses are not taken into consideration if they do not exceed 10 % of the committed amount. From 01 January 2013, actuarial gains and losses are recognized directly in equity due to the change of IAS 19.

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

EUR thsd.	2012	2011
Present value of the defined benefit obligation at beginning of period	**502**	**441**
Current service cost	5	5
Interest expense	23	22
Pension payments	–15	0
Actuarial gains (–) and losses (+)	117	34
Present value of the defined benefit obligation at end of period	**632**	**502**
Unrecognized actuarial gains (+) and losses (–), net	–254	–138
Plan assets		
Reinsurance coverage	208	188
Securities	471	369
Surplus shown in the statement of financial position	**–301**	**–193**

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

EUR thsd.	2012	2011
At the beginning of the period	557	531
Expected return on plan assets	27	29
Actuarial gains/losses	–6	–104
Funded by the employer	101	101
	679	**557**

The plan assets are made up as follows:

	2012		2011	
EUR thsd.	**Absolute**	**Percentage**	**Absolute**	**Percentage**
Equity securities	0	0 %	0	0 %
Debt securities *	471	69 %	369	66 %
Other	208	31 %	188	34 %
	679	**100 %**	**557**	**100 %**

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

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

The following amounts were recognized in the income statement:

EUR thsd.	**2012**	**2011**
Current service cost	–5	–5
Amortized actuarial losses	8	0
Expected return on plan assets	27	29
Interest expense from obligation	–23	–22
	7	**2**

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

EUR thsd.	**2012**	**2011**	**2010**	**2009**	**2008**
Present value of the defined benefit obligation at end of period	**632**	**502**	**441**	**385**	**349**
Fair value of the plan assets	679	557	531	367	261
Net loss/surplus	**–47**	**–55**	**–90**	**18**	**88**
Adjustment of plan liabilities based on past experience	40	3	3	3	3
Adjustment of plan assets based on past experience	–6	–104	35	–	–

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

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

%	**2012**	**2011**
Discount rate as of 31 December	2.75	4.50
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	2.75	4.50
Employee turnover	0.00	0.00

The determination of the expected return on the plan assets was based on the estimated return on the assets, taking the changes in the yields of non-current fixed-income instruments into account. The allocations to plans for post-employment benefits and pension payments payable in the financial year ending 31 December 2013 are estimated to total EUR 32 thousand.

20. TAX PROVISIONS AND OTHER PROVISIONS

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

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

The tax provisions concern the following:

EUR thsd.	2012	2011
Corporate income tax and solidarity surcharge	273	485
Trade tax	139	410
	412	**895**

STATEMENT OF CHANGES IN PROVISIONS

EUR thsd.	Balance 1 Jan. 2012	Use	Reversal	Addition	Balance 31 Dec. 2012
Tax provisions	895	808	0	325	412
Bonus	1,539	1,539	0	1,753	1,753
Warranty and guarantee	1,622	1,622	0	2,814	2,814
Other	473	269	204	530	530
Total	**4,529**	**4,238**	**204**	**5,422**	**5,509**

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

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

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

Reporting of share-based compensation transactions settled in cash is governed by IFRS 2 "Share-based Payment." The expense expected to arise from the long-term bonus program is estimated at fair value at each reporting date using a Monte Carlo simulation. The expected total expense from the program is distributed pro rata temporis across the time period up to the first possible exercise date. On this basis, the amount of the provision in the Group for financial year 2012 is EUR 3 thousand. The expense for the reporting period amounts to EUR 3 thousand.

For details of the long-term bonus program, see the table below:

Parameters for the fair value as of 31 December 2012	Tranche 1, 2012
Expected volatility	36 %
Risk-free interest rate	0.14 % p. a.
Expected remaining maturity	3 years and 7 months
Price of the LPKF share on 28 December 2012	EUR 15.75
Initial price of the LPKF share	EUR 12.13

In financial year 2012, no phantom stocks were exercised, expired or were forfeited.

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

21. LIABILITIES

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

The breakdown of the liabilities by remaining maturities follows from the statement of changes in liabilities below (previous year's figures in parentheses):

		Liabilities with remaining maturities of				
Type of liability EUR thsd.	**total amount**	**up to 1 year**	**1 to 5 years**	**more than 5 years**	**collate-ralized amounts**	**type of collateral**
Liabilities to banks	18,099	9,753	6,758	1,588	6,268	*,**
	(15,349)	(3,981)	(8,585)	(2,783)	(6,674)	(*,**)
Trade payables	5,906	5,906	0	0	0	–
	(3,805)	(3,805)	(0)	(0)	(0)	(–)
Other liabilities	10,608	10,572	36	0	0	–
	(13,746)	(13,676)	(70)	(0)	(0)	(–)
	34,613	**26,231**	**6,794**	**1,588**	**6,268**	
	(32,900)	**(21,462)**	**(8,655)**	**(2,783)**	**(6,674)**	

* Land charge, assignment of the receivable

** Security assignment

The fair value of the fixed-interest loans is EUR 8,909 thousand (previous year: EUR 6,662 thousand). The loans are earmarked for financing new construction, purchases of real property, investments to expand capacities and development projects.

The remaining Debtor's Warrant 2 stipulated in connection with the acquisition of the non-controlling interests in LPKF Motion & Control GmbH is measured at a fair value of EUR 678 thousand and shown under other liabilities. Debtor's Warrant 1 was paid out in the 2012 financial year. The liability under agreed debtor's warrants in the previous year totaled EUR 4,945 thousand.

The fair value is determined by the probability that predefined conditions will occur as well as by discounting effects.

I. Other disclosures

22. STATEMENT OF CASH FLOWS

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

23. EARNINGS PER SHARE

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

Earnings per share are diluted when potential shares related to the options issued by LPKF Laser & Electronics AG as part of the Stock Option Program are added to the average number of shares outstanding. Options are always dilutive. As in the previous year, there was a dilutive effect as of the reporting date because the base price of the options outstanding exceeded the average price of LPKF's share price in 2012.

	2012	2011
Number of shares, undiluted	11,125,281	11,007,757
Number of shares, diluted	11,133,523	11,082,125
Consolidated profit/loss (in EUR thousand)	13,519	9,945
Adjusted consolidated profit/loss (in EUR thousand)	13,519	9,945
Basic earnings per share (in EUR)	1.22	0.90
Diluted earnings per share (in EUR)	1.21	0.90

24. DIVIDEND PER SHARE

The Management Board and the Supervisory Board will propose to the Annual General Meeting on 23 May 2013 that it resolve a dividend payment of EUR 0.50 (previous year: EUR 0.40) per share from the net retained profits of LPKF Laser & Electronics AG in the amount of EUR 21,276,488.27 for the 2012 financial year (previous year: EUR 15,794,115.96) – for a total dividend payment to the shareholders of EUR 5,567,397.00 (previous year: EUR 4,440,376.00) – and to allocate an amount of EUR 11,200,000.00 to retained earnings and carry the balance in the amount of EUR 4,509,091.27 (previous year: EUR 11,353,739.96) forward to new account.

25. TRANSACTIONS WITH RELATED PARTIES

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

Zeltra Naklo d.o.o., Slovenia
A shareholder of the subsidiary, LPKF Laser & Elektronika d.o.o., owns 100 % of the shares in Zeltra Naklo d.o.o. In 2012, services and licenses in the amount of EUR 147 thousand (previous year: EUR 18 thousand) were purchased from this related party and services in an amount of EUR 154 thousand (previous year: EUR 0 thousand) were rendered to it.

PMV d.o.o., Slovenia
Twenty-five percent of the shares in PMV d.o.o. are held by a shareholder of the subsidiary, LPKF Laser & Elektronika d.o.o. The Group purchased materials and production services, as well as licenses and equipment, worth EUR 42 thousand (previous year: EUR 25 thousand) from this company and rendered services worth EUR 17 thousand (previous year: EUR 28 thousand) to this company. The company was also granted a loan at market rates; it was measured at EUR 6 thousand as of the reporting date.

Detel Plus d.o.o., Slovenia
A shareholder of the subsidiary, LPKF Laser & Elektronika d.o.o., owns 50 % of the equity interest in Detel Plus d.o.o. This company delivered materials and rendered services to LPKF Laser & Elektronika d.o.o. for a total of EUR 250 thousand (previous year: EUR 269 thousand). This Slovenian subsidiary delivered materials and rendered services worth EUR 43 thousand (previous year: EUR 22 thousand) to Detel Plus d.o.o.

Rettro d.o.o., Slovenia
A person related to the executive management of LPKF Laser & Elektronika d.o.o. owns 50 % of the equity interest in Rettro d.o.o. LPKF Laser & Elektronika d.o.o. purchased materials worth EUR 71 thousand (previous year: EUR 45 thousand) from this company and rendered services worth EUR 29 thousand (previous year: EUR 0 thousand) to this company.

Transactions with members of the Company’s corporate bodies and other related natural persons
As of the reporting date, LPKF AG had EUR 214 thousand in liabilities to members of the Supervisory Board (previous year: EUR 214 thousand).

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

26. GERMAN CORPORATE GOVERNANCE CODE

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

27. OTHER DISCLOSURES

Other financial liabilities

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

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

Total future lease payments broken down by maturity are:

EUR thsd.	2012	2011
Lease payments included in the net profit/loss for the period	397	291
Up to 1 year	350	392
More than 1 year and up to 5 years	306	356

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

EUR thsd.	2012	2011
Up to 1 year	576	523
More than 1 year and up to 5 years	595	1.071

There are no other significant financial obligations.

Financial Instruments IAS 39

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

1. Primary financial instruments

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

- Financial assets or liabilities at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables;
- Available-for-sale financial assets

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

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

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

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

The financial instruments are classified as non-current assets if management does not intend to sell them within 12 months of the reporting date.

Settlement date accounting is used for reporting purchases and sales of previously recognized assets. Financial assets are derecognized when the rights to the cash flows from the financial assets have expired or were transferred and the Group has transferred substantially all of the risks and rewards of ownership.

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

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

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

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

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

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

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

The change in the fair value of the hedging instrument must be recognized in a separate line item of equity (cash flow hedge provision) that is equivalent to the effective portion of the hedge. The change in the fair value of the hedging instrument attributable to the ineffective portion must be recognized in profit or loss. Accounting for the hedge led to the recognition of EUR –176 thousand (previous year: EUR –184 thousand) directly in equity and EUR 0 thousand (previous year: EUR 0 thousand in profit or loss). The fair value of the interest rate swaps as of the reporting date is EUR –176 thousand (previous year: EUR –184 thousand). No ineffective portions of the hedge had to be recognized in the reporting year.

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

b) Derivative financial instruments not subject to hedge accounting
The other forward contracts and options do not qualify for hedge accounting pursuant to IAS 39.71 ff. All these derivatives are therefore designated as held for trading (a subcategory of the category, “assets and liabilities at fair value through profit or loss”) and recognized at fair value in the statement of financial position. Fair value changes are recognized in profit or loss.

The issuing banks notified the Group of the fair values (market values). The measurement takes current ECB reference prices and forward premiums or discounts into account. If the fair value is positive, these instruments are recognized in other assets, otherwise under other liabilities. The other assets contain USD put options with a fair value of EUR 43 thousand and the other liabilities contain a USD currency swap with a fair value of EUR –57 thousand.

There were no other derivative or hedging transactions as of 31 December 2012.

3. Disclosures pursuant to IFRS 7

Carrying amounts, valuations and fair values by measurement category

			IAS 39 carrying amount			
EUR thsd.	Measurement category pursuant to IAS 39	Carrying amount 31 Dec. 2012	Amortized cost	Fair value recognized in equity	Fair value through profit or loss	Fair value 31 Dec. 2012
Assets						
Other borrowings	LaR	6	6			6
Cash	LaR	5,022	5,022			5,022
Trade receivables	LaR	21,159	21,159			21,159
Other assets	LaR	479	479			479
Restricted securities and available-for-sale financial instruments	AfS	271		271		271
Derivative financial assets						
Derivatives	FAHfT	0			0	0
Equity and liabilities						
Trade payables	FLAC	5,906	5,906			5,906
Liabilities to banks	FLAC	18,099	18,099			16,073
Other interest-bearing liabilities	FLAC	714	714			714
Other interest-free liabilities	FLAC	4,437	4,437			4,437
Derivative financial liabilities						
Derivatives	FLHfT	14			14	14
Of which accumulated by IAS 39 measurement category						
Loans and receivables	(LaR)	26,666	26,666			26,666
Available-for-sale financial assets	(AfS)	271		271		271
Assets held for trading	(FAHfT)	0			0	0
Financial liabilities measured at amortized cost	(FLAC)	29,156	29,156			27,130
Liabilities held for trading	(FLHfT)	14			14	14

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

Measurement category pursuant to IAS 39	Carrying amount 31 Dec. 2011	IAS 39 carrying amount: Amortized cost	IAS 39 carrying amount: Fair value recognized in equity	IAS 39 carrying amount: Fair value through profit or loss	Fair Value 31 Dec. 2011
LaR	25	25			25
LaR	7,006	7,006			7,006
LaR	19,623	19,623			19,623
LaR	1,567	1,567			1,567
AfS	241		241		241
FAHfT	0			0	0
FLAC	3,805	3,805			3,805
FLAC	15,349	15,349			14,125
FLAC	5,015	5,015			5,015
FLAC	7,135	7,135			7,135
FLHfT	94			94	94
(LaR)	28,221	28,221			28,221
(AfS)	241		241		241
(FAHfT)	0			0	0
(FLAC)	31,304	31,304			31,304
(FLHfT)	94			94	94

Because of short remaining maturities, the fair values of cash and cash equivalents, current receivables, trade payables as well as current financial assets and liabilities closely correspond to the respective carrying amounts. The AfS securities in the amount of EUR 271 thousand are listed and are measured based on the stock exchange price as of the reporting date. The carrying amount of the derivative financial instruments corresponds to their fair value (Level 1 of the fair value hierarchy).

The financial instruments designated as financial assets held for trading in the amount of EUR 43 thousand (previous year: EUR 0 thousand) and as financial liabilities held for trading in the amount of EUR 57 thousand (previous year: EUR 94 thousand) have been allocated to Level 2 of the fair value hierarchy. Level 2 requires availability of a stock or market price for a similar financial instrument or calculation parameters based on data from observable markets.

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

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

EUR thsd.		2012	2011
Loans and receivables	(LaR)	–379	221
Available-for-sale financial assets	(AfS)	7	23
Assets and liabilities held for trading	(FAHfT) + (FLHfT)	–29	–41
Financial liabilities measured at amortized cost	(FLAC)	845	605
Total		**444**	**808**

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

The net gains and losses on assets available for sale contain changes in the fair value of the securities as well as gains and losses on disposals.

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

Net gains and losses from financial liabilities recognized at amortized cost comprise gains and losses on disposal and currency translation. Total interest expense using the effective interest method was EUR 637 thousand.

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

Maturity analysis as of 31 December

Trade payables in EUR thsd.	carrying amount as of 31 Dec.	up to 6 months	6 months up to 1 year	between 1 year and 5 years	more than 5 years
2012	5,906	5,906	0	0	0
2011	3,805	3,805	0	0	0

Financial obligations under loans in EUR thsd.	carrying amount as of 31 Dec.	up to 6 months	6 months up to 1 year	between 1 year and 5 years	more than 5 years
2012	18,099	2,929	6,824	6,758	1,588
2011	15,349	2,549	1,432	8,585	2,783

Other interest-bearing liabilities in EUR thsd.	carrying amount as of 31 Dec.	up to 6 months	6 months up to 1 year	between 1 year and 5 years	more than 5 years
2012	714	21	693	0	0
2011	5,015	3,720	1,225	70	0

Other interest-free liabilities in EUR thsd.	carrying amount as of 31 Dec.	up to 6 months	6 months up to 1 year	between 1 year and 5 years	more than 5 years
2012	4,437	4,437	0	0	0
2011	7,135	7,135	0	0	0

Derivative financial instruments in EUR thsd.	carrying amount as of 31 Dec.	up to 6 months	6 months up to 1 year	between 1 year and 5 years	more than 5 years
2012	14	14	0	0	0
2011	94	94	0	0	0

4. Hedging policy and risk management

Risk management principles

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

Risk management is handled by the Management Board, which fixes the general guidelines for risk management and determines the relevant procedures. It is implemented by the technical departments and subsidiaries subject to compliance with authorized business guidelines and coordinated by the Group Risk Officer.

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

Currency risks

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

As a rule, risks are only hedged if they have an impact on the Group's cash flows. Foreign currency risks that have no impact on the Group's cash flows are not hedged. These include risks from the translation of the assets and liabilities reported in the annual financial statements of foreign subsidiaries into euros, the Group's reporting currency. Invoices related to operations are always written in euros, the only exception being invoices in USD for sales in North America. Cash flows in JPY are required in some cases.

To the extent possible, the Group pays for its procurement in USD, thus following a natural hedge philosophy. In net terms, however, this does give rise to USD cash inflows. Foreign currency forward contracts or currency options are used to hedge foreign currency inflows contracted for up to 12 months. Foreign currency hedges cannot fully offset the negative effects of the euro's continued strength against the US dollar on the Group's competitive position. The Group uses currency swaps to further diminish currency translation risks.

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

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

The currency sensitivity analysis is based on the following assumptions:

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

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

If the euro had risen by 10 % against the USD dollar, earnings before taxes would have been reduced by EUR 71 thousand. A 10 % decline in the euro would have raised earnings before taxes by EUR 99 thousand.

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

Interest rate risks

Interest rates give rise to cash flow risks that affect cash and cash equivalents. An increase in interest rates by 25 basis points yields a gain of EUR 15 thousand while a decrease in interest rates by 25 basis points yields a loss of EUR 13 thousand. Given low interest rates, the sensitivities are determined using a hypothetical change by 25 basis points. The low interest rate sensitivities relative to cash and cash equivalents largely stem from low-interest cash and cash equivalents.

LPKF is exposed to interest rate risks because the loan carries a variable interest rate. Pursuant to principles of risk management, the aim is to limit the given risk by entering into hedging transactions. Interest rate risks as defined in IFRS 7 were determined for these transactions by means of sensitivity analyses. This entails showing the effects of a parallel shift in the EUR yield curve on equity and earnings for the year, in each case before taking income taxes into account. Accordingly, a shift in the yield curve by +1.0 % would have raised equity by EUR 66 thousand. Conversely, a parallel shift by –1.0 % would have lowered equity by EUR 68 thousand.

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

Other price risks

The restricted securities give rise to price risks. If the value of the securities were to rise by 10 %, equity would increase by EUR 27 thousand; if the value of the securities were to fall by 10 %, equity would be reduced by EUR 27 thousand. The change in equity is reported without any tax effects. The sensitivity is determined by assuming a hypothetical change of +/- 10 % in the price of the listed securities.

Liquidity risks

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

Credit risks

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

The maximum default risk is reflected in the carrying amounts of the assets reported in the statement of financial position (including derivative financial instruments with positive fair values). Trade receivables are also secured by EUR 2,148 thousand in payment commitments from banks (letters of credit). This leaves solely the credit risk of the chattel mortgagor. In addition, EUR 3,330 thousand in trade receivables is hedged through credit default insurance. The deductible for customers insured under a credit limit is 10 %; for customers insured under a discretionary limit, it is 20 %.

Capital management disclosures

The Group's capital management serves to secure the Company's existence as a going concern and pursue opportunities for growth with the aim of continuing to funnel profits to its shareholders and pay other interested parties that to which they are entitled. Maintaining an the best possible capital structure to reduce capital costs is another objective. To maintain or modify its capital structure, depending on the given situation the Group adjusts dividend payments to its shareholders; repays capital to its shareholders; issues new shares; or sells assets in order to discharge liabilities. The capital available comprises equity of EUR 59,009 thousand and borrowings of EUR 42,536 thousand.

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

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

29. DISCLOSURES ON MANAGEMENT BOARD REMUNERATION

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

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

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

The current members of the Management Board were paid regular total remuneration of EUR 1,639 thousand (previous year: EUR 1,487 thousand) for their activities in the 2012 financial year. Of this amount, EUR 709 thousand (previous year: EUR 647 thousand) was fixed remuneration and EUR 930 thousand (previous year: EUR 840 thousand) was variable remuneration. The remuneration of the Management Board's active members solely concerns short-term benefits as defined in IAS 24.16 (a).

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

As in the 2011 financial year, no stock options were granted to the members of the Management Board in the 2012 financial year. No expenses (previous year: EUR 1 thousand) relating to share-based payments as defined in IAS 24.17 (e) were recognized for members of the Management Board in the financial year just ended.

Commitments to members of the Management Board upon termination

Pension contracts were closed with the members of the Management Board, Kai Bentz and Bernd Lange; the Company makes contributions toward these contracts. Contributions of EUR 14 thousand (previous year: EUR 14 thousand) were paid in the financial year in connection with post-employment benefits as defined in IAS 24.17 (b). No provisions for pensions are required in this case.

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

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

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

Total remuneration of former members of the Management Board

Provisions were recognized for EUR 438 thousand (previous year: EUR 455 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

30. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION

Bernd Hildebrandt (Chairman until 31 May 2012)	Businessman
Dr. Heino Büsching (Chairman from 31 May 2012)	Lawyer/tax consultant at CMS Hasche Sigle, Hamburg, Germany
Bernd Hackmann (Deputy Chairman from 31 May 2012)	Chairman of the Supervisory Board of Viscom AG, Hanover, Germany
Prof. Dr.-Ing. Erich Barke	President of Gottfried Wilhelm Leibniz University Hanover, Germany Chairman of the Supervisory Board of Innovationsgesellschaft Universität Hanover mbH, Hanover, and Produktionstechnisches Zentrum Hanover GmbH, Garbsen, Germany Member of the Supervisory Board of the following companies: Esso Deutschland GmbH, Hamburg, Germany ExxonMobil Central Europe Holding GmbH, Hamburg, Germany Hannover Impuls GmbH, Hanover, Germany Solvay GmbH, Hanover, Germany

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

In addition, each member of the Supervisory Board is paid remuneration amounting to EUR 1,000.00 for each percentage point by which the dividend distributed to shareholders exceeds 4 % of the share capital. The variable component cannot be specified at this time because it has not been determined to date whether a dividend will be paid for the 2012 financial year and in what amount. A dividend of EUR 0.40 per share was paid in 2012 for the 2011 financial year, resulting in total variable remuneration of EUR 108 thousand for the Supervisory Board (previous year: EUR 108 thousand).

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

Further disclosures regarding the remuneration of the Supervisory Board (particularly individual disclosures) are set forth in the remuneration report which is an integral part of the Group management report.

31. DISCLOSURE OF REPORTED SHAREHOLDINGS IN THE COMPANY

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

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

DWS Investment GmbH, Germany, notified LPKF Laser & Electronics AG on 02 November 2012 that the voting shares of DWS Investment GmbH in LPKF Laser & Electronics AG had surpassed the threshold of 5 % on 01 November 2012 and were 5.07 % on that date (564,600 voting shares).

Mr. Bernd Hildebrandt, Germany, notified LPKF Laser & Electronics AG on 27 August 2012 that his voting shares in LPKF Laser & Electronics AG had fallen below the threshold of 3 % on 15 August 2012 and were 2.70 % on that date (301,177 voting shares).

DWS Investment GmbH, Germany, notified LPKF Laser & Electronics AG on 23 August 2012 that the voting shares of DWS Investment GmbH in LPKF Laser & Electronics AG had surpassed the threshold of 3 % on 21 August 2012 and were 3.32 % on that date (369,544 voting shares).

Mr. Klaus Barke, Germany, notified LPKF Laser & Electronics AG on 16 August 2012 that his voting shares in LPKF Laser & Electronics AG had fallen below the threshold of 5 % on 14 August 2012 and were 3.59 % on that date (400,000 voting shares).

Mr. Bernd Hildebrandt, Germany, notified LPKF Laser & Electronics AG on 24 July 2012 that his voting shares in LPKF Laser & Electronics AG had fallen below the threshold of 5 % on 18 July 2012 and were 4.14 % on that date (461,177 voting shares).

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

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

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

All other notifications of voting rights in accordance with the German Securities Trading Act concerned cases in which the interest in the voting shares had fallen below the 3 % threshold. All notifications of voting rights have been published at www.lpkf.de/investor-relations/pflichtmitteilungen/stimmrechtsmitteilungen/stimmrechtsmitteilungen.htm in accordance with the German Securities Trading Act.

32. AUDITOR FEES INVOICED IN THE FINANCIAL YEAR JUST ENDED

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

EUR thsd.	2012	2011
Audits of financial statements	108	112
Tax consultancy services	9	20
Other services	10	28
Total	**127**	**160**

33. EVENTS AFTER THE REPORTING PERIOD

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

Garbsen, Germany, 25 March 2013

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

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

Independent auditors' report

We have audited the consolidated financial statements – comprising the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and the notes – as well as the Group management report prepared by LPKF Laser & Electronics Aktiengesellschaft, Garbsen, Germany, for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a (1) of the German Commercial Code (Handelsgesetzbuch) is the responsibility of the Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the financial position, cash flows and profit or loss in the consolidated financial statements in accordance with the applicable financial reporting standards and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the Management Board as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a (1) of the German Commercial Code and give a true and fair view of the financial position, cash flows and profit or loss of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, Germany, 25 March 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Helmuth Schäfer	ppa. Thomas Monecke
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

Income statement

from 1 January 2012 to 31 December 2012

EUR thsd.	2012	2011
Revenue	84,392	68,445
Changes in inventories of finished goods and work in progress	2,034	1,235
Other own work capitalized	292	161
Other operating income	2,671	2,612
	89,389	**72,453**
Cost of materials		
Cost of raw materials, consumables and supplies, and of purchased merchandise	31,204	24,114
Personnel expenses		
Wages and salaries	18,107	15,588
Social security costs and pension costs (of which for pensions: EUR 80 thousand; previous year: EUR 107 thousand)	3,002	2,639
Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	2,366	1,938
Other operating expenses	23,702	19,646
	78,381	**63,925**
Income from equity investments	2,665	421
Other interest and similar income (of which from affiliated companies: EUR 218 thousand; previous year: EUR 164 thousand)	236	216
Interest and similar expenses (of which to affiliated companies: EUR 20 thousand; previous year: EUR 7 thousand)	599	374
Result from ordinary activities	**13,310**	**8,791**
Taxes on income	3,264	2,569
Other taxes	123	32
Net income for the year	**9,923**	**6,190**
Retained profits brought forward	11,354	9,604
Net retained profits	**21,277**	**15,794**

Balance sheet as of 31 December 2012

Assets

EUR thsd.	2012	2011
Fixed assets		
Intangible fixed assets		
Software	4,386	2,344
Rights of use	49	54
	4,435	**2,398**
Tangible fixed assets		
Land, similar rights and buildings	14,597	12,980
Technical equipment and machinery	1,350	1,149
Other equipment, operating and office equipment	2,855	2,034
Advances paid and construction in progress	337	136
	19,139	**16,299**
Long-term financial assets		
Shares in affiliated companies	10,843	7,052
Loans to affiliated companies	240	279
Other loans	6	10
	11,089	7,341
	34,663	**26,038**
Current assets		
Inventories		
Raw materials, consumables and supplies	12,747	12,718
Work in progress	2,978	2,198
Finished goods and merchandise	4,564	3,271
Prepayments	43	57
	20,332	**18,244**
Receivables and other assets		
Trade receivables	11,612	10,168
Receivables from affiliated companies	6,336	8,066
Other assets (of which due within more than one year: EUR 226 thousand; previous year: EUR 267 thousand)	1,329	1,045
	19,277	**19,279**
	39,609	**37,523**
Cash-in-hand, bank balances and checks	1,103	1,996
	40,712	**39,519**
Deferred income (of which discounts: EUR 12 thousand; previous year: EUR 16 thousand)	**314**	**238**
Deferred taxes	**93**	**68**
Excess of plan assets over pension liability	**240**	**102**
	76,022	**65,965**

Balance sheet as of 31 December 2012

Equity and liabilities

EUR thsd.	2012	2011
Equity		
Subscribed capital (Conditional capital: EUR 0 thousand; previous year: EUR 372 thousand)	11,135	11,101
Capital reserves	6,297	6,036
Revenue reserves		
Other revenue reserves	7,023	7,023
	7,023	**7,023**
Net retained profits (of which retained profits brought forward: EUR 11,354 thousand; previous year: EUR 9,604 thousand)	21,277	15,794
	45,732	**39,954**
Provisions		
Provisions for pensions	0	0
Provisions for taxes	0	732
Other provisions	6,456	5,751
	6,456	**6,483**
Liabilities		
Liabilities to banks	12,739	12,897
Payments received on account of orders	2,779	1,285
Trade payables	3,876	1,733
Liabilities to affiliated companies	3,129	2,274
Other liabilities (of which from taxes: EUR 299 thousand; previous year: EUR 240 thousand) (of which from social security: EUR 65 thousand; previous year: EUR 42 thousand)	1,192	1,106
	23,715	**19,295**
Deferred income	**92**	**183**
Deferred taxes	**27**	**50**
	76,022	**65,965**

Glossary of technical terms

LDS METHOD
(LDS: laser direct structuring) A laser-based manufacturing process for three-dimensional circuit carriers, otherwise known as molded interconnect devices (MIDs), made of plastic, which also handle mechanical functions.

MID
See LDS method

PCB PRODUCTION EQUIPMENT
Laser systems for depanelling individual printed circuit boards from a larger multi-image board. Lasers depanel rigid, flexible and rigid-flex PCBs very cleanly and precisely in a stress-free process.

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

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

STENCILLASER EQUIPMENT
Laser systems for cutting fine, highly precise openings in a stainless steel stencil. Stencils are used for the precision printing of solder paste onto printed circuit boards – a vital technique for today’s closely packed PCBs.

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

WELDING EQUIPMENT
Laser systems for plastic welding. A laser beam welds together two plastic components by shining through the upper component and releasing its energy on the surface of the lower component. Thermal conduction and pressure create a secure and clean join.

Financial calendar

26 March 2013	Publication of the 2012 annual report
26 March 2013	Financials press conference
27 March 2013	Analyst conference
15 May 2013	Publication of the three-month-report
23 May 2013	Annual General Meeting
14 August 2013	Publication of the six-month-report
13 November 2013	Publication of the nine-month-report

Contact

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

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LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Germany

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

www.lpkf.com