ANNUAL REPORT 2010

BREAKTHROUGH

> LPKF enjoys continued success.

LPKF Laser & Electronics

> LPKF Laser & Electronics AG at a glance

CONSOLIDATED REVENUE AS OF 31 DECEMBER

		2010	2009	2008	2007	2006
Revenue	EUR million	81.2	50.7	45.4	42.2	39.8
Revenue by region						
Germany	EUR million	10.7	10.9	17.8	10.5	7.5
Other Europe	EUR million	10.3	8.8	8.0	8.1	9.0
North America	EUR million	13.5	5.3	5.5	6.4	6.7
Asia	EUR million	45.0	24.5	12.7	15.9	15.6
Other	EUR million	1.7	1.2	1.4	1.3	1.0
Revenue by segments						
Rapid Prototyping	EUR million	15.2	13.5	15.0	15.3	12.7
Cutting and Structuring Lasers	EUR million	51.8	26.5	15.7	17.5	20.3
Joining Technologies	EUR million	8.2	5.3	5.8	3.6	3.2
Thin Film Technologies	EUR million	3.2	3.5	6.9	3.7	–
All other segments	EUR million	2.8	1.9	2.0	2.1	3.6

CONSOLIDATED FINANCIAL KEY FIGURES AS OF 31 DECEMBER

		2010	2009	2008	2007	2006
EBIT	EUR million	17.3	7.0	3.1	6.0	6.4
EBIT margin	%	21.3	13.7	6.8	14.2	16.0
Consolidated net profit before non-controlling interests	EUR million	12.1	4.7	1.8	3.9	4.0
Net margin before non-controlling interests	%	15.5	9.3	5.1	10.0	11.2
ROCE (Return on Capital Employed)	%	31.6	15.7	7.4	15.4	17.9
Cash and cash equivalents	EUR million	13.0	10.3	6.0	3.0	5.2
Equity ratio	%	70.3	69.7	68.5	69.3	71.8
Cash flow from operating activities	EUR million	13.5	11.5	6.4	2.7	3.8
Investments in property, plant and equipment and intangible assets	EUR million	8.1	4.0	3.3	5.7	7.5
Earnings per share, diluted	EUR	1.10	0.43	0.17	0.36	0.37
Dividend per share	EUR	0.40*	0.20	0.00	0.12	0.12
Orders on hand	EUR million	12.5	14.7	10.3	7.6	6.1
Incoming orders	EUR million	78.9	56.0	48.1	43.2	38.4
Employees	Number	466	384	374	339	292

* AGM proposal

LPKF: Mechanical engineering and laser specialists

/// The LPKF Group has 34 years of experience in the development and production of materials 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 materials processing. ///

/// The LPKF Group has specialist know-how in the fields of laser technology and optics, precision drive systems, control systems and software. This specialist laser materials processing expertise and experience is the basis for all the Group's operating companies. ///

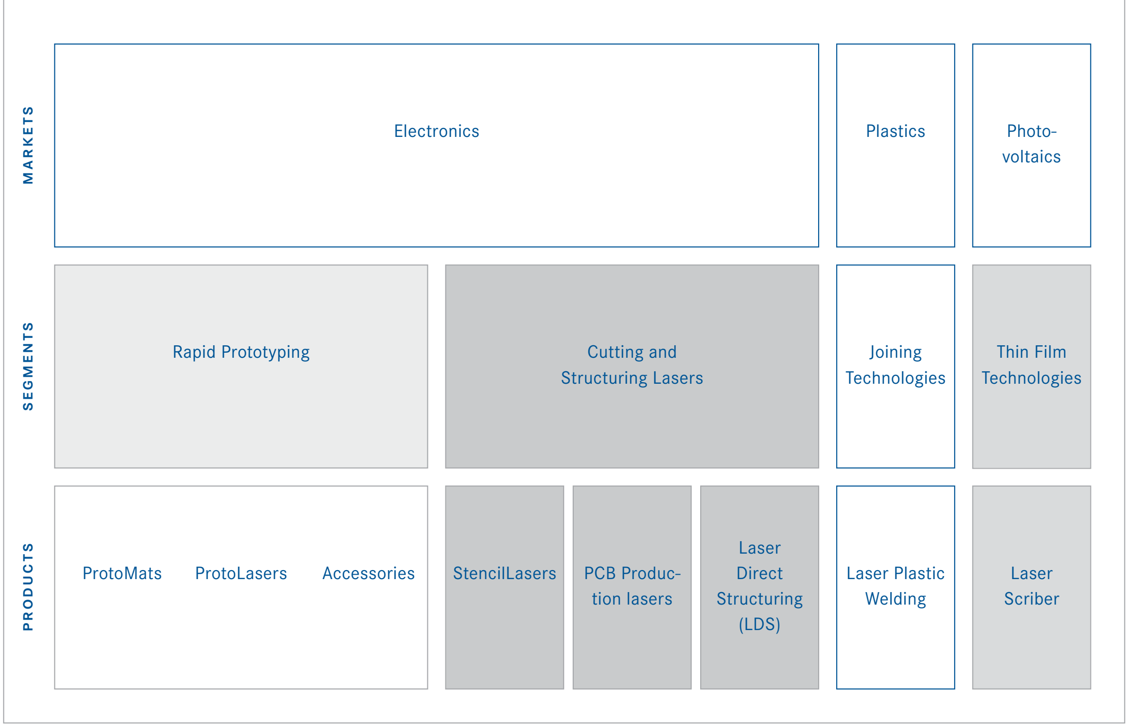
/// LPKF's laser systems are used in the electronics industry, in polymer technology applications and for the manufacture of solar panels. A diverse portfolio provides the Company with a solid foundation. In financial year 2010, LPKF posted revenue of EUR 81 million and a pre-tax profit of EUR 17 million. With exports accounting for 87% of sales, LPKF is benefiting from the dynamic growth in international markets. A global sales and service network guarantees close proximity to customers. ///

/// The LPKF Group is headquartered in Garbsen near Hannover, and at the end of December 2010 employed 466 people worldwide. The shares of LPKF Laser & Electronics AG are listed in the Prime Standard segment of the Frankfurt Stock Exchange. ///

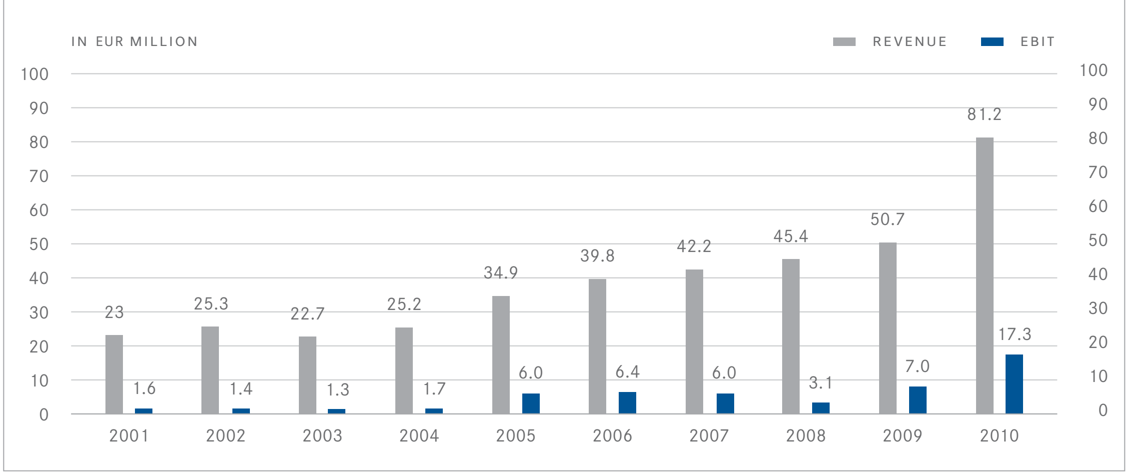
▶ **Breakthrough:** The declared objective of LPKF AG is to replace established production processes with laser technology. Each time it realizes this objective, LPKF achieves a breakthrough in new markets, the most recent example being LDS technology's conquering of the smartphone antennas market. Whenever such a breakthrough is made, the dynamic response of the newly secured markets boosts the Company's revenue.

An overview of LPKF Laser & Electronics AG

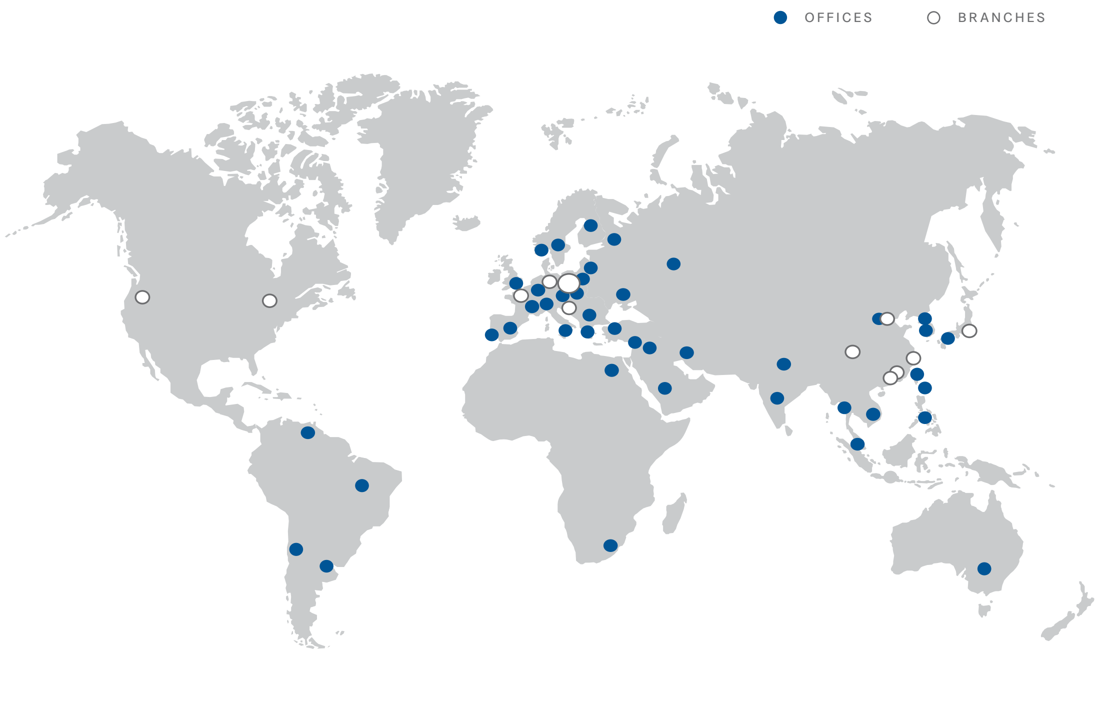
MARKETS, SEGMENTS AND PRODUCT LINES



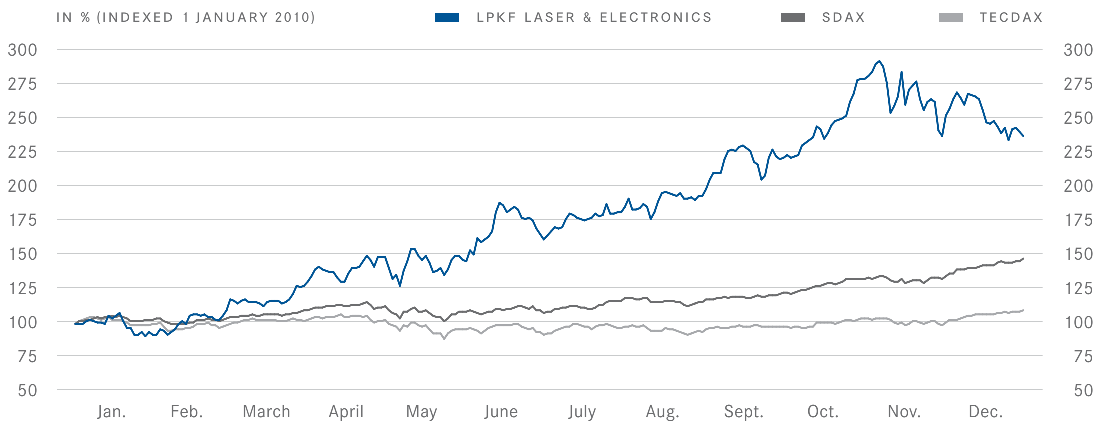
REVENUE AND EBIT



▸ LPKF WORLDWIDE



▸ PERFORMANCE OF THE LPKF SHARE IN 2010



> Four compelling reasons to invest in LPKF...

/// Sector... It is not just small boys who are fascinated by lasers. Laser technology is a key technology that has been revolutionizing science and industry for the past 50 years. Its tremendous future potential is undisputed.

/// Strategy... In the operating theater, lasers are used as a matter of course. In industrial production, it still has the image of an elite technology: good, but expensive. We are changing that by offering our customers top-quality production technology at reasonable prices.

/// Growth potential... The aim of almost all of our product groups is to replace established production technologies. Each time we realize this aim, we achieve a breakthrough that has a marked impact on our sales and profits. At present, four out of six of our product groups have great potential for growth.

/// Track record... »The future needs the past«*. For the past 34 years, we have operated profitably and maintained a very strong asset structure. This is one area where we remain very conservative.

* Odo Marquard (German philosopher)

> Contents

18
CUT IT!

20
SHAPE IT!

22
SEAL IT!

24
CATCH IT!

26
SPEED IT UP!

CHAIRMAN'S STATEMENT 4
THE MANAGEMENT BOARD OF LPKF LASER & ELECTRONICS AG 7
REPORT OF THE SUPERVISORY BOARD 8
HIGHLIGHTS 2010 12
INTERVIEW WITH THE MANAGEMENT BOARD 14
THE LPKF SHARE 28
CORPORATE GOVERNANCE REPORT 32
EMPLOYEES 40
GROUP MANAGEMENT REPORT 42
CONSOLIDATED FINANCIAL STATEMENTS 2010 72
- CONSOLIDATED STATEMENT OF FINANCIAL POSITION 74
- CONSOLIDATED INCOME STATEMENT 76
- CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 76
- CONSOLIDATED STATEMENT OF CASH FLOWS 77
- CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 78
- CONSOLIDATED NOTES 80
- INDEPENDENT AUDITORS' REPORT 126

ANNUAL FINANCIAL STATEMENTS OF LPKF LASER & ELECTRONICS AG 127
- INCOME STATEMENT 127
- BALANCE SHEET 128

GLOSSARY 130
FINANCIAL CALENDAR 131
CONTACT/PUBLISHING INFORMATION 131

> Chairman's statement

Dr. Ingo Bretthauer, Chairman of the Management Board (CEO)

Ladies and Gentlemen,

2010 was a year of superlatives for LPKF. In the past twelve months, we witnessed more major orders, more record sales, more record results and more upwardly revised forecasts than ever before. Not surprisingly, our share price rose by 142 %. Although we had worked for a long time to achieve this breakthrough, when it came, its speed was something of a surprise even for us.

With a 12 % increase in revenue, LPKF had already shrugged off the global economic crisis in 2009. The recovery began at the end of 2009 and strengthened at the beginning of 2010. Incoming orders rose sharply in the first half of the year. The first powerful impetus to our growth came when our LDS business received a number of additional large orders. And then our other business segments also began to gain momentum. In the end, nearly all of our segments were contributing to the strong increase in revenue in 2010. A new generation of PCB production lasers provided us with another major order in June and thus a further boost to our growth. Fundamental to this success was our strategy of drastically improving the efficiency of our systems in order to make the customer's production process more profitable. With the MicroLine 1120S, we introduced a laser-supported cutting system for mass production of printed circuit boards (PCBs) that offers world-beating performance at its price point.

Thanks to the global economic recovery, we were also able to substantially increase revenue from our well established »bread and butter« business, rapid prototyping. This growth was driven in large part by new, high-quality laser systems like the ProtoLaser S. With the introduction of a brand new generation of mechanical prototyping machines, we intend to continue this trend in 2011 and further increase our market share, which currently stands at approximately 70 %.

Our broad-based positioning not only served us well during the economic crisis but is also proving to be the right approach as we enter the expansion phase. In the medium term, we see moderate potential for growth in only two of six divisions. These divisions are Rapid Prototyping and StencilLaser, where we already occupy a global leadership position. However, the other four divisions are less mature and offer significant potential for above average growth. We need to manage and exploit these excellent opportunities to ensure that they have a sustained and positive impact on the entire LPKF Group.

The unexpectedly strong influx of orders in the first half of 2010 caused us to make repeated upward corrections to our forecasts. All in all, this is a most encouraging development, even though we were occasionally criticized for deliberately understating our forecasts. There is always some degree of uncertainty associated with forecasting. This is why we remain convinced that a balanced forecast is of more value, particularly for our stockholders, than grandiose statements.

Incoming orders reached a new record volume of EUR 79 million in 2010. With revenue growth of 60 % and an even more marked growth in earnings, it was clear by the end of the year that 2010 had been a truly exceptional financial year. It is not easy to improve upon the kind of growth rates that we achieved. In fact, these results call for consolidation and structural adjustments in order to reflect the new size of the Company. Consequently, we will be seeking to stabilize our revenue performance in 2011 while at the same time continuing to achieve very positive earnings before interest and taxes (EBIT). The year 2011 will be a year of both great opportunities and risks. We will do everything in our power to keep the good news coming throughout the year. We expect good growth from all segments. Even in the solar energy business, which has been weak lately, we can see a light at the end of the tunnel.

Ladies and gentlemen, after two years at LPKF, I have to tell you that I am still enthusiastic about this Company. This is not only due to the success of recent years but also, and more importantly, to the excellent working atmosphere that results from having such a dedicated and highly motivated team. I would add that I, as a »technology enthusiast« of many years' standing, greatly value the innovative thinking that I see throughout this Company!

However, our ability to innovate can only lead to commercial success if we have open-minded customers prepared to defy convention and bold enough to invest in brand-new technologies. LPKF attaches great importance to these key customers. We want to reward them for their confidence in LPKF by giving them a competitive advantage in their markets.

At this point I would like to thank all of our customers for the trust they have placed in us over the years and for their confidence in our shared future. My thanks go also to our numerous representatives throughout the world, most of whom have been associated with LPKF for many years, for their untiring commitment to our products. In September this year, we will once again welcome all our representatives to Garbsen for our traditional representatives' meeting. As well as the extensive training program, I am particularly looking forward to engaging in an exchange of ideas with each of our representatives individually.

I wish to thank all employees of the LPKF Group for their commitment and their exceptional performance in 2010. Without your particular dedication, none of this would have been possible! Special thanks are due also to my colleagues on the Management Board and to the Supervisory Board for an excellent working relationship.

I thank you, dear shareholders, for your loyalty and your confidence in our Company. A fair valuation of the LPKF share is and remains in our mutual interest. The year 2010 brought us a good step forward in this respect. I look forward to tackling the challenges we will face in 2011!

Sincerely,

Dr. Ingo Bretthauer
(Chairman of the Management Board)

Garbsen, Germany, March 2011

The Management Board of LPKF Laser & Electronics AG

Dr. Ingo Bretthauer,
CEO (Marketing, Sales and Production)

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,
CFO (Finance, Human Resources and Investor Relations)

Born 1971, member of the Management Board since 2007 – Upon completion of his degree in economics at the University of Hannover, Kai Bentz worked for a large international accounting and auditing firm. He joined LPKF in 2002.

Bernd Lange,
CTO (Technology and Quality)

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.

> Report of the Supervisory Board

Bernd Hildebrandt,
Chairman of the Supervisory Board

A business management graduate with many years of experience in sales and marketing, Bernd Hildebrandt joined the newly-founded LPKF Laser & Electronics GmbH as managing partner in 1977. When the Company went public on 1 October 1998, he was appointed Chairman of the Management Board. He moved to the Supervisory Board in 2001 and has been its Chairman since then. As a co-founder of LPKF, Bernd Hildebrandt retains approximately 14 % of LPKF stock in family ownership.

»We face the future with confidence and optimism, given the positive development of all segments.«

Bernd Hildebrandt, Chairman of the Supervisory Board

Ladies and Gentlemen,

In the 2009 financial year, the management faced the serious challenge of having to surmount the effects of the global economic crisis and heading off its negative impact on the Company. Not only did we succeed with flying colors, in 2010 we also posted the best results ever in the Company's history.

Our success was driven by the full market launch of the laser direct structuring (LDS) process for cell phone antennas. Remarkably, it embodies 15 years of the Company's research and development work in collaboration with the scientific institute of a university. But LPKF's other segments also contributed to the Company's success – first and foremost PCB production lasers, supported by the development of our own laser sources. Here, too, we succeeded in launching mass production of electronics.

The outlook for our solar energy business over the next few years has improved substantially. Laser plastic welding, as well as rapid prototyping and the stencil business, were hit hard by the crisis. Nonetheless, in 2010 we increased revenue in almost all segments yet again. Rapid prototyping benefitted from the expansion of the ProtoLaser business whereas the ProtoMat models were not replaced with new systems until the start of 2011. The use of lasers will lead PCB prototyping to a new level. The fact that a product idea that is over 30 years old could take off because it offers new improved benefits for customers and applications is evidence yet again of the Company's strong innovative power.

▶ MONITORING AND ADVISING THE MANAGEMENT BOARD ON MANAGEMENT ISSUES

The Management Board kept the Supervisory Board abreast of the Company's business development, promptly and thoroughly, at eight Supervisory Board meetings and in a multitude of discussions, both in person and by telephone. This enabled the Supervisory Board to intensely and regularly supervise and advise the Management Board. In particular, the Supervisory Board was regularly informed of the Company's exposure to risk and its risk management. The Supervisory Board or its Chairman was informed of and involved in key strategic decisions without delay.

▶ MAIN FOCUS OF THE ADVICE

In the 2010 financial year, revenue came from a number of large orders from international corporations, creating extraordinary challenges for the Company especially in terms of contractual arrangements and risk assessment. This gave rise to ongoing deliberations between the Management Board and the Supervisory Board, which led to successful business outcomes in all situations. We wish to express our special thanks to the Management Board and the managing directors of the subsidiaries in question.

At several Supervisory Board meetings, the Supervisory Board and the Management Board dealt with issues of corporate governance and the declaration of compliance for 2010, which by now has been posted on LPKF's website.

Given LPKF AG's strong growth, the Supervisory Board paid particular attention to its monitoring of the Company's risk management. Compliance issues also became increasingly significant. The Management Board established an internal auditing function in the 2010 financial year and commissioned a major auditing firm to carry out the respective tasks. A multiyear audit plan based on the Group's existing risk management system was established for the LPKF Group. The first audits have already been carried out.

The risk management system is supported by special software for recording, assessing and tracking risks. A risk inventory recorded and assessed current and potential risks. The Management Board is always in close contact with the management of each Group unit in order to be able to identify risks and opportunities as early as possible and respond adequately. The quality management system pursuant to DIN EN ISO 9001:2008 is another important element of the risk early warning system and for ensuring efficient business processes.

The ongoing development of the Group's operational structure is one of the management's main tasks, especially given its growth opportunities. Processes were further refined – taking risk management issues into account – in connection with the introduction effective 1 January 2011 of new ERP software for representing material business processes of LPKF Laser & Electronics AG. The new system shall also be introduced in other Group companies. As in previous years, the reporting system was reviewed to assess its efficiency in managing risks. The Supervisory Board and the Management Board regularly exchange information regarding the Company's risk position and compliance issues, both through ongoing discussions and formal reports.

▸ AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

As resolved by the Company's Annual General Meeting, the Supervisory Board engaged Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft to audit the 2010 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 22 February 2011 and 25 March 2011 and reported on the audits of the annual financial statements.

The Supervisory Board's own examination of the annual financial statements and the management report produced no reservations. The Supervisory Board concurred with the auditor's findings and approved the annual financial statements. The annual financial statements are thus adopted. At its meeting on 25 March 2011, the Supervisory Board reviewed and accepted the Management Board's recommendation regarding the appropriation of accumulated profits.

Given the considerable improvement in earnings in the reporting year and the positive assessment of the market for 2011, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 1 June 2011 that it pay a dividend of EUR 0.40 per share and carry forward the remaining accumulated profits of EUR 9,603,723.91 to new account.

The consolidated financial statements, the Group management report and the report of the auditor of the consolidated financial statements were available during discussions with the Management Board and the auditors. The consolidated financial statements and the Group management report were reviewed by the Supervisory Board, which then approved the consolidated financial statements.

The Supervisory Board thanks the Management Board, all managing directors and employees of the Group, as well as the works council, for the successful collaboration in 2010. The substantial revenue growth in Garbsen and in several subsidiaries would not have been possible without the extraordinary additional commitment of our workforce. Our very special thanks go to them too. We also thank our worldwide representatives, our suppliers and, last but not least, our customers, who placed their trust in us – all of whom contributed to our success in the financial year just ended.

Structural adjustments of the Group on the whole will be necessary, given its new scope, in order to ensure growth in the long term. The Supervisory Board expressly supports these steps.

While the LDS process still is largely focused to the production of cell phones, the market opportunities particularly in this area have not yet been exhausted, not even remotely. We expect the LDS technology to be applied in laptops and tablet PCs too before long. We face the future with confidence and optimism, given the positive development of all other segments.

The Supervisory Board,

Bernd Hildebrandt,
Chairman of the Supervisory Board

Garbsen, Germany, March 2011

> Highlights 2010

▶ **PRODUCTION CAPACITY DOUBLED**

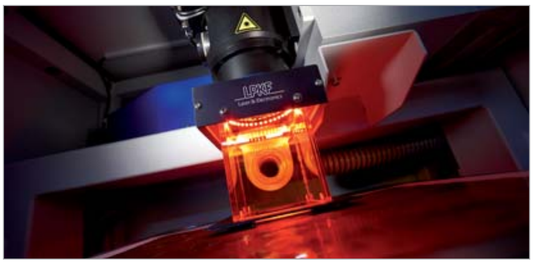
In February, LPKF announces that it has doubled production capacity and that business is brisk at all sites. Everyone pulls together to create space for production and service. LPKF hires new employees and starts expanding production. This coincides with the decision to install a new merchandise management system that satisfies the requirements of the Company's Total Quality Management philosophy.

▶ **HERMES AWARD FOR LASER STRUCTURING SYSTEMS**

And the winner is: LPKF! In April, Dr. Ingo Bretthauer accepts a very special award. He is presented with the world famous Hermes Award for the LPKF Fusion3D on the evening before the opening of the Hannover Fair. This is a strong endorsement of the innovative power and technical skills of the Garbsen-based laser specialist.

▶ **EVERYONE IN THE SAME BOAT**

Working and having fun together. At Pentecost, the traditional dragon boat race takes place on Lake Masch in Hannover. With a large dose of team spirit, LPKF employees proudly reach for their oars and celebrate afterwards in the team tent. Even here, our performance pays off: the LPKF Laser Dragons are promoted to the next performance class in 2010.



▶ **CUTTING WITH LIGHT**

Another technological breakthrough. A large order for a newly designed PCB production system for cutting flexible circuit boards attracts a great deal of interest in the electronics industry. The UV laser process prevents mechanical damage and reduces failure rates. It marks our first successful step towards the world's leading large-scale manufacturers of electronic components.

▸ **FUSION3D BESTSELLER**

Our premium laser system is the sales hit of 2010. The 50th LPKF Fusion3D is shipped in July. This system marks the breakthrough into mass production for Laser Direct Structuring of three-dimensional molded interconnect devices. This innovative concept offers plenty of scope for further technological developments and new application areas.

▸ **STAFF TRAINING**

New trainees at LPKF: a good range of training programs creates a pool of qualified employees. LPKF provides training in technical and business disciplines – and has so far taken on virtually all of its trainees upon successful completion of their final examinations. Happy employees are a valuable asset – which is how LPKF treats them.

▸ **THE FASCINATION OF LASERS**

Our open evening gives families, shareholders and other interested parties an excellent opportunity to experience LPKF's office and production facilities at first hand. And it offers a quite different view of lasers when, at the end of the tour, an outdoor laser show brings the fascination of lasers to life for visitors.

▸ **SUCCESS AT ELECTRONICA**

The »electronica« electronics trade fair in November generates plenty of new contacts and provides a good opportunity for celebrating the encouraging results of our Q3 report. Star of the stand is the BMW Z4, whose steering column is equipped with three-dimensional LDS components as standard.

> Interview with the Management Board

From left to right: Kai Bentz, Dr. Ingo Bretthauer, Bernd Lange

»Based on what we know today, we also expect a very positive result at the end of 2011.«

Dr. Ingo Bretthauer, Chairman of the Management Board (CEO)

The year 2010 was the most successful one in LPKF's history. Management Board members Dr. Ingo Bretthauer, Bernd Lange and Kai Bentz look back and explain the strategy and future growth prospects of the LPKF Group.

▶ **With EBIT of EUR 17.3 million, LPKF has achieved record earnings for the second time in succession. What in your opinion are the main reasons for this encouraging development?**

Kai Bentz: The overall environment in the past two years has been very different. Contrary to the general trend, our sales and earnings grew in the 2009 crisis year, driven mainly by LDS. Antenna manufacturers spotted an opportunity to grab a share of the fast-growing smartphone market with this technology and invested massively.

At the same time, we pushed ahead with the overhaul of our product range regardless of the economic crisis. This has also paid off. In 2010, LDS once again played an important role in the Group's growth. This time, however, the tremendous growth was shared by virtually all of our product lines. The markets returned. We were still here and we had interesting new products that we were able to sell in large quantities. As a result, our sales rose faster than our costs – which was good for our margins. The lesson we learned from this experience is that crises always offer opportunities as well.

▶ **LDS technology had been incorporated into 40 % of all smartphones by the end of 2010. Where else in the electronics market do you see growth potential for LDS?**

Bernd Lange: There is still a great deal of untapped potential. Smartphones account for 22 % of the fast-growing premium sector of the cell phone market, which is where LDS first caught on. The entire cell phone market is estimated to be around 1.3 billion units a year. How many of these will be fitted with LDS antennas depends on production capacities and their cost structure. As most manufacturers are still in a start-up phase, there is still considerable potential for cutting costs.

We also see great potential in the markets for tablet PCs, laptops, e-readers and the many new handheld products that are all based on the various wireless technologies. Antennas and connectors are needed everywhere. Laser direct structuring makes it possible to miniaturize these components and to integrate them in the casing. We are modifying our laser systems to meet these new challenges and are refining the technology to make it even more appealing to the market.

▶ Expansion in China and Japan — what importance do you attach to the Asian market over the next few years?

Ingo Bretthauer: The Asian market has become very important for us in recent years. In the past financial year, approximately two thirds of Group revenue was generated in this part of the world. Of course, our focus here is on China as the center of the global electronics industry. We prepared for this development in recent years when we established seven subsidiaries in China, one after the other. There can be no doubt that this is one of the main reasons for our success in this country.

Despite the current catastrophe in Japan, we expect Japanese companies to defend their prominent position in the electronics industry. This is why our decision to make a direct investment in Japan was still the right one. As a technology leader, LPKF must base its operations where standards are highest and where the best products are made. In 2010, Japan accounted for only about 2 % of our revenue. We intend to change that. We must, of course, wait to see how the situation develops in Japan, but we firmly believe that Japan will soon recover. We still see considerable long-term potential in Japan, particularly for our latest products such as LDS systems, but also for systems for PCB production, thin film solutions and high quality plastic welding.

▶ The kind of strong growth that you experienced in 2010 can also lead to challenges for an organization. How did you deal with these challenges and are you prepared for further growth?

Kai Bentz: What lies behind the positive figures and strong growth is the hard work and efforts of our employees. It is particularly important in this kind of situation for the entire organization to grow together. This is why we introduced a new IT system at our Garbsen and Erlangen offices. From spring 2010, we prepared for the introduction of the new system by carrying out a detailed study of operational processes and procedures and then redesigning them. We intend to establish this system at other Group offices over the next few years and to continue improving our operational structures and processes. Because of the dynamic growth, we are even starting to run out of space. We are therefore implementing a number of expansion projects at our Garbsen site. The most important of these is, of course, the construction of a development center for EUR 5 million, which will be ready in the summer 2011. We expect our profitable growth to continue into the future. In order to achieve this, we must monitor and further optimize the organization and process structures in each of the Group's units.

▶ Difficult times are forecast for the solar industry. Thin film technologies did not make any contribution to the Group's bottom line in 2009 or 2010. Why do you remain so confident about this business?

Bernd Lange: We have invested massively in the thin film technology segment in the past two years. We developed a new generation of LaserScribers because we believed that the market would recover from its investment slump and start demanding greater productivity and profitability. This is exactly what has happened and we are currently generating considerable interest. The entire solar market is now going through a much-needed clean-up phase. The solar companies who come through this phase will be in a position to invest profitably. And this bodes well for equipment suppliers. Also, thin film modules are becoming more and more cost-efficient. This means that we have backed the right horse. We aim to play an active part in encouraging the upward momentum of the thin film module since, as a specialized equipment supplier, we will ultimately profit from its success.



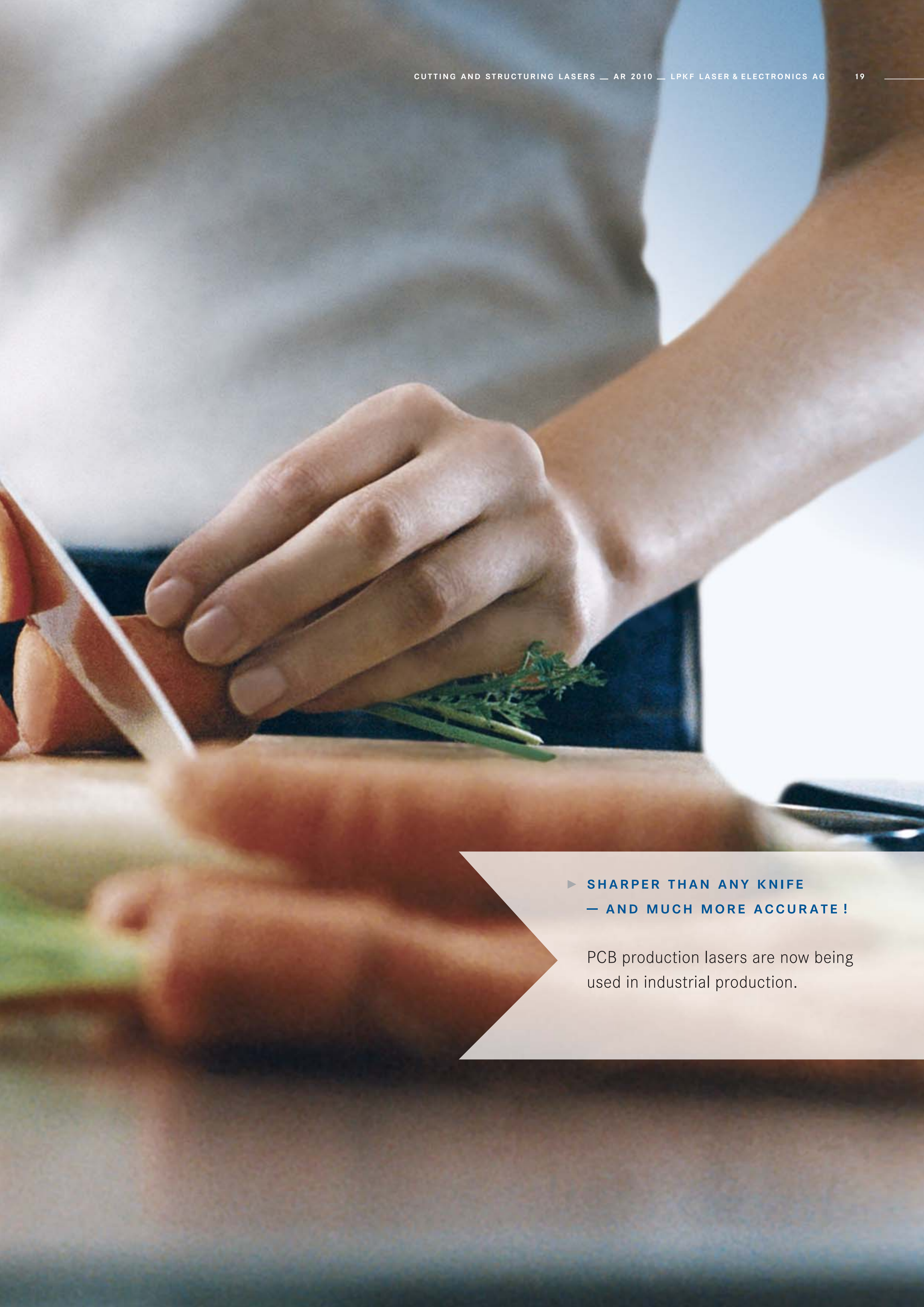
▸ The shortage of skilled employees in Germany is becoming increasingly evident. How easy do you find it to recruit suitable staff?

Kai Bentz: If we are to grow and be successful, we must attract and retain highly trained and motivated staff. We work with laser technology, which is a very interesting field. And we have also taken advantage of the crisis: While other engineering companies were laying people off, we were recruiting new engineers, IT specialists and technicians. Our links with universities and institutes and our growing reputation help us to attract staff. Furthermore, we provide training for our own junior technical and commercial staff. We offer a host of opportunities for advancement and we give people responsibility early. Anyone who is keen to get on here will do so. Our low levels of sickness leave and employee turnover are signs of a good working climate. In short, we have been able to fill all of our vacancies so far.

▸ You expect to see revenue and earnings stabilize in 2011. How conservative is this forecast?

Ingo Bretthauer: Large orders were a dominant feature of our business last year. We had not expected to gain so many. This is why we had to increase our forecast several times during the course of the year. It would not be responsible to simply forecast a continuation of this rapid growth. I think that our experience with the bursting bubble involving technology companies around the turn of the millennium showed that nobody's interests are served by reckless forecasting. We are therefore trying to remain realistic, knowing full well that 2011 will offer further opportunities for doing better than expected. But there will also be risks that could result in our full-year revenue being down on last year's figure. When all is said and done, we have tried to strike a sensible balance in our forecast between opportunities and risks. We are expecting a good EBIT figure for 2011. How close we will come to our record-breaking performance of 2010, only time will tell. While revenue rose sharply in the past financial year, increases in our major costs lagged some way behind. In 2011, our higher staffing levels will lead to extra costs from day one. However, based on what we know today, we also expect a very positive result at the end of 2011.

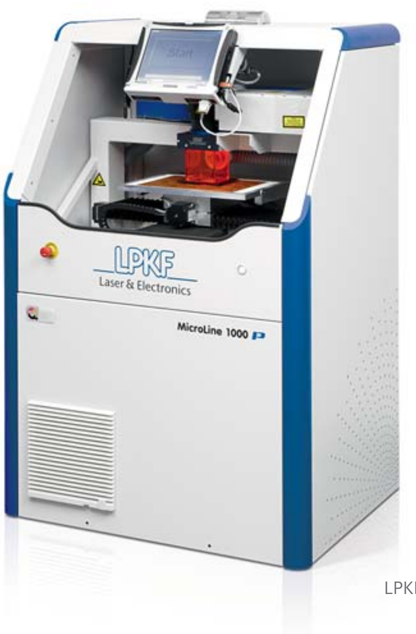
CUT IT!



SHARPER THAN ANY KNIFE — AND MUCH MORE ACCURATE !

PCB production lasers are now being used in industrial production.

> Cutting and Structuring Lasers



LPKF MicroLine 1000 P

▶ PCB PRODUCTION LASERS

Nowadays, the traditional rigid PCB is still preferred for larger items of electronic equipment. Thanks to advances in miniaturization, not only have electronic devices become smaller; the circuit boards have changed as well.

Many modern PCBs consist of ultra-fine film with complex shapes. These are populated with highly sensitive components and must be cut out very accurately and with great care. This process is known as depanelling. In addition to precision and flexibility, it is particularly important to avoid any mechanical or thermal stress on the material. While this is not easy to achieve with traditional processes like stamping or sawing, this is an area where lasers can easily claim to be the tool of the future.

Because PCB production lasers from LPKF reduce error rates, they also reduce the number of production rejects.

Customers for PCB production lasers are PCB manufacturers and assemblers who work for major electronics manufacturing companies. They are in tough competition with each other and are constantly striving to improve their production efficiency.

LPKF competes with companies from China and the USA. Thanks to its dramatically improved value for money, we successfully established the new ML 1000 PCB production laser against the competition in financial year 2010 and strengthened its market position.

LPKF wants to become the preferred supplier of PCB production lasers to leading electronics manufacturers. We have taken the first important step towards achieving this goal. A large order for PCB production lasers in 2010 marked this product group's breakthrough in the PCB mass production market. The growth potential is classified as high.

Intricate and precise: the PCB production laser cuts complex contours cleanly with no burrs.


SHAPE IT !

▶ FLAT PCBS? THE FUTURE IS THREE-DIMENSIONAL !

LPKF shows how to make high quality circuit carriers from plastic parts.

> Cutting and Structuring Lasers

LPKF Fusion3D

▶ **LASER DIRECT STRUCTURING (LDS)**

The LDS (laser direct structuring) process, which LPKF developed in partnership with the Ostwestfalen-Lippe University of Applied Sciences, is already well on its way to revolutionizing the production of certain electronic devices. The idea is to replace the circuit board as the circuit and electronics component carrier with a three-dimensional plastic part. These three-dimensional circuit carriers, known as MIDs (molded interconnect device), are based on modified, LDS-capable plastics which are injection molded into a three-dimensional part. The laser then »writes« the conductor paths directly onto the plastic part. In the third stage, the MID is metalized in a chemical bath. The copper layer is then deposited onto the pathway prescribed by the laser.

The development of the LDS process began 15 years ago. The breakthrough in the mass production of mobile antennas was made in 2009. By 2010, more than 150 million antennas had been produced using the LDS process. Although the LDS process enjoyed very strong growth in 2009 and 2010, this highly innovative technology is still in its expansion phase. It is not yet possible to foresee the ultimate number of possible areas of application for this technology. LPKF patented the LDS process worldwide. As well as traditional antenna manufacturers, customers for LDS laser systems include electronic components and equipment manufacturers.

The conquest of the antenna market for products such as cell phones, laptops and similar electronic products, is by no means over. Beyond that, there are opportunities opening up in other applications where LDS components are able to replace traditional circuit carriers. These include, for example, the automotive and medical engineering industries. There have been some initial successes in these markets but the breakthrough has not yet happened. If MIDs succeed in penetrating other large-volume market niches, the growth potential of the LDS process should be classified as high.

Circuits directly on plastic components: innovative components through laser direct structuring (LDS).

SEAL IT!

SAFE, CLEAN, COST-EFFECTIVE, PERFECT!

Laser plastic welding is taking an increasing share of the market away from traditional processes. LPKF is one of the leading suppliers of this technology.

> Joining Technologies

LPKF TwinWeld3D

▸ LASER PLASTIC WELDING

Laser welding systems from LPKF produce perfect, permanent connections. The plastic parts to be welded are positioned above each other and the laser beam is focused through the transparent top layer onto the absorbent bottom layer. The heat melts the surfaces of both layers and they bind to each other. Welding plastics via laser is a proven and well established technology. Thanks to its many benefits and its great cost-effectiveness, it has begun to displace conventional processes. Many industries are taking advantage of the increased technical possibilities of LPKF systems in their new products. There is no doubt that laser welding offers outstanding quality. An investment in a welding system from LPKF is particularly worthwhile when the impermeability, durability and appearance of the welded seam must be beyond reproach.

Some typical applications for plastic welding are ink cartridges for inkjet printers, reversing cameras, front and rear vehicle lights, as well as skin prick and dosage aids for diabetes patients. The potential applications are wide ranging and virtually unlimited.

Customers come from medical engineering, the automotive industry and the packaging industry.

LPKF is one of the world's leading suppliers of laser welding systems for plastics. Our main competitors are from the USA and Europe.

Our strategic goal for the Joining Technologies segment is to replace established joining processes worldwide with the more cost-effective LPKF laser welding technology and to open up new areas of application. This »displace and expand« approach offers this business tremendous potential for growth.

Perfect visible welded seams on large components – laser hybrid welding allows the development of new shapes for high quality rear lights on cars.

CATCH IT!

▶ CATCH AND USE.

Thanks to LPKF Allegro LaserScribers, thin film solar cells are becoming more effective and more efficient.

> Thin Film Technologies

LPKF Allegro

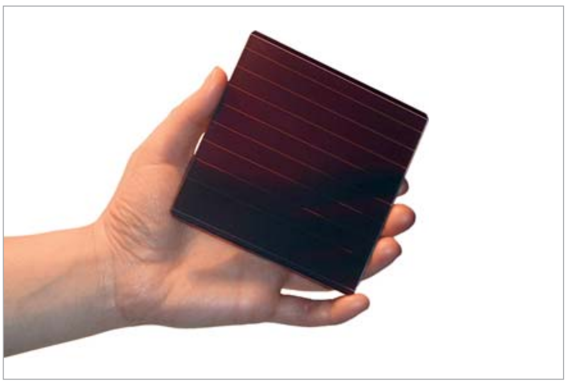
▶ **LASERSCRIBERS**

LPKF LaserScribers are used for structuring thin film solar cells. These new solar cells are produced in large sheets, similar to flat panel displays. They are made by depositing wafer thin layers of conductive and semiconductive materials on a sheet of glass. After each coating step, a scribe process is used to divide the new layer into strips to produce multiple cells connected in series inside the finished module.

The laser is the ideal tool for structuring thin film-solar panels since the electrical conversion efficiency of the solar module greatly depends on the precision of the scribes. Precise laser material processing is one of LPKF's core competencies and the market wants exactly what LPKF has to offer.

Customers are manufacturers of thin film modules in Germany and abroad. LPKF's competitors are the major suppliers of production equipment to the solar industry. Thanks to its specialist expertise in the field of laser material processing, LPKF is competing with increasing success against these larger companies.

The German solar industry went through two exceedingly difficult years in 2009 and 2010. The market for solar cells suffered from overcapacity and falling prices. The financial crisis meant that there was hardly any investment. These circumstances led to a sharp decline in investment in very costly thin film module factories. Thin Film Technology thus experienced the double setback of lower prices for crystalline solar cells and the financial crisis. There is considerable uncertainty as to how the sector will fare in 2011. Nevertheless, LPKF considers itself very well positioned in the thin film technology market. The outstanding technical qualities of the LPKF LaserScriber have made an important contribution to the increased efficiency of thin film solar modules. We believe that this market has great growth potential.



Thin film solar cells feature outstanding low light performance. The precise LaserScribers from LPKF guarantees high module efficiency.

SPEED IT UP!

▸ TWO MINUTES INSTEAD OF THREE DAYS !

The ProtoLaser S, the world's only laser system for PCB structuring, optimizes prototypes and low-volume production for the Fraunhofer Institute.

Rapid Prototyping

LPKF ProtoLaser S

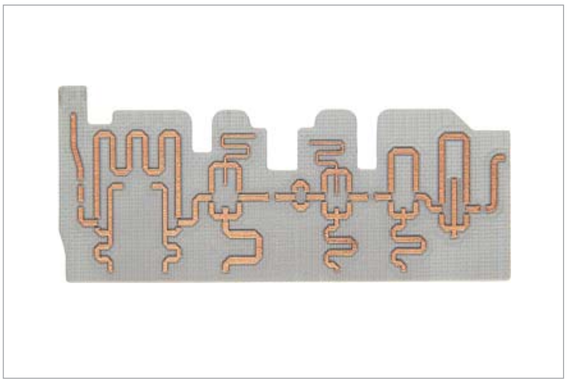
▶ PROTOLASERS

Rapid prototyping is the production of PCB prototypes in a company's own laboratory. It is also the original business idea upon which LPKF was founded 34 years ago. Instead of chemical etching, LPKF uses a circuit board plotter, a machine that uses a mechanical milling process to produce the PCB layout on the blank circuit board. Because it can save development engineers a great deal of time and effort, the circuit board plotter is now an indispensable tool in every electronics manufacturer's research lab. Prototypes that used to be fabricated by external specialist companies using chemicals can now be produced and modified quickly and without the need for chemicals in-house with an LPKF ProtoMat. LPKF has been marketing lasers for some years that are able to structure even faster and more accurately.

ProtoLasers are suitable for more than producing PCB one-offs; they are increasingly being used for high frequency materials and small batch production.

Customers include research and development departments in the electronics industry, as well as institutes and universities. LPKF developed the process of rapid prototyping for PCBs, marketed it worldwide, and in so doing, created a new standard. With a 70 % market share, LPKF is the global market leader. While the ProtoLaser is based on a patented process and remains unrivalled, traditional prototyping faces competition from smaller companies from Japan, Taiwan and the USA.

Rapid prototyping is one of the core businesses areas of the LPKF Group and we expect it to continue to grow.



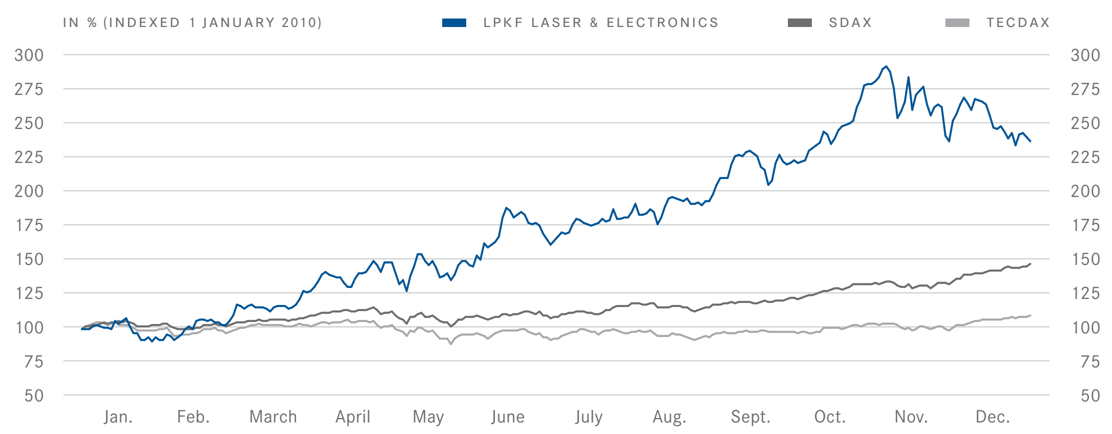
The world's only laser system for direct structuring of PCBs produces complex digital circuitry – even on ceramic substrates.

> The LPKF share

LPKF's share gained 142 % in the 2010 financial year, clearly outperforming all benchmark indices. The share price thus mirrors the LPKF Group's strong revenue and earnings growth. Given the Company's excellent performance, its Management Board and Supervisory Board plan to propose to the Annual General Meeting that it double the dividend for the 2010 financial year to EUR 0.40 per share.

With a market capitalization of more than EUR 130 million and a multiplication in the daily trading volume of its stock in 2010, LPKF has moved up considerably in the TecDAX ranking. This has brought the Company a large step closer to its goal of being included in the technology index. LPKF will continue to expand its investor relations activities in 2011.

▶ PERFORMANCE OF THE LPKF SHARE IN 2010



Breaking through the ceiling …

▶ ECONOMIC GROWTH SPARKS REBOUND ON STOCK MARKETS IN 2010

Most of the world's stock markets climbed sharply in 2010, driven by the dynamic of the global economy's recovery that outpaced economists' expectations and rising corporate profits. Yet the high levels of important industrialized countries' sovereign debt dampened spirits at the start of the year, depressing stock prices by about ten percent around the middle of February. Subsequently, positive corporate news fueled a renewed upswing. This positive trend intensified in the year's second half, sparking a year-end rally in the fourth quarter. Rising confidence in the sustainability of the economic upturn was key to this development. Briefly breaking above 7,000 points, the DAX index of leading German stocks closed the year at 6,914 points as of 31 December 2010, a gain of 16.1 % over the close of 2009. Mid- and small-cap German listed companies performed even better. The MDAX rose by 34.9 % during the reporting period, the SDAX by 45.8 % even. In contrast, the weak performance of solar energy shares weighed on the TecDAX, causing its gain to be limited to around four percent. Numerous stock markets in Asia as well as in North America also posted strong gains in 2010. The equity markets in many emerging countries did especially well.

▶ LPKF'S SHARE JUMPS BY 142 %

The performance of LPKF's share was much more positive and dynamic than the stock market on the whole. In the spring of 2010, it gained substantially on its price of EUR 5.05 at the end of December 2009. Higher revenue and earnings forecasts noticeably affected the share price. In April, August and October 2010, the Company communicated to the capital market that it was raising its revenue target from initially EUR 51 million to finally EUR 79 million. The forecast EBIT margin rose from 14 % to 19 %. News of large orders in April and June for LDS systems and machinery for depanelling PCBs was very well received by the capital market. LPKF's share reached a price of EUR 15.27 in early November, its high for the year. After profit taking, the share closed the year at a slightly lower EUR 12.15 – a gain of 142 % for the year. LPKF's share substantially outperformed the benchmark indices of Deutsche Börse AG yet again, just as in 2009.

▶ KEY FIGURES OF THE LPKF SHARE

	2010	2009
Number of shares as of 31 December	11,005,613	10,858,052
High (XETRA)	EUR 15.27	EUR 5.35
Low (XETRA)	EUR 4.57	EUR 1.55
Closing price at year's end (XETRA)	EUR 12.15	EUR 5.05
Market capitalization at year's end	approx. EUR 133.4 million	EUR 55.5 million
Average daily trading volume (shares)	53,365	12,758
Earnings per share, diluted	EUR 1.10	EUR 0.43
Dividend per share	EUR 0.40 (AGM proposal)	EUR 0.20

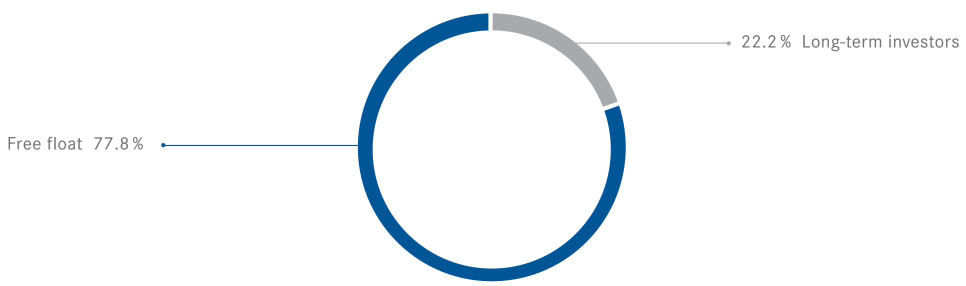
▶ MARKET CAPITALIZATION INCREASES TO OVER EUR 130 MILLION

Analogous to its very pleasing share price performance, the Company's market capitalization also rose year on year, from EUR 55.5 million to EUR 133.4 million. The growing interest in LPKF is also reflected in the significant increase in the share's daily trading volume, which jumped from 12,758 shares the previous year to 53,365 shares in 2010. Our shareholder structure has basically remained the same, 77.8 % of the shares being in free float. LPKF substantially improved its position in Deutsche Börse's rankings thanks to the enormous increase in both its capitalization and the daily trading volume. The Company ranked 37th in the TecDAX relative to its market capitalization at the close of 2010 (previous year: 64th); in terms of the trading volume, it even moved up to 32nd place (previous year: 72nd), falling just short of the criteria for listing in the TecDAX.

▶ LPKF PLANS TO DOUBLE ITS DIVIDEND PAYMENT IN 2011

Given excellent earnings in 2010 and a good outlook, LPKF's Management Board and Supervisory Board plan to propose to the 2011 Annual General Meeting that it raise the dividend from EUR 0.20 to EUR 0.40 per share entitled to dividends. Based on about 11 million shares outstanding at present, this would correspond to a dividend payment of EUR 4.4 million. The dividend payout ratio relative to net profit would thus be 30.3 %. This means that LPKF is remaining true to its strategy to have its shareholders participate appropriately in the Company's performance.

▶ SHAREHOLDER STRUCTURE (ON 31 DECEMBER 2010)



▶ MAJORITY OF LPKF'S SHARES REMAIN IN FREE FLOAT

Based on a slight year-on-year increase in the number of shares to just over 11 million, approximately 77.8 % of the LPKF's shares are in free float. The majority of these shares are held by investors in Germany, the UK and other European countries. As shown in detail in the corporate governance report on page 38, the members of the Management Board and the Supervisory Board hold approximately 7.1 % of the Company's shares.

Kai Bentz,
CFO (Finance, Human Resources and Investor Relations)

As the Chief Financial Officer, Kai Bentz is also responsible for investor relations. Open and credible communications with all capital market players thus are at the top of his agenda. He regularly answers the questions of private shareholders and other interested parties in online chats as soon as the Company's quarterly reports are published.

For further information on these online chats, please see www.lpkf.de/investor-relations/chat-vorstand.

▶ ONGOING EXPANSION OF INVESTOR RELATIONS WORK

The management of LPKF attaches high priority to investor relations. Investors' heightened interest in LPKF's share stems from the Company's strong performance, as well as from its transparent and timely communications with all capital market players. Kai Bentz and Dr. Ingo Bretthauer have fielded questions at investor conferences and in numerous one-on-one talks with institutional investors, nationally and internationally. Shareholders and other interested parties are increasingly turning to online chats to talk with members of the Company's Management Board once the quarterly figures have been announced. About 300 shareholders took advantage of the opportunity to hear the Management Board discuss the Company's economic situation at its Annual General Meeting.

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

LPKF Laser & Electronics AG
Bettina Schäfer
Investor Relations Manager
Tel.: +49-(0)-5131-7095-382
E-mail: investorrelations@lpkf.com

> Corporate governance

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

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

This chapter also contains the statement on corporate governance pursuant to Section 289a German Commercial Code and the remuneration report, both of which are also a part of the management report.

Statement on corporate governance

(Part of the Group management report)

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 currently consists of three 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 respect 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 Board 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. 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. The Supervisory Board includes an adequate number of independent individuals who do not maintain any professional or personal relations to the Company or its Management Board. The term of office of the Supervisory Board members is five years, and the current term ends with the Annual General Meeting in 2014.

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.

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 2010 Declaration of Compliance on 20 December 2010 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 2010 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 18 June 2009, and declare that these recommendations have been observed (since 22 December 2009 until 2 July 2010). The recommendations of the GCGC dated 26 May 2010 have been observed since 3 July 2010 and will be observed in the future. The following exceptions apply:

▶ FORMATION OF COMMITTEES

The Supervisory Board of LPKF Laser & Electronics AG consists of three persons. The size of the Supervisory Board ensures the efficient functioning of the board. This is why no Supervisory Board committees are formed. The same also applies to the formation of an auditing and nominating committee (Article 5.3.2 GCGC).

▶ SEVERANCE PAY CAP

Because they only run for three years, the management contracts have no cap on severance pay (Article 4.2.3 (4) and (5) GCGC). If the management activities are terminated prematurely without an important reason, remuneration is limited to no more than the remaining contractual period. The Supervisory Board therefore considers it unnecessary to include in the management contracts a cap on severance pay amounting to two years remuneration.

▶ EXCESS FOR D&O INSURANCE POLICIES

A D&O insurance for the Supervisory Board in accordance with the recommendations of the GCGC (Article 3.8 (2) and (3) GCGC) is scheduled for 1 January 2011.

▶ MULTI-YEAR ASSESSMENT BASIS FOR BONUSES

The Management Board receives a profit-sharing bonus based on the Group EBIT with respect to a financial year. If a loss is reported in the following financial year, this loss may be subsequently taken into consideration under certain circumstances (Article 4.2.3 (2) sentence 2 GCGC).

▶ REMUNERATION CAP FOR EXTRAORDINARY DEVELOPMENTS

Unlike the profit-sharing bonuses for the Management Board, the current option regulations contain no caps for unforeseen developments (Article 4.2.3 (3) sentence 4 GCGC).

▶ DIVERSITY

The Supervisory Board has stipulated objectives regarding its composition on 20 December 2010. These objectives take into account the importance of diversity. The Supervisory Board has not stipulated a concrete figure or percentage for the participation of women. With regard to its size (three members), decisions when filling Supervisory Board positions are mainly guided by functional objectives. This serves to ensure that the Supervisory Board's composition is aligned as best as possible with the interests of LPKF Laser & Electronics AG.

Specific details on the stock option program and similar securities-oriented incentive systems practiced by the Company are described in the notes to the consolidated financial statements (Article 7.1.3 GCGC).

Specific details on the directors' dealings in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) and the direct or indirect ownership of shares are also described in the notes to the consolidated financial statements (Article 6.6 (2) GCGC).

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 principles of good corporate governance include dealing responsibly with business risks. 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. The systems are continuously refined, adjusted to changing parameters, and audited by the auditors of the financial statements. The Management Board regularly informs the Supervisory Board of any existing risks and their development. The risk report contains details of the LPKF Group's risk management. The risk report is part of the 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 AUDIT OF FINANCIAL STATEMENTS

LPKF AG prepares its consolidated financial statements and its interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statements of LPKF AG are prepared in accordance with the German Commercial Code. The consolidated financial statements are prepared by the Management Board, audited by the auditor of the financial statements and reviewed by the Supervisory Board. The interim reports and the half-yearly financial reports are discussed by the Supervisory Board and the Management Board before publication. The consolidated financial statements and the annual financial statements of LPKF AG were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, the auditor elected by the 2010 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. International standards on auditing are also observed. 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 2010 financial year.

8. COMPLIANCE — PRINCIPLES GOVERNING CORPORATE ACTIONS AND BUSINESS ACTIVITIES

Acting in compliance with the principles of corporate, environmental and social sustainability is an indispensable element of LPKF's corporate culture. This also includes integrity in all relationships with employees, business partners, shareholders and the public and thus exemplary conduct. LPKF's understanding of compliance includes observing all laws, statutes and the Articles of Incorporation, complying with internal regulations, and honoring voluntary obligations.

Remuneration report

(Part of the Group management 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 policies 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 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.

REMUNERATION OF THE MANAGEMENT BOARD

The current members of the Management Board were paid total remuneration of EUR 1,447 thousand (2009: EUR 960 thousand) for their activities in the 2010 financial year.

EUR THSD.		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	Total amount
Fixed remuneration (including benefits)*	2010	229	218	160	607
	2009	199	215	156	570
Performance-based remuneration (provisions)	2010	300	300	225	825
	2009	134	146	110	390
Performance-based remuneration (supplementary payments or reversals of provisions)	2010	5	6	4	15
	2009	0	0	0	0
Total remuneration	2010	534	524	389	1,447
	2009	333	361	266	960

* 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 policies and retirement plans.

The maximum agreed variable remuneration was reached for the 2010 financial year. The performance-based remuneration for 2010 shall not be paid until the 2011 financial year. Provisions were recognized to this end as of at the reporting date.

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 the Notes.

As in the 2009 financial year, no stock options were granted to the members of the Management Board in the 2010 financial year.

The price and value of the stock options granted to members of the Management Board developed as follows:

		Bernd Lange	Kai Bentz	Dr. Ingo Bretthauer
Portfolio of Options as of 1 Jan. 2010	Number	36,500	9,200	0
Exercised in the 2010 financial year	Number	21,000	1,500	0
Portfolio as of 31 Dec. 2010	Number	15,500	7,700	0
	Fair value in EUR as of the grant date	27,590.00	12,414.00	0.00

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 441 thousand (previous year: EUR 385 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

Post-contractual non-competition agreements were also made. A payment of EUR 38 thousand to a former member of the Management Board arose from provisions recognized the previous year.

SHAREHOLDINGS OF MEMBERS OF THE COMPANY'S CORPORATE BODIES

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

Management Board	31 MARCH 2010	30 JUNE 2010	30 SEPT. 2010	31 DEC. 2010
Dr. Ingo Bretthauer	25,000	25,000	25,000	25,000
Bernd Lange	11,010	18,010	18,010	32,010
Kai Bentz	3,000	4,500	4,500	4,500
Supervisory Board				
Bernd Hildebrandt	871,746	850,000	850,000	721,177
Prof. Dr. Erich Barke	1,000	1,000	1,000	1,000

REMUNERATION OF THE SUPERVISORY BOARD

Effective 1 January 2004, the remuneration of the entire Supervisory Board of LPKF Laser & Electronics AG was fixed at EUR 135 thousand per annum.

The Supervisory Board is also paid variable remuneration based on the dividend for the respective financial year just ended. The variable component cannot be specified at this time because it has not been determined to date whether a dividend will be paid for the 2010 financial year and in what amount. A dividend of EUR 0.20 per share was paid in 2010 for the 2009 financial year, resulting in variable remuneration of EUR 48 thousand for the Supervisory Board (previous year: EUR 0 thousand).

EUR THSD.		Bernd Hildebrandt (Chairman)	Dr. Heino Büsching	Prof. Dr. Erich Barke	Total amount
Fixed remuneration	2010	70	40	25	135
	2009	70	40	25	135
Variable remuneration	2010	16	16	16	48
	2009	0	0	0	0
Total remuneration	2010	86	56	41	183
	2009	70	40	25	135

Dr. Ingo Bretthauer   Bernd Lange   Kai Bentz

> Curiosity preferred

LPKF has increased the size of its workforce considerably in recent years. The reason we have been able to recruit even sought-after professions is to be found in our attractiveness as an employer. As a laser specialist, LPKF offers an interesting working environment, competitive remuneration and individual development opportunities. The Company is therefore attractive to highly qualified professionals from a wide variety of disciplines.

► **Jan van Aalst** is head of development for Rapid Prototyping systems. These systems enable companies to produce PCBs in-house – from initial concept through to fully functional prototypes. Now that the latest generation of circuit board plotter has just been launched, he and his team are working on new features and on the next generation of systems.

► **Julian Rose** was given responsibility for his own PCB production laser project only shortly after completing his studies. Here, he discusses the details of a new material supply mechanism with **Belgin Derya** from Technical Documentation.

► **Peter Rohde** is in charge of merchandise flows. As the head of Logistics, he also runs the purchasing department and is responsible for the price and quality of bought-in components and consumables. **Kristina Gras** is learning all about strategic purchasing as part of her training.

► As head of Organization, **Anja Stöckmann** is also responsible for our IT infrastructure. In 2010, she was in overall charge of the successful launch of a new ERP system including employee training.

Opportunities and challenges

▶ **SECURE, FUTURE-PROOF JOBS**

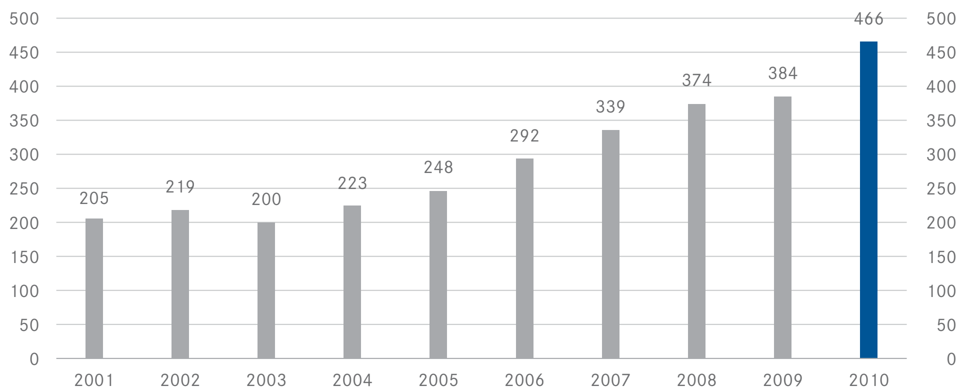
From apprentice to project manager – such a progression is by no means unusual at LPKF. What counts is ability and commitment. Although the rapid growth in revenue, especially in the past two years, was a challenge to our personnel management team, it also offered opportunities for our employees. Our workforce grew from 374 at the end of 2008 to 466 at the end of 2010. Most of this growth was in technical jobs, for example, engineers, software developers, and technical support and service staff – people who display the kind of curiosity that persuades us to hire them.

LPKF can maintain its pace of growth because jobseekers are interested in the Company. The positive news from the Company in recent years assures employees that there is a secure future working with us. Moreover, our internal organization with its flat, transparent hierarchies, and our innovative approach to product development and customer needs, make for motivated employees. Generous company health management and a regular exchange of views between staff and management are part of daily life here. Even outside of work, LPKF supports a wide range of activities such as, for example, a dragon boat team, a skiing team, a motorcycle group and a sailing group.

▶ **BUILDING SKILLS**

Motivated employees are a key requirement for the success of our Company. If you are talented and show enthusiasm, you will do well. LPKF supports its staff with regular training programs and also contributes financially to staff initiatives such as distance learning and evening classes. However, the Company has high expectations of its staff. Cultural competence is an important requirement for any company that generates a large part of its revenue abroad. LPKF's goal of market leadership in relevant market segments requires employees to undertake continuing professional development. The combination of advancement opportunities, a pleasant working environment and a competitive salary help LPKF to find and hold on to the employees it needs. Attractiveness pays.

▶ **NUMBER OF EMPLOYEES IN THE LPKF GROUP BETWEEN 2001 AND 2010**



> Group Management Report 2010

I. BUSINESS AND ECONOMIC ENVIRONMENT 43
1. GROUP STRUCTURE AND BUSINESS ACTIVITIES 43
2. CORPORATE MANAGEMENT, GOALS AND STRATEGY 48
3. RESEARCH AND DEVELOPMENT 51
4. OVERVIEW OF THE COMPANY'S DEVELOPMENT 52
5. DISCLOSURES RELATED TO ACQUISITIONS 53
6. STATEMENT ON CORPORATE GOVERNANCE 54

II. PROFIT OR LOSS, CASH FLOWS AND FINANCIAL POSITION 55
1. PROFIT OR LOSS 55
2. CASH FLOWS 57
3. FINANCIAL POSITION 59
4. OVERALL APPRAISAL OF THE GROUP'S ECONOMIC SITUATION 61

III. EVENTS AFTER THE REPORTING PERIOD 61
DISCLOSURES ON PARTICULARLY SIGNIFICANT EVENTS 61

IV. RISK REPORT 61
1. DESCRIPTION OF THE INTERNAL CONTROL SYSTEM 61
2. SPECIFIC RISKS 64
3. ASSESSMENT BY THE MANAGEMENT BOARD OF THE RISK SITUATION AFFECTING THE GROUP 67

V. ANTICIPATED DEVELOPMENTS 68
1. BUSINESS OPPORTUNITIES 68
2. OVERALL APPRAISAL OF THE GROUP'S PROBABLE PERFORMANCE 68

VI. RESPONSIBILITY STATEMENT 70

I. Business and economic environment

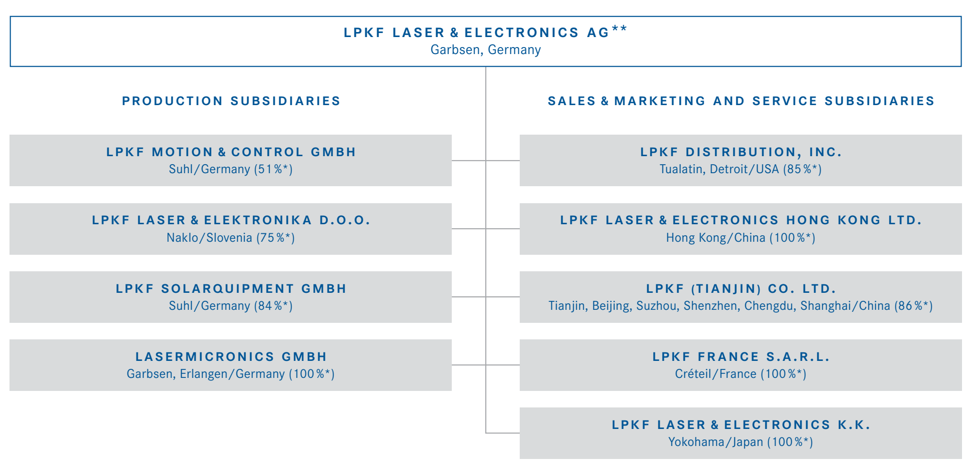
1. GROUP STRUCTURE AND BUSINESS ACTIVITIES

The LPKF Group develops and produces materials processing systems. The Group 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 Company generates 87% of its revenue abroad. LPKF Laser & Electronics AG (hereafter »LPKF AG«) is listed in the Prime Standard segment of the stock exchange. The Group had 466 employees worldwide on the reporting date.

1.1. LEGAL STRUCTURE OF THE GROUP

The legal structure of the LPKF Group changed in the 2010 financial year. LPKF founded a new subsidiary in Japan. The Company sold its equity interest in its French subsidiary, LPKF France S.A.R.L., to the local management effective 1 January 2011. As of 31 December 2010, LPKF AG had nine subsidiaries, which together with the parent company form the basis of consolidation.

GROUP STRUCTURE



* direct and indirect stake of LPKF Laser & Electronics AG in the subsidiary
** incl. branch in Erlangen

1.2. OPERATING SEGMENTS

The LPKF Group is currently active in the following segments: Rapid Prototyping, Cutting and Structuring Lasers, Joining Technologies, Thin Film Technologies, and Others.

RAPID PROTOTYPING

In the Rapid Prototyping segment, LPKF supplies everything required by an electronics laboratory to manufacture and assemble printed circuit boards 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.

Rapid Prototyping segment at a glance:

EUR MILLION	2010	2009	Change in %
Revenue	15.2	13.5	+ 12.3
EBIT	3.8	2.3	+ 64.2

CUTTING AND STRUCTURING LASERS

The following product lines comprise the Cutting and Structuring Lasers 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 product line 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. As in the other laser product lines, customers’ purchasing decisions are primarily made on the basis of return-on-investment calculations.

Through its PCB Production Lasers product line, LPKF serves the electronics market with specialized UV laser systems, mainly for cutting printed circuit boards and flexible circuit carriers.

Cutting and Structuring Lasers segment at a glance:

EUR MILLION	2010	2009	Change in %
Revenue	51.8	26.5	+ 95.8
EBIT	15.8	6.0	+ 165.4

JOINING TECHNOLOGIES

In the Joining Technologies segment, LPKF develops and sells standardized and customized laser systems for welding plastic components. These systems are primarily used by customers in the automotive supply industry. An increasing number of customers is also being acquired in the medical technology sector.

Joining Technologies segment at a glance:

EUR MILLION	2010	2009	Change in %
Revenue	8.2	5.3	+ 54.1
EBIT	0.4	0.2	+129.6

THIN FILM TECHNOLOGIES

The Thin Film Technologies segment is mainly involved with the development and production of laser systems for scribing thin film solar panels. Most of the development work, as well as production, sales & marketing and product management is handled by the companies located in Suhl, Germany. Some of the laser sources used in the machines are developed and produced by the Group’s Slovenian subsidiary.

Thin Film Technologies segment at a glance:

EUR MILLION	2010	2009	Change in %
Revenue	3.2	3.5	– 8.0
EBIT	– 1.5	– 0.9	– 72.2

ALL OTHER SEGMENTS

The other segments mainly comprise production services carried out on LPKF machines on behalf of customers. They also include undistributed costs and income.

All other segments at a glance:

EUR MILLION	2010	2009	Change in %
Revenue	2.8	1.9	+ 45.7
EBIT	– 1.2	– 0.6	– 84.2

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

Garbsen, Germany: Group headquarters, production, development, sales & marketing and services – As in the previous year, the Garbsen site profited very strongly from the growth in revenue in the Cutting and Structuring Lasers segment and significantly improved all of its key performance indicators in the 2010 financial year.

Erlangen, Germany: Production, development, sales & marketing and services – The Erlangen-based business with plastic welding laser systems also grew stronger than expected after the end of the crisis in the automobile industry in 2010.

Suhl, Germany: Development, sales & marketing, production and services – The Group's subsidiaries LPKF Motion & Control GmbH and LPKF SolarQuipment GmbH are located at the Suhl site. The main focus of business at this site is on the Thin Film Technologies segment. As experienced by other suppliers, business with laser systems for scribing thin film solar panels suffered in the 2010 financial year because of the crisis affecting solar cell manufacturers. But the order book improved in the year's second half, even enabling the Company to post a slight profit in the fourth quarter of 2010. LPKF's outlook is very positive thanks to a good projects pipeline. LPKF expects both significant revenue growth and clearly positive earnings in the 2011 financial year. The continued expansion of business will require additional investments.

Tualatin, USA: Sales & marketing as well as services – This entity achieved substantial revenue and earnings growth once the economic crisis in the United States had ended. Both the Rapid Prototyping segment and the Cutting and Structuring Lasers segment were successful. Our presence in the United States is becoming increasingly important in connection with services to major international customers because numerous investment decisions regarding production facilities worldwide are made in the United States. LPKF's North American plastic welding systems business, which is managed from Detroit, is also doing very well.

Naklo, Slovenia: Development, sales & marketing, production and services – The Slovenian subsidiary concentrates on the manufacturing of products for the Rapid Prototyping segment and on the development and production of laser sources and systems for the LPKF Group. This entity had an excellent year in 2010, given its highly positive performance in the Rapid Prototyping segment and its deliveries for a major order in the Cutting and Structuring Lasers segment.

Créteil, France: Sales & marketing – LPKF's French subsidiary fell short of expectations that it would break even in the 2010 financial year. The Company continues to view the market situation in France as being difficult, also in the longer term. This entity was therefore sold to the local management effective 1 January 2011.

Hong Kong, China: Services – Because a large portion of LPKF's revenue is generated in Asia, it is very important 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. As planned, this entity posted positive earnings for the first time in the 2010 financial year.

Tianjin, China: Sales & marketing, services – Strong revenue growth in Asia arose largely from the strength of the Company's business in China, as in the previous year. This entity thus generated substantial earnings. It maintains offices in Tianjin, Beijing, Shenzhen, Suzhou and Chengdu. The addition of a Shanghai office in mid-January 2011 expanded LPKF's presence to a key industrial center in China.

Yokohama, Japan: Sales & marketing – On 31 August 2010, LPKF Laser & Electronics AG acquired all shares in a Japanese shelf company at a nominal value of JPY 5.0 million with the aim of boosting its presence in Japan – an important market for LPKF. A new subsidiary, LPKF Laser & Electronics K.K., became operational at the end of the third quarter of 2010. It is tasked with providing sales & marketing support to local distributors and establishing its own customer base in three segments: Cutting and Structuring Lasers, Thin Film Technologies and Joining Technologies.

1.5. PRODUCTION AND PROCUREMENT

Suhl-based LPKF Motion & Control GmbH develops and produces solar scribers and supplies table systems and machine controls. In the 2010 financial year, this subsidiary also assembled some cutting and structuring lasers for LPKF AG.

Circuit board plotters, ProtoLasers 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.

The laser plastic welding systems are produced in LPKF AG's branch in Erlangen, Germany. Cutting and Structuring Lasers are mainly manufactured in Garbsen.

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

1.6. SALES & MARKETING

Global sales & marketing, especially in important regions such as China and North America, are handled by subsidiaries. Overall, the Group is represented by subsidiaries or distributors in 79 countries. The Garbsen office is responsible for managing the Company's sales & marketing activities as well as the distributors. The Group's entities in Erlangen and Suhl handle these activities for the Joining Technologies and Thin Film Technologies segments.

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 2010:
- Dr. Ingo Bretthauer, Chairman of the Management Board and Chief Executive Officer (CEO)
- Bernd Lange, Chief Technology Officer (CTO)
- Kai Bentz, Chief Financial Officer (CFO)

The following persons were members of the Supervisory Board of LPKF AG in financial year 2010:
- Bernd Hildebrandt (Chairman)
- Dr. Heino Büsching (Deputy Chairman)
- Prof. Dr. 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. 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 Company's relationship with customers, suppliers, representatives and other companies within the LPKF Group as well as the personal working relationship between the members of the Company's workforce should be characterized by partnership-based thinking and practices.

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

2.1. INTERNAL CONTROL SYSTEM

KEY PERFORMANCE INDICATORS (KPIS)

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:

%	2010	2009	2008	2007	2006
EBIT margin	21.3	13.7	6.8	14.2	16.0

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. The targeted rate of return is at least 10 %.

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

%	2010	2009	2008	2007	2006
ROCE	31.6	15.7	7.4	15.4	17.9

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 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	2010	2009	2008	2007	2006
Net working capital	27.0	20.4	22.5	22.4	19.5

One of the Company's aims in 2010 was to ensure that this key performance indicator (KPI) would develop at a lower rate than the net working capital ratio.

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

%	2010	2009	2008	2007	2006
Net working capital ratio	33.3	40.2	49.6	53.1	48.9

TARGET/ACTUAL COMPARISON OF PLANNING AND REALIZATION

Despite the uncertainty of forecasts, in March 2010 the Management Board had expected the Company to generate revenue growth of more than 10% and an EBIT margin in the double digits, as before. This outlook thus was much more optimistic than that of most other German mechanical engineering companies.

On the whole, revenue and earnings growth in three segments – Rapid Prototyping, Cutting and Structuring Lasers and Joining Technologies – exceeded targets. The Cutting and Structuring Lasers segment, in particular, accounted for much of this success thanks to strong revenue growth driven by major orders for LDS systems and PCB production lasers. The Thin-Film Technologies segment, in contrast, fell short of targets. Revenue thus grew by 60.1% to EUR 81.2 million, and operating income improved by EUR 10.3 million to EUR 17.3 million, corresponding to an EBIT margin of 21.3%.

At 31.6%, the Group substantially surpassed its minimum return-on-capital-employed (ROCE) target of 10.0%.

2.2. STRATEGY

STRATEGIC ALIGNMENT OF THE SEGMENTS

The Company has five segments. The Joining Technologies segment, the LDS and PCB Production Lasers product lines that are part of the Cutting and Structuring Lasers segment and the Thin Film Technologies segment are among the Company's growth areas. The Management Board believes that these segments are capable of generating above average growth in the years to come.

Segments and product lines 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 StencilLasers product line, which is part of the Cutting and Structuring Lasers segment, and the Rapid Prototyping segment.

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

STRATEGIC GROUP STRUCTURE, EQUITY INVESTMENTS

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, 22.2 % of LPKF's shares were held by long-term investors and 77.8 % as free float in accordance with the definitions of Deutsche Börse AG.

STRATEGIC FINANCING ACTIVITIES

Because of LPKF AG's good credit rating with its principal banks, the Company has access to extensive credit lines, which have not yet been utilized. The opportunities to raise equity on the capital markets have also improved significantly in the 2010 financial year.

In general, 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

Almost all development projects are oriented on meeting market needs. The R&D work carried out by LPKF AG in 2010 was largely focused on modernizing and further enhancing the product portfolio. New products for the Thin Film Technologies, Cutting and Structuring Lasers and Rapid Prototyping segments took center stage in this context. Research and development work on production systems focused on improving the price / performance ratio, adding new functions and features, and ensuring high availability under industrial operating conditions. 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 8.4 million in research and development in 2010. This corresponds to 10.4 % of revenue.

3.3. R&D EMPLOYEES

The number of employees in the Group's R&D departments rose to 96 during the reporting period, up from 82 the previous year.

3.4. R&D RESULTS

The development of a new generation of solar scribers prepared the ground for strengthening LPKF's market position in this area. Completing the development of a new series of circuit board plotters was the prerequisite for the fundamental realignment of the Company's product range in the Rapid Prototyping segment. The modified StencilLaser features both performance enhancements and new functions. A number of customer-specific systems for the Cutting and Structuring Lasers segment and the Joining Technologies segment were also developed in 2010.

3.5. MULTI-PERIOD OVERVIEW OF R&D

	2010	2009	2008	2007	2006
R&D expenses in EUR million	8.4	5.6	5.4	4.8	3.8
in % of revenue	10.4	11.0	11.9	11.4	9.6
R&D employees	96	82	83	75	61

4. OVERVIEW OF THE COMPANY'S DEVELOPMENT

4.1. OVERALL ECONOMIC SITUATION

In 2010, the German economy recovered from the worst economic crisis since the end of World War II at a surprisingly rapid pace. According to the World Bank, the global economy contracted by 3.9 %. The emerging and developing countries drove this growth, expanding their economies by 7 %. At 10 %, China is said to have grown the most, followed by the Asia / Pacific region, which posted growth of 9.3 % on the whole. In Germany, both the economic situation and the climate for doing business improved a great deal, as evidenced by ifo's business climate index, which rose sharply throughout 2010.

In the World Bank's view, growth in the industrialized countries is likely to be less dynamic in 2011, dropping to a mere 2.4 %, from 2.8 % in 2010. According to the World Bank's experts, the slight cooling of the global economy stems above all from the expiration of economic stimulus packages.

4.2. SECTOR-SPECIFIC ENVIRONMENT

According to the Association of German Mechanical Engineering and Systems Engineering Firms (Verband Deutscher Maschinen- und Anlagenbau – VDMA), in 2010 mechanical engineering companies posted real growth of 17 % worldwide. Besides China, the industry achieved double-digit growth rates in a few industrialized countries as well thanks to low commodity prices. However, even the VDMA expects growth rates to slow down in 2011. It predicts an increase of 6 % in real terms for 2011 in the industrialized countries.

In 2010, incoming orders in the mechanical engineering sector grew at above-average rates – even reaching 46 % in January 2011 – particularly due to the growth momentum abroad. Real growth in the mechanical engineering sector was 8.8 % in 2010. The VDMA expects the German mechanical engineering sector to expand by 10 % in 2011. It says that robust growth in demand has improved overall capacity utilization in the industry. In January 2011, capacity utilization in the mechanical engineering sector rose to 86.4 %. Year on year, German machinery exports climbed by nominally 16 % in December 2010. For 2010 on the whole therefore, the growth rate exceeds that of 2009 by 12.5 %.

The economic environment in most of LPKF's key target markets also improved considerably in 2010. The North American Consumer Electronics Association (CEA) reported growth of 6 % to EUR 134 billion (USD 180 billion) in 2010 on the whole and expects record revenue in excess of EUR 139 billion (USD 186 billion) in 2011. It says that innovative products such as tablet PCs, eReaders and smartphones helped to stimulate personal consumption and generate new revenue that exceeded industry expectations. According to IDC, a U.S. market research firm, the growth prospects for smartphones are especially good. The company says that a total of 302.6 million smartphones were delivered in 2010, an increase of 74.4 % compared to 2009.

As reported by the German Plastics Processing Industry Association (Gesamtverband Kunststoffverarbeitende Industrie – GKV), the plastics processing industry generated revenue of about EUR 46 billion in 2009, a decline of 14 %. In the first half of 2010, in contrast, this sector generated 15 % more revenue year on year, and by November 2010 all areas of the plastics processing industry were experiencing considerable growth. Automotive industry suppliers, in particular, some of whom sustained revenue losses in 2009 that jeopardized their very existence, benefitted from the soaring demand in 2010.

According to the German Automotive Industry Association (Verband der Automobilindustrie – VDA), international passenger car sales recovered much more rapidly in 2010 than expected, gathering even more momentum by year's end. In 2010, auto sales rose sharply in tandem with the accelerating economic recovery, after a year in which new vehicle sales had dropped considerably owing to the financial crisis. On the whole, more than 61.7 million passenger cars were sold in 2010 – an increase of 12 %. Especially Brazil, Russia, India and China, as well as the United States, were the growth engines in the international passenger car markets.

The solar energy industry had a successful year in 2010 according to its industry association. Its domestic market just about doubled compared to the weak previous year. According to the estimates of the German Solar Industry Association (Bundesverband Solarwirtschaft – BSW), more than 230,000 solar energy systems with a total output of 7 – 8 gigawatts were connected to the grid in 2010, up from 3.8 gigawatts in 2009. Indeed, the expansion rates in markets such as Italy, France, Japan, Australia and the United States almost tripled. This means that roughly one third of all new photovoltaics units are now being installed outside of Germany. The BSW says that the solar manufacturers in Germany plan to continue expanding their production capacities in 2011 in order to satisfy the growing demand for regenerative energies and remain competitive internationally. Curtailed investments and the after-effects of the financial crisis made 2010 a difficult year for the suppliers to the module manufacturers, particularly in the thin film segment. Clear indications of an increase in capital spending did not emerge until the year's second half.

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 2010, the *subscribed capital* of LPKF AG was EUR 11,005,613.00. It had been EUR 10,858,052.00 the previous year. The share capital is divided into 11,005,613 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.

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, specifically by issuing up to 600,000 no-par bearer shares *(Contingent Capital 2001)*. As of the reporting date, the contingent capital was EUR 417,282.00 because options have been exercised in recent years. The contingent capital increase serves to redeem options that the Management Board was authorized to issue under the resolution of the Annual General Meeting on 17 May 2001. It will only be carried out to the extent that optionees exercise their options. The new shares arising from options exercised are entitled to a share of the Company's profits from the beginning of the financial year in which the exercise occurs.

The resolution of the Annual General Meeting on 10 June 2010 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. To date, the Company has not yet utilized the Authorized Capital 2010.

There is currently no authorization to *buy back treasury shares*.

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. STATEMENT ON CORPORATE GOVERNANCE

The Statement on corporate governance pursuant to Section 289a (1) German Commercial Code and Article 3.10 of the German Corporate Governance Code is published on page 32 of this Annual Report and posted at www.lpkf.de/investor-relations. It includes both the corporate governance report and the remuneration report.

II. Profit or loss, cash flows and financial position

1. PROFIT OR LOSS

1.1. DEVELOPMENT OF REVENUE

LPKF closed the 2010 financial year with revenue of EUR 81.2 million, up from EUR 50.7 million the previous year. All segments except the Thin Film Technologies segment posted growth, particularly the Cutting and Structuring Lasers segment. On the whole, this segment generated revenue of EUR 13.9 million from major orders. Business with systems for manufacturing molded interconnect devices using the LDS method generated substantial revenue growth yet again. Revenue from PCB processing systems and StencilLasers also developed along a positive trajectory. The Joining Technologies segment and the Rapid Prototyping segment both posted substantial growth, after losing ground or remaining stagnant the previous year due to prevailing economic conditions.

Revenue by operating segment was as follows:

EUR MILLION	2010	2009
Cutting and Structuring Lasers	51.8	26.5
Rapid Prototyping	15.2	13.5
Joining Technologies	8.2	5.3
Thin Film Technologies	3.2	3.5
All other segments	2.8	1.9
	81.2	50.7

The following table shows the revenue by region:

%	2010	2009
Asia	55.4	48.4
Germany	13.2	21.5
Europe without Germany	12.7	17.3
North America	16.7	10.4
Other	2.0	2.4
	100.0	100.0

The increasing significance of the Cutting and Structuring Lasers segment is primarily attributable to sharply rising revenue from the sale of systems for structuring molded interconnect devices as well as from circuit board cutting and plotting systems. Currently, these systems are sold mainly to international customers that locate their production in Asia such that the Asian share of revenue in overall revenue again rose sharply year on year.

In terms of its structure, revenue again shifted considerably during the reporting period in favor of the Cutting and Structuring Lasers segment.

1.2. DEVELOPMENT OF ORDERS

At EUR 78.9 million, orders received during the reporting period were 40.9 % up on the previous year's level of EUR 56.0 million. Orders on hand, however, fell from EUR 14.7 million as of the close of 2009 by 15.0 % to EUR 12.5 million as of the 2010 reporting date.

1.3. DEVELOPMENT OF MAIN INCOME STATEMENT ITEMS

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

Capitalized development costs of EUR 1.5 million (previous year: EUR 1.8 million), as well as production costs for prototypes and application systems, are shown in own work capitalized. The other operating income rose by EUR 0.4 million to EUR 2.2 million, primarily due to the increase by EUR 0.3 million in income from currency translation differences and EUR 0.2 million in additional income from insurance payments. This is contrasted by the EUR 0.3 million decrease in grants for research and development.

The material cost ratio relative to revenue and changes in inventories fell from 30.0 % the previous year to 28.1 % in the 2010 financial year, largely due to the changed product mix and the Company's efforts to develop new, cost-optimized systems. Allowances of EUR 0.6 million on inventories (previous year: EUR 0.6 million) were necessary, in particular, due to various product changes and new product launches. The expenses are mainly attributable to the Cutting and Structuring Lasers segment.

The ratio of staff costs to total revenue is 28.9 %, compared to 35.4 % the previous year. Staff costs thus rose at a slower pace than revenue also owing to economies of scale. The rise in staff costs stemmed mainly from the increase in the number of employees, ongoing salary increases, profit-related increases in Christmas bonuses as well as variable remuneration.

Depreciation, amortization and impairment losses rose from EUR 2.9 million the previous year to EUR 4.0 million in the financial year just ended due to large investments and the fact that shorter useful lives were used to measure capitalized development costs for new projects.

The other operating expenses rose by EUR 8.2 million to EUR 19.8 million, particularly owing to costs contingent on revenue. As a result, EUR 2.7 million in delivery costs, commission on sales and inventor remuneration, as well as EUR 1.1 million in extra costs for outsourced work not including ERP launch costs had to be recognized. Provisions for warranties rose by EUR 0.5 million in tandem with the increase in revenue. Travel expenses, a large portion of which is contingent on revenue, climbed by EUR 0.7 million. In addition, EUR 0.4 million were spent on integrating a new ERP system in Garbsen and Erlangen. Expenses for consumables related to development work rose by EUR 0.4 million, and those for repairs and maintenance by EUR 0.7 million.

The Group generated earnings before interest and taxes (EBIT) of EUR 17.3 million (previous year: EUR 7.0 million), corresponding to an EBIT margin of 21.3 % (previous year: 13.7 %).

Net income from financing activities rose mainly due to the increase in interest-bearing investments of cash, as well as lower interest expense resulting from the discharge of liabilities to banks. It was EUR 0.2 million in 2010, up from a loss of EUR 0.2 million the previous year.

The net increase in tax expense stems mainly from earnings; current taxes account for EUR 5.6 million and deferred taxes for EUR – 0.7 million. The tax rate declined slightly to 28.2 % (previous year: 30.3 %). Consolidated net profit after taxes is EUR 12.5 million, compared to EUR 4.7 million the previous year. Of that amount, EUR 12.1 million are attributable to the parent company's shareholders in the 2010 financial year, compared to EUR 4.7 million the previous year.

1.4. MULTI-PERIOD OVERVIEW OF PROFIT OR LOSS

	2010	2009	2008	2007	2006
Revenue in EUR million	81.2	50.7	45.5	42.2	39.8
EBIT in EUR million	17.3	7.0	3.1	6.0	6.4
Material cost ratio in %	28.1	30.0	32.4	31.1	31.2
Staff cost ratio in %	28.9	35.4	37.4	36.6	34.4
Tax rate (%)	28.2	30.3	19.3	29.1	32.2

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.

Within the LPKF Group, derivatives are managed by the parent company, LPKF Laser & Electronics AG. Derivatives are used only to hedge foreign exchange rates and interest rates. Current cash management is 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	2010	2009
Cash flow from operating activities	13.5	11.5
Cash flow from investing activities	– 7.8	– 3.7
Cash flow from financing activities	– 3.0	– 3.4
Changes in cash and cash equivalents due to foreign exchange rates	0.1	– 0.1
Change in cash and cash equivalents	2.7	4.4
Cash and cash equivalents on 1 Jan.	10.3	6.0
Cash and cash equivalents on 31 Dec.	13.1	10.3
Composition of cash and cash equivalents		
Cash on hand, bank balances	13.7	10.8
Bank overdrafts	– 0.6	– 0.5
Cash and cash equivalents on 31 Dec.	13.1	10.3

The Company's cash and cash equivalents rose significantly from EUR 10.3 million to EUR 13.1 million. In particular, this was rooted in the increase in net profit for the year compared to the moderate increase in net working capital, given the Company's performance. Of EUR 13.5 million in cash flows from operating activities, EUR 7.8 million were used for investments. The balance of EUR 5.7 million remaining after investments, less outflows of EUR 3.0 million for financing activities, boosted the cash and cash equivalents by EUR 2.7 million.

A pledged securities account valued at EUR 0.2 million (previous year: EUR 0.2 million) that is shown in the statement of financial position as restricted cash subject is not shown in cash and cash equivalents.

Long-term financing is used for non-current assets subject to long-term fixed interest periods. The loans have interest rates between 2.9 % and 6.3 %. Large, unused credit lines that have not been tapped to date are still available.

The Company's cash flow is very robust.

2.3. MULTI-PERIOD OVERVIEW OF CASH FLOWS

EUR MILLION	2010	2009	2008	2007	2006
Cash flow from operating activities	13.5	11.5	6.4	2.7	3.8
Net liabilities to banks	– 10.5	– 6.7	0.6	2.1	0.2

(–) 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. 2010		31 DEC. 2009	
	EUR MILLION	%	EUR MILLION	%
Non-current assets	24.6	33.6	19.6	34.0
Current assets	48.5	66.4	38.0	66.0
Assets	73.1	100.0	57.6	100.0
Equity	51.4	70.3	40.2	69.8
Non-current liabilities	4.0	5.5	4.7	8.2
Current liabilities	17.7	24.2	12.7	22.0
Equity and liabilities	73.1	100.0	57.6	100.0

LPKF's financial position remains very robust, as indicated by the high equity ratio of 70.3 % (previous year: 69.7 %) among other things. The increase in non-current assets stems particularly from investments during the reporting year in the expansion of the Company's Garbsen site and the purchase of a new ERP system. The increase in current assets arises from the rise in inventories by EUR 4.3 million, the rise in receivables and other assets by EUR 1.5 million as well as additional cash and cash equivalents. For one, the inventories comprise order-related goods and, for another, new products and components that are stocked to guarantee relatively short delivery times. Trade receivables rose by a mere EUR 1.5 million despite the large increase in the business volume. The financial instruments available for sale contain a borrower's note loan of EUR 1.0 million to a financial institution and a listed bond in the amount of EUR 1.0 million. Cash and cash equivalents are EUR 2.9 million higher year on year.

Fully 228 % of the non-current assets are funded through equity (previous year: 217 %).

Equity has risen on account of positive earnings and deposits from the exercise of options. Regular payments reduced non-current liabilities to banks by EUR 0.5 million and current liabilities to banks by EUR 0.4 million. The previous year, advances on a major order were reported in current liabilities. On the whole, advances received for current projects were lower by EUR 0.8 million. Liabilities from invoices outstanding, including license fees, rose by EUR 1.1 million. Current liabilities contain an increase of EUR 2.0 million in provisions for taxes resulting from the increase in earnings. The other provisions that are also reported in current liabilities rose by EUR 2.4 million, especially due to higher provisions for sales commission, warranties and royalties. With these exceptions, there has been no substantial change in the balance sheet structure.

3.2. MULTI-PERIOD OVERVIEW OF THE FINANCIAL POSITION

	2010	2009	2008	2007	2006
Fixed asset ratio in %	30.8	32.1	34.5	35.0	32.2
Inventory ratio in %	25.7	25.1	29.2	31.9	33.0
Net working capital in EUR million	27.0	20.4	22.5	22.4	19.5
Days sales outstanding	52	75	81	76	64

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

3.3. INVESTMENTS

EUR 8.1 million were invested in intangible assets and property, plant and equipment in the 2010 financial year, an increase of EUR 4.1 million over the previous year. The additions contain both prototypes and demo systems, the cost of a new ERP system for Garbsen and Erlangen as well as investments in the Garbsen expansion. The planning for the 2011 financial year provides for investments mainly in development, prototypes and demo systems as well as the continued expansion of LPKF's thin film and plastic welding activities. The Company also purchased a building in the immediate vicinity of the Company's Garbsen site at the start of 2011. A development center will be built there. An investment of about EUR 5 million is earmarked for purchasing the developed property and funding the necessary construction. Compared to the financial year just ended, plans for 2011 call for increased investments. 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 to maintain the necessary flexibility in using human resources. Temporary staff were also employed to cover short-term needs. A lot of staff was hired for Garbsen because business was good. Additional personnel was hired for both the Thin Film Technologies segment in Suhl and the Joining Technologies segment in Erlangen. Plans call for yet more staff to be recruited in 2011, especially for departments related to development and revenue.

Internal and external training options in all segments, as well as other means of obtaining qualifications, are offered to 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 28 trainees as of the reporting date.

3.5. NON-FINANCIAL PERFORMANCE INDICATORS

Motivated, highly-qualified staff that identifies with the Group 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 3.1 %, the percentage of sick leave in Garbsen was lower than the average of 4.4 % in the metal and electronics industry, as reported by the German Association of Company Health Insurance Funds for 2010. Unwanted employee turnover is very low.

4. OVERALL APPRAISAL OF THE GROUP'S ECONOMIC SITUATION

The Company's economic situation improved considerably in the 2010 financial year yet again and can be considered extremely robust. The 2010 financial year is the second consecutive record year in the Company's more than 30-year history. Building on that, LPKF will continue to aim for excellent earnings and a high return on the capital employed.

III. Events after the reporting period

DISCLOSURES ON PARTICULARLY SIGNIFICANT EVENTS

On 23 February 2011, LPKF AG signed contracts to acquire the non-controlling interests in LPKF (Tianjin) Co. Ltd. However, title to the shares will not be transferred until the Chinese government has given its approval, which is still outstanding. Once they have been transferred, LPKF AG will own its Chinese subsidiary outright. No further reportable events took place after the reporting date.

In March 2011, Japan was hit by a catastrophic earthquake which has a severe impact on both the Japanese population and economy. The further consequences of this tragedy for Japan and the global economy are unforeseeable at this time. As of now, neither the earnings nor the material procurement of the LPKF Group are acutely affected by the emergency in Japan. The Group intends to continue implementing its expansion plans as soon as the situation in Japan has stabilized.

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 and Management Board meetings – and assessing the probability of damage occurring in these areas.

The Management Board structured each unit based on the findings of these analyses and the assessments made. The workflows were also adjusted in accordance with the findings. 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. Audits were performed within the Company and one significant subsidiary. A standardized ERP system to control the Group's processes and procedures will be implemented in 2010 and 2011 by LPKF AG and other Group companies. This process serves to further optimize process structure and improve transparency.

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

1.2. RISK AND OPPORTUNITY MANAGEMENT SYSTEM

Risk and opportunity management at LPKF is generally handled separately. In doing so, the Company employs a number of reporting tools.

Risk management at LPKF involves the formulation and implementation of measures that are suitable to identify existing risks, hedge them, reduce their probability of occurring, mitigate them or consciously accept them to a reasonable extent. 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.

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.

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 2010 financial year. A database-supported reporting system was installed in the previous year, which is to be rolled out to other Group units. 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 & marketing 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 & marketing 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 sees numerous opportunities for growth based on its own strengths. 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)

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 LPKF AG as of 3 January 2011. Process-integrated control is ensured by specific Group functions such as Group Accounting and the Group risk manager, both incorporated at LPKF AG.

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, a 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 a few smaller companies 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 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 – limits the possibilities for engaging in fraudulent acts. The internal control system also guarantees the true presentation of changes in the LPKF Group'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.

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

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 the Company'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 the electronics industry has returned to a growth trajectory and the economic situation of the auto industry has substantially improved relative to 2009, the outlook in the solar industry did not change until recently as it continued to post losses and negative cash flows in 2010. 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 Cutting and Structuring Lasers and the Joining Technologies segments are traditionally more exposed to cyclic fluctuations than the more budget-driven Rapid Prototyping 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.

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. The further development of the business with solar scribers is also contingent on the continuation of 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.

LPKF also supplies the automotive supply industry with production services. 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.

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. The number of suppliers for laser sources and a few special components is limited however. Business activity can be impacted primarily by price fluctuations. At this time, there are no signs of significant price pressures in procurement but certain prices are starting to rise. Delays in supplies of individual components occurred repeatedly in the financial year just ended on account of the strong recovery of the global economy and the resulting upturn in demand but things have eased up again.

2.3. DEPENDENCE ON CUSTOMERS

By now, 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 Company's evolving dependence on international customers that base most of their manufacturing in China. Three major orders from different major customers were transacted in the Cutting and Structuring Lasers segment in the financial year just ended. The loss of major customers or major orders could have a negative impact on the Group's revenue and earnings if capacities cannot be wound down fast enough or if trade receivables remain unpaid. This applies particularly to the Thin Film Technologies segment because major orders from a few customers comprise its revenue. In 2010, no single customer accounted for more than 12 % of total revenue.

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. Permanent follow-up is carried out by the Supervisory Board and the Management Board to limit these risks. 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 27 patents, 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 AG 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. Existing and new industrial protection rights held by third parties could also have an impact on LPKF's business.

2.8. PERSONNEL RISKS

Demand for qualified technical personnel in both mechanical engineering and manufacturing is very high at present, especially due to the upswing. 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

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.

2.10. IT RISKS

An ERP system was introduced in both Garbsen and Erlangen on 3 January 2011 for the purpose of mapping internal processes and information flows. This also entailed restructuring operational processes as well as all production planning and management. The ensuing changes must now prove their merit in continuous operation.

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. The IT security measures are 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

The overall risk situation arising from the various separate risks has improved slightly compared to last year because of the status of the global economy and the current, positive development of LPKF's business.

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

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 a recurrence of the past economic and financial crisis could negatively impact the further development of the Group.

The auditor of the financial statements reviewed LPKF AG's risk early warning system set up pursuant to the German Stock Corporation Act (Aktiengesetz). This review revealed that the existing Groupwide risk early warning system is fit for purpose and meets the requirements of the German Stock Corporation Act.

V. Anticipated developments

1. BUSINESS OPPORTUNITIES

A number of business opportunities arise in what is a continually improving economic environment. 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.

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 mainly boosts the industrial use of laser systems.

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 industry cycles. The Company's ongoing development activity maintains its edge over the competition in key product markets. The breakthrough of LDS technology into the market for the mass production of antennas for mobile electronic devices has driven strong demand for the associated LPKF machinery. These applications alone open up major potential in following years for the sale of additional machines. Other areas of application than antennas production are currently being developed together with customers.

Opportunities for growth in the years to come are primarily seen in the Cutting and Structuring Lasers and Joining Technologies segments. The great potential of thin film technology also has to be noted. This gives LPKF Group a very strong foundation for positive performance in 2011 and beyond.

2. OVERALL APPRAISAL OF THE GROUP'S PROBABLE PERFORMANCE

According to the International Monetary Fund (IMF), the recovery of the global economy is going surprisingly well even though the emerging countries have all but shaken off the industrialized countries. The IMF forecasts worldwide growth of 4.4 % in 2011, 0.2 % more than previously. At the same time, it warns of the uncertain fallout from high levels of sovereign debt, especially in the United States. The latter's economy is expected to expand by 3.0 % in 2011 and 2.7 % in 2012. As before, the anticipated growth rates for the euro zone are 1.5 % in 2011 and 1.7 % in 2012. In Germany, growth is expected to be 2.2 % in 2011 and 2.0 % in 2012. At 9.6 % (2011) and 9.5 % (2012) growth forecasts for China remained unchanged.

The Consumer Electronic Association expects global revenue from electronic products to rise by 10 % in 2011. Smartphones will be one of the key drivers of this growth. According to the IDC's estimates, the smartphone market will grow by 24.5 % in 2011. IDC also expects the markets for tablet PCs to grow rapidly, from just under 17 million tablet PCs in 2010 to 44.6 million in 2011.

The global automotive market expanded by 8 % in 2010 to just under 60 million passenger cars, already surpassing its pre-crisis level. The German Automotive Industry Association expects a stable upward trend in 2011 and further growth of 8 % to 64.5 million passenger cars. It says that the weighting in the global automotive market is changing at a rapid pace. As a result, China's share of the market should rise from 10 % to 19 % within a few years (2008 – 2011) while the United States and Western Europe should each lose 3 % on their respective 20 % share.

The suppliers of solar panel producers are currently seeing signs of a recovery in their business. The bottom seems to have been reached after the difficult conditions in 2010. Plans for capacity investments are taking shape and have already been implemented in part, triggering orders to equipment suppliers. Particularly China and the United States are expected to generate growth momentum. LPKF should profit from this development thanks to its innovative systems.

The Company again will introduce a number of new and refined products in 2011. Development work continues to focus on boosting customer benefits. A completely redesigned generation of ProtoMat models was brought to market at the start of 2011. LPKF is working at full stretch to adapt its successful LDS technology to additional industrial applications and development laboratories in the Cutting and Structuring Lasers 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.

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

With an equity ratio of 70.3 % and a surplus of funds, the Group's finances are robust. Its liquidity situation can be described as very good, also thanks to the availability of significant unused credit lines. Financing for planned investments thus is assured.

Moving forward from 2010, a record year that generated a number of major orders in the Cutting and Structuring Lasers segment, among other things, the Management Board faces the future with confidence and optimism. Now that the crisis has ended, LPKF's target markets are back on track for growth and the Group's product portfolio is excellent. There are indications that all segments will perform well. The opening of an office in Shanghai at the start of 2011 (yet another one in China), as well as the founding of a subsidiary in Japan in 2010, were additional steps aimed at expanding LPKF's international sales & marketing structure; these activities will continue in 2011. In terms of products, the focus will be on the growth areas, just as in the previous financial year. The Company will also expand its development capacities.

The economic recovery has stabilized since the crisis ended. Yet the ongoing sovereign debt crises creates uncertainty. It remains to be seen whether and to what extent these crises will have negative ramifications for the global economy. On the whole, the Management Board of the LPKF Group expects to generate revenue in 2011 roughly at the previous year's level, provided that the development of the global economy remains positive. Expenses will rise overall given the slight increases in both the material cost ratio and staff costs on account of new hiring as well as the decrease in other operating expenses. In that case, the EBIT margin in 2011 would be between 15 % and 19 %. Additional major orders not considered in current targets could substantially boost the Company's performance.

Given a stable economic environment, the Management Board expects revenue growth of 10 % per year on average in 2012 and 2013 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 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 2011

Dr. Ingo Bretthauer   Bernd Lange   Kai Bentz

> Consolidated financial statements 2010

Consolidated financial statements for the 2010 financial year in accordance with International Financial Reporting Standards (IFRS)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 74
CONSOLIDATED INCOME STATEMENT 76
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 76
CONSOLIDATED STATEMENT OF CASH FLOWS 77
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010 80
A. BASIC INFORMATION 80
B. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS 80
BASIS OF CONSOLIDATION 83
C. CONSOLIDATION PRINCIPLES 84
D. CURRENCY TRANSLATION 85
E. CRITICAL ACCOUNTING AND MEASUREMENT ESTIMATES AND ASSUMPTIONS 85
F. SEGMENT REPORTING 87
G. CONSOLIDATED INCOME STATEMENT 88
1. REVENUE 88
2. OTHER OWN WORK CAPITALIZED 89
3. OTHER OPERATING INCOME 89
4. COST OF MATERIALS 90
5. STAFF COSTS AND EMPLOYEES 90
6. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES 91
7. OTHER OPERATING EXPENSES 91
8. FINANCIAL RESULT 92
9. INCOME TAXES 92
H. CONSOLIDATED STATEMENT OF FINANCIAL POSITION 94
10. NON-CURRENT ASSETS 94
11. INVENTORIES 99
12. TRADE RECEIVABLES 100
13. OTHER ASSETS AND INCOME TAX RECEIVABLES 101
14. RESTRICTED SECURITIES 101
15. AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS 101
16. CASH AND CASH EQUIVALENTS 101
17. DEFERRED TAXES 101
18. HELD-FOR-SALE ASSETS AND LIABILITIES 102
19. SUBSCRIBED CAPITAL 103
20. NON-CONTROLLING INTERESTS 106
21. PROVISIONS FOR PENSIONS 106
22. TAX PROVISIONS AND OTHER PROVISIONS 109
23. LIABILITIES 110

I. OTHER DISCLOSURES 111
24. STATEMENT OF CASH FLOWS 111
25. EARNINGS PER SHARE 111
26. DIVIDEND PER SHARE 111
27. TRANSACTIONS WITH RELATED PARTIES 112
28. GERMAN CORPORATE GOVERNANCE CODE 112
29. OTHER DISCLOSURES 113
30. DISCLOSURES PURSUANT TO SECTION 315A GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH) 122
31. DISCLOSURES ON MANAGEMENT BOARD REMUNERATION 122
32. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION 123
33. DISCLOSURE OF REPORTED SHAREHOLDINGS IN THE COMPANY 124
34. AUDITOR FEES INVOICED IN THE FINANCIAL YEAR JUST ENDED 124
35. EVENTS AFTER THE REPORTING DATE 125

INDEPENDENT AUDITORS' REPORT 126

ANNUAL FINANCIAL STATEMENTS OF LPKF LASER & ELECTRONICS AG 127
INCOME STATEMENT 127
BALANCE SHEET 128

Consolidated statement of financial position

AS OF 31 DECEMBER 2010

ASSETS

EUR THSD.	NOTES	2010	2009
Non-current assets			
Intangible assets	10		
Software		731	709
Goodwill		74	74
Development costs		3,913	4,278
Advances paid		811	0
		5,529	5,061
Property, plant and equipment	10		
Land, similar rights and buildings		10,914	10,401
Plant and machinery		2,668	1,648
Other equipment, operating and office equipment		1,592	1,067
Advances paid and construction in progress		1,794	297
		16,968	13,413
Financial assets	10		
Other borrowings		44	20
		44	20
Restricted securities	14	245	236
Receivables and other assets			
Trade receivables	12	241	0
Income tax receivables	13	255	293
Other assets		90	0
		586	293
Deferred taxes	17	1,186	550
		24,558	19,573
Current assets			
Inventories	11		
(System) parts		10,045	7,894
Work in progress		2,347	1,236
Finished products and goods		6,149	5,214
Advances paid		252	148
		18,793	14,492
Receivables and other assets			
Trade receivables	12	12,237	10,929
Income tax receivables	13	472	230
Other assets	13	1,276	1,627
		13,985	12,786
Available-for-sale financial instruments	15	1,993	0
Cash and cash equivalents	16	13,671	10,772
Assets held for sale	18	142	0
		48,584	38,050
		73,142	57,623

▶ EQUITY AND LIABILITIES

EUR THSD.	NOTES	2010	2009
Equity			
Subscribed capital	19	11,006	10,858
Capital reserves		4,556	3,953
Other retained earnings		7,000	7,000
Revaluation surplus		4	– 18
Share-based payment reserve		484	460
Currency translation reserve		– 741	– 1,379
Net retained profits		25,751	15,791
Non-controlling interests	20	3,373	3,509
		51,433	40,174
Non-current liabilities			
Provisions for pensions	21	0	14
Non-current liabilities to banks	23	2,215	2,752
Deferred income from grants	3	431	483
Other non-current liabilities		98	134
Deferred taxes	17	1,290	1,332
		4,034	4,715
Current liabilities			
Tax provisions	22	3,224	1,188
Other provisions	22	4,266	1,869
Current liabilities to banks	23	941	1,324
Trade payables	23	1,912	2,162
Other liabilities	23	7,190	6,191
Liabilities related to non-current assets held for sale		142	0
		17,675	12,734
		73,142	57,623

Consolidated income statement

FROM 1 JANUARY 2010 TO 31 DECEMBER 2010

EUR THSD.	NOTES	2010	2009
Revenue	1	81,178	50,711
Changes in inventories of finished goods and work in progress		1,987	– 805
Other own work capitalized	2	2,594	2,646
Other operating income	3	2,233	1,845
		87,992	**54,397**
Cost of materials	4	23,370	14,978
Staff costs	5	23,450	17,933
Depreciation and amortization	6	4,049	2,892
Other operating expenses	7	19,807	11,625
		17,316	**6,969**
Finance income	8	345	139
Finance costs	8	189	313
Earnings before tax		**17,472**	**6,795**
Income taxes	9	4,927	2,058
Consolidated net profit		**12,545**	**4,737**
Of which attributable to:			
Shareholders of the parent company		12,131	4,684
Non-controlling interests		414	53
		12,545	**4,737**
Earnings per share – basic (in EUR)	25	1.11	0.43
Earnings per share – diluted (in EUR)	25	1.10	0.43

Consolidated statement of comprehensive income

FROM 1 JANUARY 2010 TO 31 DECEMBER 2010

EUR THSD.	NOTES	2010	2009
Consolidated net profit		**12,545**	**4,737**
Other comprehensive income			
Gains and losses on remeasuring available-for-sale financial assets		32	33
Currency translation differences		436	99
Deferred taxes		– 10	– 9
Other comprehensive income		**458**	**123**
Total comprehensive income		**13,003**	**4,860**
Of which attributable to			
Shareholders of the parent company		12,791	4,673
Non-controlling interests		212	187

Consolidated statement of cash flows

FROM 1 JANUARY 2010 TO 31 DECEMBER 2010

EUR THSD.	NOTES	2010	2009
Operating activities			
Consolidated net profit		12,545	4,737
Income taxes		4,927	2,058
Interest expense		189	313
Interest income		– 345	– 139
Depreciation and amortization		4,049	2,892
Gains / losses from the disposal of non-current assets including reclassification to current assets		– 146	– 54
Non-cash currency differences in non-current assets		– 188	74
Other non-cash expenses and income		601	934
Changes in inventories, receivables and other assets		– 9,202	– 1,361
Changes in provisions		3,284	– 78
Changes in liabilities and other equity and liabilities		1,218	2,374
Interest received		343	139
Income taxes paid		– 3,791	– 458
Net cash flows from operating activities		**13,484**	**11,431**
Investing activities			
Investments in intangible assets		– 2,790	– 2,369
Investments in property, plant and equipment		– 5,316	– 1,644
Investments in financial assets		– 29	– 21
Proceeds from disposal of financial assets		1	1
Interest received		2	0
Proceeds from disposal of non-current assets		352	382
Net cash used in investing activities		**– 7,780**	**– 3,651**
Financing activities			
Dividend payment		– 2,171	0
Dividend payment to non-controlling interests		– 348	0
Interest paid		– 189	– 313
Proceeds from issue of capital		751	0
Proceeds from borrowings		0	746
Cash repayments of borrowings		– 1,044	– 3,804
Net cash used in financing activities		**– 3,001**	**– 3,371**
Change in cash and cash equivalents			
Change in cash and cash equivalents due to changes in foreign exchange rates		71	– 135
Change in cash and cash equivalents		2,703	4,409
Cash and cash equivalents on 1 Jan.		10,263	5,989
Cash and cash equivalents on 31 Dec.		**13,037**	**10,263**
Composition of cash and cash equivalents			
Cash and cash equivalents		13,671	10,772
Overdrafts		– 634	– 509
Cash and cash equivalents on 31 Dec.	24	**13,037**	**10,263**

Consolidated statement of changes in equity

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (COMPARED TO THE PREVIOUS YEAR)

EUR THSD.	SUBSCRIBED CAPITAL	CAPITAL RESERVES	OTHER RETAINED EARNINGS	REVALUATION SURPLUS
Balance as of 1 Jan. 2010	10,858	3,953	7,000	– 18
Consolidated total comprehensive income				
Consolidated net profit	0	0	0	0
Additions from market valuation of securities	0	0	0	32
Deferred taxes on changes recognized directly in equity	0	0	0	– 10
Currency translation differences	0	0	0	0
Consolidated total comprehensive income	**0**	**0**	**0**	**22**
Transactions with owners				
Expenses for options granted	0	0	0	0
Proceeds from capital increases	148	603	0	0
Distributions to owners	0	0	0	0
Balance as of 31 Dec. 2010	**11,006**	**4,556**	**7,000**	**4**

EUR THSD.	SUBSCRIBED CAPITAL	CAPITAL RESERVES	OTHER RETAINED EARNINGS	REVALUATION SURPLUS
Balance as of 1 Jan. 2009	10,858	3,953	7,000	– 42
Consolidated total comprehensive income				
Consolidated net profit	0	0	0	0
Additions from market valuation of securities	0	0	0	33
Deferred taxes on changes recognized directly in equity	0	0	0	– 9
Currency translation differences	0	0	0	0
Consolidated total comprehensive income	**0**	**0**	**0**	**24**
Transactions with owners				
Expenses for options granted	0	0	0	0
Distributions to owners	0	0	0	0
Balance as of 31 Dec. 2009	**10,858**	**3,953**	**7,000**	**– 18**

SHARE-BASED PAYMENT RESERVE	CURRENCY TRANSLATION RESERVE	NET RETAINED PROFITS	EQUITY NON-CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS	TOTAL
460	– 1,379	15,791	36,665	3,509	40,174
0	0	12,131	12,131	414	12,545
0	0	0	32	0	32
0	0	0	–10	0	– 10
0	638	0	638	– 202	436
0	**638**	**12,131**	**12,791**	**212**	**13,003**
24	0	0	24	0	24
0	0	0	751	0	751
0	0	– 2,171	– 2,171	– 348	– 2,519
484	**– 741**	**25,751**	**48,060**	**3,373**	**51,433**

SHARE-BASED PAYMENT RESERVE	CURRENCY TRANSLATION RESERVE	NET RETAINED PROFITS	EQUITY NON-CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS	TOTAL
394	– 1,344	11,107	31,926	3,322	35,248
0	0	4,684	4,684	53	4,737
0	0	0	33	0	33
0	0	0	– 9	0	– 9
0	– 35	0	– 35	134	99
0	**– 35**	**4,684**	**4,673**	**187**	**4,860**
66	0	0	66	0	66
0	0	0	0	0	0
460	**– 1,379**	**15,791**	**36,665**	**3,509**	**40,174**

A. Basic information

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

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

Osteriede 7
30827 Garbsen

These consolidated financial statements were approved for publication by the Management Board on 21 March 2011.

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). The degree of completion to be recognized is determined based on the 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 following standards that were amended, revised or issued prior to the reporting date were applied in the 2010 financial year:

STANDARD/INTERPRETATION		MANDATORY APPLICATION**	ADOPTED BY THE EU COMMISSION*	EFFECTS
IFRS 1	First-time Adoption of IFRS and Additional Exemptions for First-time Adopters (in the oil and gas industry)	01 Jan. 2010	26 Nov. 2009 23 June 2010	None
IFRS 2 and IFRIC 11	Share-based Payment – Group Cash-settled share-based Payment Transactions	01 Jan. 2010	24 March 2010	Depending on future transactions / not foreseeable at present
IFRS 3 / IAS 27	Business Combinations / Consolidated and Separate Financial Statements	01 Jan. 2010	12 June 2009	Depending on future transactions / not foreseeable at present
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	01 July 2009	16 Sep. 2009	None
Various	Annual improvement project 2009	Mainly 01 Jan. 2010	24 March 2010	No effects unless stated below
IFRIC 12	Service Concession Agreements	01 Jan. 2010	30 March 2009	None
IFRIC 15	Agreements for the Construction of Real Estate	01 Jan. 2010	23 July 2009	None
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	01 July 2010	05 June 2009	None
IFRIC 17	Distribution of Non-cash Assets to Owners	01 Nov. 2009	27 Nov. 2009	None
IFRIC 18	Transfer of Assets from Customers	01 Nov. 2009	01 Dec. 2009	None

* On 31 Dec. 2010
** Applicable to the first financial year starting on or after this date

The amendments to IFRS 3 *Business Combinations* partly revise the accounting for business combinations where one entity gains control over another. Non-controlling interests (previously »minority interest«) may now be recognized at fair value using the full goodwill model or at the fair value of the identifiable assets. This option may be exercised anew for each business combination. If the acquirer already held an equity interest in the acquiree prior to its acquisition of the controlling interest, the acquisition-date fair value of such equity interest shall be recognized in profit or loss. The incidental costs of a business combination shall be recognized in profit or loss immediately. Furthermore, under IFRS 3 contingent components of the cost of a business combination shall now be measured at the acquisition-date fair value and recognized in profit or loss. The accounting for previously existing relationships between the acquiree and the acquirer at the date of acquisition has also been clarified.

Pursuant to IAS 27 *Consolidated and Separate Financial Statements* increases and decreases of a non-controlling interest in a subsidiary that do not entail gaining or losing control must now be treated as equity transactions and recognized directly in equity. As the loss of control leads to recognition of the fair value of the remaining equity interests, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* had to be adjusted accordingly.

By its amendments under the annual improvements project, the IASB also clarified that the assets and liabilities of a subsidiary shall be classified as available for sale as soon as the parent company plans to relinquish its control over the subsidiary. This also applies if it intends to retain a non-controlling interest after relinquishing control.

This change does not result in the need to restate the Company's current or past financial position, cash flows and profit or loss.

Initial application of this standard does 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 2010 financial year:

STANDARD/INTERPRETATION		MANDATORY APPLICATION**	ADOPTED BY THE EU COMMISSION*	EFFECTS
IAS 12	Deferred Taxes – Realizing the Carrying Amount of an Asset	01 Jan. 2012	Outstanding	Subject to review by management
IAS 24	Related Party Disclosures	01 Jan. 2011	20 July 2010	None
IAS 32	Financial Instruments: Disclosure – change regarding the classification of rights issues	01 Feb. 2010	24 Dec. 2009	None
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 Jan. 2011	20 July 2010	None
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01 July 2010	24 July 2010	None
Various	Annual improvement project 2010	Mainly 01 Jan. 2011	Outstanding	Subject to review by management
IFRS 1/ IFRS 7	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	01 July 2010	01 July 2010	None
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	01 July 2011	Outstanding	None
IFRS 7	Financial Instruments: Disclosures – changes to improve disclosures regarding the transfer of financial assets	01 July 2011	Outstanding	Subject to review by management
IFRS 9	Financial Instruments: Classification and Measurement	01 Jan. 2013	Outstanding	Subject to review by management

* On 31 Dec. 2010
** Applicable to the first financial year beginning on or after this date

IFRS 9 – *Financial Instruments: Classification and Measurement* shall replace IAS 39 in the future. The four possible categories of financial assets will be reduced to two categories of financial instruments. Financial assets shall be recognized either at amortized cost or at fair value. Financial instruments shall be classified in one or the other category contingent on the entity's business model for which they are being used, taking their individual characteristics into account. In certain circumstances, equity instruments may also be recognized directly in equity at fair value. IFRS 9 retains the basic accounting model of IAS 39 for financial liabilities. As before, there are two measurement categories: measurement at fair value through profit or loss or at amortized cost. Financial liabilities held for trading are measured at fair value through profit or loss while all other financial liabilities are measured at amortized cost unless the entity voluntarily designates them as measured at fair value in profit or loss upon initial recognition, provided certain criteria are met (fair value option).

The IASB wants the amendments of IFRS 9 to be applied to financial years starting on 1 January 2013. They may be applied early. However, the EU's endorsement process is not slated to begin until all comprehensive changes in the accounting and measurement of financial assets and financial liabilities, which are in various stages, have been completed.

Management is currently reviewing the possible effects of applying IFRS 9 to the representation of the Company's financial position, cash flows and profit or loss.

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).

BASIS OF CONSOLIDATION

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

NAME	REGISTERED SEAT	EQUITY INTEREST %	EQUITY EUR THSD.	RESULT FOR THE FINANCIAL YEAR ENDED EUR THSD.
Fully consolidated				
LaserMicronics GmbH	Garbsen/Germany	100.0	527.6	39.1
LPKF Laser & Elektronika d.o.o.	Naklo/Slovenia	75.0	6,150.5	2,135.3
LPKF Distribution, Inc.	Tualatin/USA	85.0	3,058.6	267.2
LPKF Motion & Control GmbH	Suhl/Germany	50.9	1,863.9	– 355.3
LPKF France S.A.R.L.	Créteil/France	100.0	– 517.2	– 344.0
LPKF (Tianjin) Co. Ltd.	Tianjin/China	86.0	2,641.8	1,016.0
LPKF Laser & Electronics (Hong Kong) Ltd.	Hong Kong/China	100.0	– 238.7	73.2
LPKF SolarQuipment GmbH	Suhl/Germany	83.7	308.5	– 883.6
LPKF Laser & Electronics K.K.	Yokohama/Japan	100.0	11.5	– 34.5

The equity and earnings figures for the financial year just ended concern the financial statements as of 31 December 2010 and represent the balances pursuant to the local financial statements prior to reconciliation for purposes of groupwide recognition and measurement. All shares in LPKF France S.A.R.L. were sold for a price of EUR 1.00 to the Company's managing director effective 1 January 2011.

On 31 August 2010, LPKF Laser & Electronics AG acquired all shares in a Japanese shelf company at a nominal value of JPY 5,000,000.

C. Consolidation principles

The consolidated financial statements are based on the financial statements as of 31 December 2010 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 cost of the acquisition corresponds to the fair value of the assets received, the equity instruments issued and the liabilities incurred or assumed at the date of exchange, plus the costs directly attributable to the acquisition.

Assets, liabilities and contingent liabilities identifiable 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. 2010	31 DEC. 2009	31 DEC. 2010	31 DEC. 2009
US dollar	USD 1.3362	USD 1.4406	USD 1.3268	USD 1.3933
Chinese renminbi yuan	CNY 8.8220	CNY 9.8350	CNY 8.9805	CNY 9.51736
Hong Kong dollar	HKD 10.3856	HKD 11.1709	HKD 10.29936	HKD 10.79972
Japanese yen	JPY 108.65	–	JPY 116.46	–

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 rarely 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 2010.

(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 obligations from defined-benefit pension commitments. These are essentially dependent on the life expectancies on which they are 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 21 describing pension 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. The Group uses present value techniques to determine the fair value of financial assets available for sale which are not traded on active markets.

(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:

- Rapid Prototyping involves the enhancement, production and marketing of circuit board plotters for the world market.
- The Cutting and Structuring Lasers segment comprises three product lines: LDS, StencilLasers and PCB Production lasers.
- In the Joining Technologies segment, LPKF develops and sells laser systems for welding plastic components.
- The Thin Film Technologies segment is involved with the development and production of laser systems for scribing thin film solar panels.
- 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 Joining Technologies 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.		CUTTING AND STRUCTURING LASERS	RAPID PROTOTYPING	JOINING TECHNOLOGIES	THIN FILM TECHNOLOGIES	ALL OTHER SEGMENTS	TOTAL
External revenue	2010	51,810	15,182	8,183	3,239	2,764	81,178
	2009	26,466	13,516	5,312	3,520	1,897	50,711
Operating result (EBIT)	2010	15,808	3,791	414	– 1,509	– 1,188	17,316
	2009	5,957	2,340	180	– 876	– 632	6,969
Assets	2010	26,703	12,894	5,862	5,511	22,172	73,142
	2009	21,833	12,351	3,516	6,019	13,904	57,623
Liabilities	2010	9,054	2,230	1,277	1,522	7,626	21,709
	2009	5,520	2,104	951	1,446	7,427	17,448
Investments	2010	4,134	1,748	446	196	1,611	8,135
	2009	1,872	1,075	382	116	589	4,034
Depreciation and amortization	2010	2,377	815	231	401	225	4,049
	2009	1,468	779	153	306	186	2,892
Other non-cash expenses	2010	1,510	402	52	15	2,059	4,038
	2009	651	225	10	33	1,017	1,936

At EUR 9.3 million, more than 10 % of consolidated revenue was generated from business with one major customer. This revenue is shown in the Cutting and Structuring Lasers 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	2010	10,728	10,277	13,518	44,964	1,691	81,178
	2009	10,912	8,760	5,256	24,533	1,250	50,711
Assets	2010	55,683	8,038	4,469	4,952	0	73,142
	2009	43,495	6,728	4,523	2,877	0	57,623
Investments	2010	6,861	161	38	1,075	0	8,135
	2009	3,571	111	29	323	0	4,034

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 81,178 thousand includes contract revenue of EUR 444 thousand (previous year: EUR 3,049 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.

As of the reporting date, the trade receivables contained construction contracts with EUR 444 thousand (previous year: EUR 0 thousand) in net amounts due from customers. There were no current projects as of the previous year's reporting date.

2. OTHER OWN WORK CAPITALIZED

Own work capitalized by the Group concerned non-current assets amounted to EUR 2,594 thousand (previous year: EUR 2,646 thousand). This comprises plant and machinery used by Group companies for production as well as prototype development projects capitalized during 2010 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 expenses when they are incurred. 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.	2010	2009
Income from currency translation differences	822	455
Research and development grants	414	665
Income from insurance payments	267	46
Income from the disposal of non-current assets	131	211
Income from the reversal of provisions	128	85
Reversal of deferred income from grants	45	40
Income from the reversal of writedowns	33	56
Other	393	287
	2,233	1,845

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.

4. COST OF MATERIALS

EUR THSD.	2010	2009
Cost of (system) parts and purchased goods	22,380	14,383
Cost of purchased services	990	595
	23,370	**14,978**

5. STAFF COSTS AND EMPLOYEES

EUR THSD.	2010	2009
Wages and salaries		
Expenses for wages	19,647	14,891
Share-based payment recognized in profit or loss	24	66
Other	518	444
	20,189	**15,401**
Social security costs and pension costs		
Employer's contribution to social security	2,912	2,240
Pension costs	205	163
Employers' liability insurance associations	144	129
	3,261	**2,532**
	23,450	**17,933**

The item, social security costs and pension costs, includes contributions of EUR 1,138 thousand (previous year: EUR 964 thousand) to Germany's national pension scheme. At this time, there are no ongoing pension payments under pension obligations (also see note 21).

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

	2010	2009
Production	103	75
Sales & marketing	86	77
Research and development	91	82
Services	75	59
Administration	84	80
	439	**373**

In addition, there were 30 part-time employees and 28 trainees as of 31 December 2010.

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).

7. OTHER OPERATING EXPENSES

EUR THSD.	2010	2009
Advertising and sales expenses	4,246	2,656
Travel, meals/entertainment	2,139	1,383
Third-party work	1,981	484
Sales commission	1,657	570
Repair, maintenance, operating requirements	1,386	690
Rent, ancillary rental costs, leases, land and buildings costs	1,130	865
Development consumables	1,000	609
Additions to warranty provision	759	292
Legal and consulting costs	635	438
Trade fair costs	614	512
Exchange rate losses	530	570
Telephone, postage, telefax	458	378
Voluntary benefits, training and further education	454	259
Insurance, contributions, other costs	414	365
Vehicle costs	338	275
Investor relations	292	248
Additions to allowance on receivables and bad debts	289	89
Financial statements preparation, publication and auditing costs	238	205
Bank charges	204	173
Supervisory Board remuneration incl. reimbursement of expenses	195	144
Office supplies, books, software	132	82
Other	716	338
	19,807	**11,625**

In 2010, total research and development costs were EUR 8,453 thousand (previous year: EUR 5,619 thousand). Besides EUR 2,168 thousand for materials and other costs (previous year: EUR 1,056 thousand), they also contain EUR 6,285 thousand (previous year: EUR 4,563 thousand) in additional costs for staff as well as depreciation, amortization and impairment losses, among other things.

8. FINANCIAL RESULT

EUR THSD.	2010	2009
Finance income		
Other interest and similar income	345	139
Finance costs		
Interest and similar expenses	– 189	– 313
	156	**– 174**

The other interest income arose from overnight and time deposits totaling EUR 36 thousand (previous year: EUR 41 thousand). At EUR 120 thousand (previous year: EUR 207 thousand), the other interest expense was incurred in connection with long-term loans as well as, in the previous year, short-term money market loans.

Borrowing costs that are directly attributable to the acquisition or production of an asset are to 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.	2010	2009
Corporate income tax and solidarity surcharge	3,353	1,170
Trade tax	2,231	783
	5,584	1,953
of which related to prior periods:	(4)	(– 5)
Deferred taxes	– 657	105
	4,927	**2,058**

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.	2010	2009
Consolidated net profit before income taxes	17,472	6,795
Anticipated tax expense 30.0 % (previous year: 30.0 %)	5,242	2,038
Effect of unrecognized deferred tax assets	49	95
Effect of different tax rates	– 299	– 21
Other prior-period tax refunds/supplementary payments	– 9	– 5
Tax-free income	– 129	– 54
Trade tax additions and deductions	21	– 4
Tax effect of non-deductible operating expenses	45	88
Other differences	7	– 79
Actual tax expense 28.2 % (previous year: 30.3 %)	**4,927**	**2,058**

The Group tax rate for the 2010 financial year and subsequent years is deemed to be 30 % (previous year: 30 %).

H. Consolidated statement of financial position

ASSETS

10. NON-CURRENT ASSETS

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

Non-current assets 2010

	COST					
EUR THSD.	BALANCE ON 01 JAN. 2010	TRANSLATION DIFFERENCES	ADDITION	RECLASSI-FICATION	DISPOSAL	BALANCE ON 31 DEC. 2010
Intangible assets						
Software	2,143	1	485	0	24	2,605
Goodwill	74	0	0	0	0	74
Development costs	10,712	2	1,494	0	0	12,208
Rights of use	2	0	0	0	0	2
Advances paid	0	0	811	0	0	811
	12,931	**3**	**2,790**	**0**	**24**	**15,700**
Property, plant and equipment						
Land, similar rights and buildings	13,836	130	896	0	0	14,862
Plant and machinery	4,460	84	1,821	41	479	5,927
Other equipment, operating and office equipment	4,719	33	1,061	0	252	5,561
Advances paid and construction in progress	297	0	1,538	– 41	0	1,794
	23,312	**247**	**5,316**	**0**	**731**	**28,144**
Financial assets						
Other borrowings	20	0	29	0	5	44
	20	**0**	**29**	**0**	**5**	**44**
	36,263	**250**	**8,135**	**0**	**760**	**43,888**

	DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES						RESIDUAL CARRYING AMOUNTS	
	BALANCE ON 01 JAN. 2010	TRANSLATION DIFFERENCES	ADDITION	RECLASSI-FICATION	DISPOSAL	BALANCE ON 31 DEC. 2010	BALANCE ON 31 DEC. 2010	PREVIOUS YEAR
	1,434	1	463	0	24	1,874	731	709
	0	0	0	0	0	0	74	74
	6,434	0	1,861	0	0	8,295	3,913	4,278
	2	0	0	0	0	2	0	0
	0	0	0	0	0	0	811	0
	7,870	1	2,324	0	24	10,171	5,529	5,061
	3,435	4	509	0	0	3,948	10,914	10,401
	2,812	38	704	0	295	3,259	2,668	1,648
	3,652	19	512	0	214	3,969	1,592	1,067
	0	0	0	0	0	0	1,794	297
	9,899	61	1,725	0	509	11,176	16,968	13,413
	0	0	0	0	0	0	44	20
	0	0	0	0	0	0	44	20
	17,769	62	4,049	0	533	21,347	22,541	18,494

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

Non-current assets 2009

	COST					
EUR THSD.	BALANCE ON 01 JAN. 2009	TRANSLATION DIFFERENCES	ADDITION	RECLASSI-FICATION	DISPOSAL	BALANCE ON 31 DEC. 2009
Intangible assets						
Software	1,621	0	523	0	1	2,143
Goodwill	74	0	0	0	0	74
Development costs	8,867	– 1	1,846	0	0	10,712
Rights of use	2	0	0	0	0	2
	10,564	**– 1**	**2,369**	**0**	**1**	**12,931**
Property, plant and equipment						
Land, similar rights and buildings	13,831	– 59	64	0	0	13,836
Plant and machinery	4,076	– 23	945	192	730	4,460
Other equipment, operating and office equipment	4,428	– 12	366	0	63	4,719
Advances paid and construction in progress	220	0	269	– 192	0	297
	22,555	**– 94**	**1,644**	**0**	**793**	**23,312**
Financial assets						
Other borrowings	0	0	21	0	1	20
	0	**0**	**21**	**0**	**1**	**20**
	33,119	**– 95**	**4,034**	**0**	**795**	**36,263**

In accordance with the requirements of IFRS 3, the cost of goodwill was reduced by accumulated impairment losses as of 1 January 2005. No impairment losses were recognized in the reporting period pursuant to IAS 36.

10.1 INTANGIBLE ASSETS

Until 31 December 2004, the goodwill from business combinations (capitalized differences arising from acquisition accounting) was amortized over its useful life using the straight-line method. Starting in the 2005 financial year, the goodwill was no longer amortized because it was deemed to have an unlimited useful life. In accordance with the requirements of IFRS 3, the cost of goodwill was reduced by accumulated impairment losses as of 1 January 2005.

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 Joining Technologies 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 2010, just as in the previous year.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES						RESIDUAL CARRYING AMOUNTS	
BALANCE ON 01 JAN. 2009	TRANSLATION DIFFERENCES	ADDITION	RECLASSI-FICATION	DISPOSAL	BALANCE ON 31 DEC. 2009	BALANCE ON 31 DEC. 2009	PREVIOUS YEAR
1,015	0	419	0	0	1,434	709	606
0	0	0	0	0	0	74	74
5,474	0	960	0	0	6,434	4,278	3,393
2	0	0	0	0	2	0	0
6,491	**0**	**1,379**	**0**	**0**	**7,870**	**5,061**	**4,073**
2,965	– 2	472	0	0	3,435	10,401	10,866
2,625	– 12	610	0	411	2,812	1,648	1,451
3,283	– 7	431	0	55	3,652	1,067	1,145
0	0	0	0	0	0	297	220
8,873	**– 21**	**1,513**	**0**	**466**	**9,899**	**13,413**	**13,682**
0	0	0	0	0	0	20	0
0	**0**	**0**	**0**	**0**	**0**	**20**	**0**
15,364	**– 21**	**2,892**	**0**	**466**	**17,769**	**18,494**	**17,755**

SOFTWARE

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

CAPITALIZED 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.	2010	2009
Cutting and Structuring Lasers	2,312	2,394
Rapid Prototyping	1,247	1,113
Joining Technologies	0	0
Thin Film Technologies	354	771
	3,913	**4,278**

The rights of use are measured at cost and amortized using the straight-line method. 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 were written down during the reporting year due to product changes; of these EUR 161 thousand (previous year: EUR 27 thousand) were allocated to the Rapid Prototyping segment and EUR 254 thousand (previous year: EUR 78 thousand) to the Cutting and Structuring Lasers segment. 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
Rights of use	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	25
External facilities	10
Plant and machinery	3 – 10
Other equipment, operating and office equipment	3 – 10

Bank loans totaling EUR 1,927 thousand (previous year: EUR 2,190 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. Inventories are measured using the first in, first out (FIFO) method.

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

Inventories were written down below cost by EUR 614 thousand (previous year: EUR 880 thousand) to their net realizable value.

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

EUR THSD.	2010	2009
Cutting and Structuring Lasers	11,103	8,465
Rapid Prototyping	4,879	3,899
Thin Film Technologies	508	1,153
Joining Technologies	2,038	817
All other segments	265	158
	18,793	14,492

12. TRADE RECEIVABLES

EUR THSD.	2010	2009
Nominal amount of receivables	12,851	11,268
Specific valuation allowance incl. currency losses	– 373	– 339
Receivables after valuation allowances, discounts and currency losses	**12,478**	**10,929**

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 residual carrying amount of the trade receivables is EUR 241 thousand (previous year: EUR 0) and concerns receivables with remaining maturities of more than one year.

Default risk as of 31 December 2010

			NOT IMPAIRED BUT PAST DUE SINCE				
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	LESS THAN 30 DAYS	BETWEEN 30 AND 60 DAYS	BETWEEN 60 AND 90 DAYS	BETWEEN 90 AND 360 DAYS	MORE THAN 360 DAYS
2010	14,615	9,424	2,356	912	634	291	121
2009	13,099	10,429	1,397	451	207	263	0

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.	2010	2009
Balance on 1 Jan.	**339**	**352**
+ Additions	257	106
– Reversals (allowances not required)	34	7
– Use (allowances required)	189	111
+/– Currency differences (foreign currency receivables)	0	– 1
Balance on 31 Dec.	**373**	**339**

As in the previous year, the proceeds from derecognized receivables were EUR 0 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.	2010	2009
Input tax receivables	445	546
Income tax receivables	727	523
Prepaid expenses	332	633
Other	589	448
	2,093	**2,150**

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 255 thousand (previous year: EUR 293 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. AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

The available-for-sale financial instruments contain a listed debenture (EUR 997 thousand) and an unlisted borrower's note loan (EUR 996 thousand).

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand of EUR 5 thousand (previous year: EUR 7 thousand) and bank balances of EUR 13,666 thousand (previous year: EUR 10,765 thousand); they are reported at their nominal value. Cash and cash equivalents in foreign currencies are translated at the respective reporting date exchange rate.

17. DEFERRED TAXES

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

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

The capitalized deferred tax assets encompass deferred taxes on intercompany profits. The deferred tax liabilities largely concern capitalized development costs. The deferred taxes consist of the following:

Deferred tax assets

EUR THSD.	2010	2009
Tax loss carryforwards	396	73
Trade receivables	71	49
Provisions	58	46
Elimination of intercompany profits and other deductible temporary differences	619	380
Other	42	2
Total	**1,186**	**550**

Deferred tax liabilities

EUR THSD.	2010	2009
Capitalized development costs	1,174	1,275
Property, plant and equipment	27	27
Trade receivables	87	30
Other	2	0
Total	**1,290**	**1,332**

Within the next 12 months, EUR 722 thousand in deferred tax assets and EUR 116 thousand in deferred tax liabilities will be realized.

Subsidiaries' tax losses, which have not yet been used and for which no deferred tax assets are recognized in the statement of financial position, amount to EUR 0 thousand (previous year: EUR 362 thousand). These loss carryforwards can be used without any restrictions. Actual tax expense fell by EUR 12 thousand and deferred taxes fell by EUR 54 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 645 thousand in temporary differences related to investments in subsidiaries and branches.

18. HELD-FOR-SALE ASSETS AND LIABILITIES

Groups of held-for-sale assets (disposal groups) are classified as held for sale if their carrying amount will essentially be realized from a sale and if the sale is highly probable. They are measured at the lower of the carrying amount or the fair value less costs to sell if the carrying amount will be recovered principally through a sale transaction rather than through continuing use.

All shares in LPKF France S.A.R.L. were sold for a price of EUR 1 to the Company's managing director effective 1 January 2011. The assets and liabilities of LPKF France S.A.R.L. (which was part of the Rapid Prototyping and Joining Technologies segments) were recognized as held for sale as of 31 December 2010 following the Management Board's resolution to sell LPKF France S.A.R.L. There were no disposal groups or held-for-sale non-current assets the previous year.

The disposal group was written down to its fair value of EUR 1 less costs to sell pursuant to the requirements of IFRS 5. The impairment losses of EUR 52 thousand relate to non-current assets as well as current assets; otherwise, the fair value would have been exceeded.

Disposal groups of assets and liabilities substantially comprise EUR 126 thousand (previous year: 0) in other current assets.

Liabilities directly attributable to non-current assets held for sale substantially comprise EUR 142 thousand (previous year: 0) in other current liabilities.

EQUITY AND LIABILITIES

19. 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. The existing authorized capital was canceled.

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 2001 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 ten 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.

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 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.

The following options have been granted to date under the Stock Option Program:

TRANCHE	BASE PRICE/EUR	NUMBER OF OPTIONS
2006	5.35	116,200
2007	5.71	136,900

No options were issued in the 2008, 2009 and 2010 financial years. The tranches up to and including 2005 have already expired. The weighted average price of the two tranches as of the reporting date was EUR 5.54.

The changes in the option portfolio outstanding in the 2010 financial year were as follows:

EUR THSD.	AVERAGE BASE PRICE PER OPTION/EUR	NUMBER OF OPTIONS
Balance on 1 January 2010	4.25 (4.37)	242,700 (327,140)
Granted	0 (0)	0 (0)
Forfeited	5.53 (5.20)	3,900 (46,900)
Expired	4.21 (4.10)	13,800 (37,540)
Exercised	5.09 (0)	147,561 (0)
Balance on 31 December 2010	**5.63 (4.25)**	**77,439 (242,700)**
		(of which exercisable: 77,439)

The exercise prices of the options outstanding as of the reporting date ranged from EUR 5.35 to EUR 5.71. The weighted average price of the options exercised was EUR 5.09 on the exercise date. Their average weighted remaining maturity is nine months, and the average exercise price for the options that remain usable is EUR 5.63.

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. The following factors were taken into consideration in determining the fair value:

- the exercise price of the option;
- the life of the option;
- the expected volatility of the share price;
- the expected dividend per share; and
- the risk-free interest rate for the life of the option.

Expenses under the Stock Option Program in the 2010 financial year were EUR 24 thousand (previous year: EUR 66 thousand).

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

IN %	4TH TRANCHE 2006	5TH TRANCHE 2007
Volatility	44.90	41.10
Risk-free interest rate	3.59	4.31
Dividends	3.18	2.85

The options for the first three tranches have expired. A total of 10,400 options under the 2006 and 2007 tranches expired until 2009 inclusive owing to employee turnover.

The Monte Carlo simulation randomly generates viable share prices / index curves to determine the intrinsic values of the options. The mathematical mean of these intrinsic values is the basis for determining the fair value of an option.

Comparative information for all the periods shown is given for the reportable commitments. This involved adjusting the retained earnings in the statement of financial position and the staff costs in the income statement.

In the 2010 financial year, the Company's share capital rose by EUR 147,561.00 to EUR 11,005,613.00 because options were exercised; it is divided into 11,005,613 no-par bearer shares with a pro-rata interest of EUR 1.00 in the share capital. The premium of EUR 603,683.31 paid in connection with the exercise of the options was recognized in capital reserves.

The revaluation surplus from the financing instruments is EUR 4 thousand (previous year: EUR –18 thousand); it changed, given the positive development of the securities' fair value.

The capital reserves mainly contain the share premium from the issue of new shares. Additions during the reporting year concern the premium received in connection with the issue of shares resulting from the exercise of stock options.

20. NON-CONTROLLING INTERESTS

Non-controlling interests in subsidiaries have changed as follows:

EUR THSD.	2010	2009
Balance on 1 January	3,509	3,322
Additions (+) / Disposals (–)	– 136	187
Balance on 31 December	**3,373**	**3,509**

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

21. PROVISIONS FOR PENSIONS

Germany has a statutory defined-contribution national pension scheme for employees that pays pensions contingent on income and contributions made. The Company has no other benefit obligations once it has paid its contributions to the statutory pension insurance entity. 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 whereby actuarial gains and losses are not taken into consideration if they do not exceed 10 % of the committed amount.

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

EUR THSD.	2010	2009
Present value of the defined benefit obligation at beginning of period	**385**	**349**
Current service cost	4	4
Interest expense	21	20
Actuarial gains (–) and losses (+)	31	12
Present value of the defined benefit obligation at end of period	**441**	**385**
Unrecognized actuarial gains and losses, net	0	– 4
Plan assets		
Reinsurance coverage	173	133
Securities	358	234
Surplus shown in the statement of financial position (previous year: provision)	**– 90**	**14**

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.	2010	2009
At the beginning of the period	367	261
Expected return on plan assets	23	18
Actuarial gains / losses	35	– 21
Funded by the employer	106	109
	531	**367**

The plan assets consist of the following:

	2010		2009	
EUR THSD.	ABSOLUTE	PERCENTAGE	ABSOLUTE	PERCENTAGE
Equity securities	0	0 %	0	0 %
Debt securities*	358	67 %	234	64 %
Other	173	33 %	133	36 %
	531	100 %	367	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 reported in the income statement:

EUR THSD.	2010	2009
Current service cost	4	4
Amortized actuarial losses	0	0
Expected return on plan assets	23	18
Interest expense from obligation	21	20
	48	42

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

EUR THSD.	2010	2009	2008	2007	2006
Present value of the defined benefit obligation at end of period	441	385	349	345	396
Fair value of the plan assets	531	367	261	224	226
Net loss / surplus	– 90	18	88	121	170
Adjustment of plan liabilities based on past experience	3	3	3	7	– 4
Adjustment of plan assets based on past experience	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:

IN %	2010	2009
Discount rate as of 31 December	5.0	5.5
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	5.00	5.75
Employee turnover	0.00	0.00

The determination of the expected return on the plan assets was based on the estimated return on the assets, taking the changes in the yields of non-current fixed-income instruments into account. The allocations to plans for post-employment benefits payable in the financial year ending 31 December 2011 are estimated at EUR 106 thousand.

22. 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.	2010	2009
Corporate income tax and solidarity surcharge	1,590	585
Trade tax	1,634	603
	3,224	**1,188**

Statement of changes in provisions

EUR THSD.	BALANCE 01 JAN. 2010	USE	REVERSAL	ADDITION	BALANCE 31 DEC. 2010
Tax provisions	1,188	168	0	2,204	3,224
Bonus	735	683	52	1,420	1,420
Warranty and guarantee	845	845	0	1,699	1,699
Other	289	213	76	1,147	1,147
Total	**3,057**	**1,909**	**128**	**6,470**	**7,490**

All provisions stated are due within one financial year.

The provisions for guarantees and warranties cover potential statutory or financial obligations under guarantee and goodwill cases. The other provisions concern deliveries outstanding as well as sales commission.

23. 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:

		LIABILITIES WITH REMAINING MATURITIES OF				
TYPE OF LIABILITY EUR THSD.	TOTAL AMOUNT	UP TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	COLLATERALIZED AMOUNTS	TYPE OF COLLATERAL
Liabilities to banks	3,156 (4,076)	941 (1,324)	1,809 (2,363)	406 (389)	1,927 (2,190)	*, ** (*, **)
Trade payables	1,912 (2,162)	1,912 (2,162)	0 (0)	0 (0)	0 (0)	– (–)
Other liabilities	7,288 (6,325)	7,190 (6,191)	98 (81)	0 (53)	0 (0)	– (–)
	12,356 (12,563)	10,043 (9,677)	1,907 (2,444)	406 (442)	1,927 (2,190)	

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

The fair value of the fixed-interest loans is EUR 2,428 thousand (previous year: EUR 3,658 thousand). The loans are earmarked for financing new construction, purchases of real property, investments to expand capacities and development projects.

I. Other disclosures

24. 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.

25. 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 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. In contrast to 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 2010. Utilizing the authorized capital of EUR 5.4 million can also have a dilutive effect.

	2010	2009
Number of shares, undiluted	10,922,859	10,858,052
Number of shares, diluted	11,050,788	10,858,052
Consolidated profit/loss (in EUR thousand)	12,131	4,684
Adjusted consolidated profit/loss (in EUR thousand)	12,131	4,684
Basic earnings per share (in EUR)	1.11	0.43
Diluted earnings per share (in EUR)	1.10	0.43

26. DIVIDEND PER SHARE

The Management Board and the Supervisory Board will propose to the Annual General Meeting on 1 June 2011 that it resolve a dividend payment of EUR 0.40 (previous year: EUR 0.20) per share from the net retained profits of LPKF Laser & Electronics AG in the amount of EUR 14,005,969.11 for the 2010 financial year (previous year: EUR 4,003,360.32) – for a total dividend payment to the shareholders of EUR 4,402,245.20 (previous year: EUR 2,171,610.40) – and to carry the balance of EUR 9,603,723.91 (previous year: EUR 1,831,749.92) forward to new account.

27. 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 2010, this related party was paid license fees in the amount of EUR 5 thousand (previous year: EUR 17 thousand).

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 27 thousand (previous year: EUR 145 thousand) from this company and rendered services worth EUR 25 thousand (previous year: EUR 27 thousand) to this company. The company was also granted a loan at market rates; it was measured at EUR 44 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. Detel Plus d.o.o. delivered materials and rendered services to LPKF Laser & Elektronika d.o.o. for a total of EUR 417 thousand (previous year: EUR 145 thousand). This Slovenian subsidiary delivered materials and rendered services worth EUR 30 thousand (previous year: EUR 14 thousand) to Detel Plus d.o.o.

TRANSACTIONS WITH MEMBERS OF THE COMPANY'S CORPORATE BODIES AND OTHER RELATED NATURAL PERSONS

In 2007, the shareholders of LPKF Distribution, Inc. gave the company a long-term loan of USD 350 thousand to finance construction. Of that loan, USD 131 thousand were still outstanding as of 31 December 2010. Both the interest rate and the collateral correspond to prevailing market rates.

As of the reporting date, LPKF AG had EUR 161 thousand in liabilities to members of the Supervisory Board (previous year: EUR 135 thousand).

In the 2010 financial year, all of the shares in LPKF France S.A.R.L. were sold to the company's managing director for EUR 1 effective 1 January 2011. Net assets of EUR 142 thousand were transferred in this connection. It was more economical to dispose of the company than to discontinue it because no closure costs were incurred.

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. Note 31 provides details on the corporate bodies of LPKF AG.

28. GERMAN CORPORATE GOVERNANCE CODE

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

29. OTHER DISCLOSURES

OTHER FINANCIAL LIABILITIES

Long-term leases for land and buildings are in place for the offices of LPKF (Tianjin) Co. Ltd.; LPKF Laser & Electronics (ASIA) Ltd.; LPKF Laser & Electronics K.K.; LPKF France S.A.R.L. and the Erlangen site. LPKF Motion & Control 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.	2010	2009
Lease payments included in the net profit/loss for the period	204	96
up to 1 year	213	105
more than 1 year and up to 5 years	190	81

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

EUR THSD.	2010	2009
up to 1 year	448	370
more than 1 year and up to 5 years	1,088	878

Effective 1 January 2011, LPKF AG purchased real property adjacent to its headquarters for a purchase price of EUR 2,650 thousand, which was due on 15 January 2011.

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 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. The securities concern shares in a fund as well as a listed debenture (EUR 997 thousand). There is also an unlisted borrower's note loan (EUR 996 thousand). 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.

The derivatives do not qualify for hedge accounting pursuant to IAS 39.71 ff. All derivatives are 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 liabilities contain USD put options with a fair value of EUR 17 thousand and a USD currency swap with a fair value of EUR 53 thousand.

There were no other derivative or hedging transactions as of 31 December 2010.

3. DISCLOSURES PURSUANT TO IFRS 7

Carrying amounts, valuations and fair values by measurement category

EUR THSD.	MEASUREMENT CATEGORY PURSUANT TO IAS 39	CARRYING AMOUNT 31 DEC. 2010	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. 2010
Assets						
Other borrowings	LaR	44	44			44
Cash	LaR	13,671	13,671			13,671
Trade receivables	LaR	12,383	12,383			12,383
Other assets	LaR	944	944			944
Restricted securities and available-for-sale financial instruments	AfS	2,238		2,238		2,238
Derivative financial assets						
Derivatives	FAHfT	0				0
Equity and liabilities						
Trade payables	FLAC	1,912	1,912			1,912
Liabilities to banks	FLAC	3,156	3,156			3,156
Other interest-bearing liabilities	FLAC	98	98			98
Other interest-free liabilities	FLAC	6,670	6,670			6,670
Derivative financial liabilities						
Derivatives	FLHfT	70			70	70
Of which accumulated by IAS 39 measurement category						
Loans and receivables	(LaR)	27,042	27,042			27,042
Available-for-sale financial assets	(AfS)	2,238		2,238		2,238
Assets held for trading	(FAHfT)	0			0	0
Financial liabilities measured at amortised cost	(FLAC)	11,836	11,836			11,836
Liabilities held for trading	(FLHfT)	70			70	70

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

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. A total of EUR 1,242 thousand of the AfS securities 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 0 thousand (previous year: EUR 14 thousand) and as financial liabilities held for trading in the amount of EUR 70 thousand (previous year: EUR 0 thousand) have been allocated to Level 2 of the fair value hierarchy. Level 2 requires availability of a stock or market price for a similar financial instrument or calculation parameters based on data from observable markets.

			IAS 39 CARRYING AMOUNT			
	MEASUREMENT CATEGORY PURSUANT TO IAS 39	CARRYING AMOUNT 31 DEC. 2009	AMORTIZED COST	FAIR VALUE RECOGNIZED IN EQUITY	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE 31 DEC. 2009
	LaR	20	20			20
	LaR	10,772	10,772			10,772
	LaR	10,929	10,929			10,929
	LaR	1,627	1,627			1,627
	AfS	236		236		236
	FAHfT	14			14	14
	FLAC	2,162	2,162			2,162
	FLAC	4,076	4,076			3,658
	FLAC	205	205			205
	FLAC	6,120	6,120			6,120
	FLHfT	0			0	0
	(LaR)	23,348	23,348			23,348
	(AfS)	236		236		236
	(FAHfT)	14			14	14
	(FLAC)	12,563	12,563			12,145
	(FLHfT)	0			0	0

The AfS securities contain an unlisted debenture for which there is no active market; it was measured at fair value using a measurement procedure (Level 3 of the fair value hierarchy). To that end, the future cash flows were discounted at an interest rate of 2.56%. The reporting-date fair value is EUR 996 thousand. The fair value at initial recognition was EUR 1,000 thousand, corresponding to the transaction price. Taking the measurement procedure into account upon initial recognition would have yielded a value of EUR 994 thousand.

The reconciliation of initial recognition as of the reporting date is as follows:

EUR THSD.	
Carrying amount 1 Jan. 2010	0
Purchase (transaction price)	1,000
./. adjustment recognized in equity	– 4
Fair value 31 Dec. 2010	**996**

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

EUR THSD.		2010	2009
Loans and receivables	(LaR)	587	7
Available-for-sale financial assets	(AfS)	13	0
Assets and liabilities held for trading	(FAHfT) + (FLHfT)	– 67	0
Financial liabilities measured at amortized cost	(FLAC)	189	313

Total interest income calculated using the effective interest method is EUR 2 thousand.

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.

Net gains from available-for-sale assets contain interest income.

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.

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 2010

TRADE PAYABLES IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2010	1,912	1,912	0	0	0
2009	2,162	2,162	0	0	0

FINANCIAL OBLIGATIONS UNDER LOANS IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2010	3,156	715	226	2,202	13
2009	4,076	1,055	292	2,353	600

OTHER INTEREST-BEARING LIABILITIES IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2010	98	17	17	64	0
2009	205	17	17	133	170

OTHER INTEREST-FREE LIABILITIES IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2010	7,190	7,190	0	0	0
2009	6,120	6,120	0	0	0

DERIVATIVE FINANCIAL INSTRUMENTS IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2010	70	70	0	0	0
2009	0	0	0	0	0

4. HEDGING POLICY AND RISK MANAGEMENT

Risk management principles

The assets, liabilities and planned transactions of LPKF Laser & Electronics AG are 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. More than one half of the net cash flows in foreign currency are hedged.

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 US dollar, earnings before taxes would have been reduced by EUR 187 thousand. A 10% decline in the euro would have raised earnings before taxes by EUR 44 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 31 thousand while a decrease in interest rates by 25 basis points yields a loss of EUR 31 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.

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 as well as the listed debenture both give rise to price risks. If the value of the securities were to rise by 10%, equity would increase by EUR 125 thousand; if the value of the securities were to fall by 10%, equity would be reduced by EUR 125 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 Suhl, Garbsen 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 1,248 thousand in payment commitments from banks (letters of credit). This leaves solely the credit risk of the chattel mortgagor. In addition, EUR 992 thousand in trade receivables related to specific Asian countries are hedged through credit default insurance. The deductible under these hedged trade receivables is 15%.

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 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 51,433 thousand and borrowings of EUR 21,709 thousand.

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

The requirements of Section 315a 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.

31. DISCLOSURES ON MANAGEMENT BOARD REMUNERATION

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

Dr. Ingo Bretthauer	(Chairman)
Dipl.-Ing. Bernd Lange	Member of the Supervisory Board of LPKF Laser & Elektronika d.o.o., Naklo, Slovenia
Dipl.-Oec. Kai Bentz	

The remuneration of the 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 and which is printed on page 36 of this annual report.

The current members of the Management Board were paid total remuneration of EUR 1,433 thousand (2009: EUR 946 thousand) for their activities in the 2010 financial year. Of this amount, EUR 593 thousand (previous year: EUR 556 thousand) was fixed remuneration and EUR 840 thousand (previous year: EUR 390 thousand) was variable remuneration. The remuneration of the Supervisory 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 2009 financial year, no stock options were granted to the members of the Management Board in the 2010 financial year. Expenses of EUR 4 thousand (previous year: EUR 9 thousand) relating to share-based payments as defined in IAS 24.16 (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 2010 financial year in connection with post-employment benefits as defined in IAS 24.16. 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 441 thousand (previous year: EUR 385 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

32. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION

The members of the Supervisory Board are:

Bernd Hildebrandt	businessman (Chairman) Chairman of the Supervisory Board of LPKF Laser & Elektronika d.o.o., Naklo / Slovenia
Dr. Heino Büsching	lawyer / tax consultant at CMS Hasche Sigle, Hamburg, Germany (Deputy Chairman)
Prof. Dr. Erich Barke	President of Gottfried Wilhelm Leibniz University Hannover, Germany Chairman of the Supervisory Board of Innovationsgesellschaft Universität Hannover mbH, Hannover, and Produktionstechnisches Zentrum Hannover 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-Holding GmbH, Hannover, Germany Solvay GmbH, Hannover, Germany

Effective 1 January 2004, the remuneration of the entire Supervisory Board of LPKF Laser & Electronics AG was fixed at EUR 135 thousand per annum.

The Supervisory Board is also paid variable remuneration based on the dividend for the respective financial year just ended. The variable component cannot be specified at this time because it has not been determined to date whether a dividend will be paid for the 2010 financial year and in what amount. A dividend of EUR 0.20 per share was paid in 2010 for the 2009 financial year, resulting in variable remuneration of EUR 48 thousand for the Supervisory Board (previous year: EUR 0 thousand).

The remuneration of the Supervisory Board's active members solely concerns short-term benefits as defined in IAS 24.16 (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 and which is printed on page 36 of this annual report.

33. DISCLOSURE OF REPORTED SHAREHOLDINGS IN THE COMPANY

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

Bernd Hildebrandt, domiciled in Wunstorf, Germany, with a current shareholding of 6.55 % fully attributable to him;

Klaus Barke, domiciled in Großburgwedel, Germany, with a current shareholding of 8.45 % fully attributable to him.

34. 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.	2010
Audits of financial statements	126
Tax consultancy services	12
Other services	27
Total	**165**

35. EVENTS AFTER THE REPORTING DATE

On 23 February 2011, LPKF AG signed contracts to acquire the non-controlling interests in LPKF (Tianjin) Co. Ltd. However, title to the shares will not be transferred until the Chinese government has given its approval, which is still outstanding. Once they have been transferred, LPKF AG will own its Chinese subsidiary outright. In 2011, the difference of EUR 44 thousand between the carrying amount of the non-controlling interests as of 31 December 2010 (EUR 413 thousand) and the acquisition price (EUR 457 thousand) will be recognized directly in equity pursuant to IAS 27.

There were no other reportable events after the reporting date.

Garbsen, Germany, 25 March 2011

LPKF Laser & Electronics AG
The Management Board

Dr. Ingo Bretthauer | Bernd Lange | Kai Bentz

> Independent auditors' report

We have audited the consolidated financial statements – comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, statement of cash flow 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 2010. 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.

Hannover, Germany, 25 March 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Helmuth Schäfer
Wirtschaftsprüfer [German Public Auditor]

ppa. Nicole Busch
Wirtschaftsprüferin [German Public Auditor]

Income statement

FROM 1 JANUARY 2010 TO 31 DECEMBER 2010

EUR THSD.	2010	2009
Revenue	72,139	41,390
Changes in inventories of finished goods and work in progress	1,480	– 605
Other own work capitalized	222	416
Other operating income	1,885	1,194
	75,726	**42,394**
Cost of materials:		
Cost of raw materials, consumables and supplies, and of purchased merchandise	25,776	15,657
Personnel expenses:		
Wages and salaries	12,550	9,293
Social security costs and pension costs	1,977	1,586
(of which for pensions: EUR 127 thousand; previous year: EUR 97 thousand)		
Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	1,421	1,213
Other operating expenses	17,858	9,957
	59,582	**37,706**
Income from equity investments	1,178	0
Other interest and similar income	197	154
(of which from affiliated companies EUR 64 thousand; previous year: EUR 73 thousand)		
Write-downs of long-term financial assets and securities classified as current assets	361	0
Interest and similar expenses	87	205
(of which to affiliated companies EUR 0 thousand; previous year: EUR 0 thousand)		
Extraordinary result	– 79	0
Result from ordinary activities	**17,071**	**4,637**
Taxes on income	4,794	1,552
Other taxes	24	22
Net income for the year	**12,174**	**3,063**
Retained profits brought forward	1,832	941
Net retained profits	**14,006**	**4,004**

Balance sheet

AS OF 31 DECEMBER 2010

ASSETS

EUR THSD.	2010	2009
Fixed assets		
Intangible fixed assets		
Software	559	530
Rights of use	69	83
Advances paid	811	0
	1,439	613
Tangible fixed assets		
Land, similar rights and buildings	5,200	4,631
Technical equipment and machinery	958	1,021
Other equipment, operating and office equipment	1,149	710
Construction in progress	1,792	256
	9,099	6,618
Long-term financial assets		
Shares in affiliated companies	2,712	2,376
Loans to affiliated companies	317	651
Other loans	15	20
Long-term securities	0	234
	3,044	3,281
	13,582	10,512
Current assets		
Inventories		
Raw materials, consumables and supplies	8,536	7,216
Work in progress	734	155
Finished goods and merchandise	4,354	3,453
Prepayments	110	43
	13,734	10,867
Receivables and other assets		
Trade receivables	8,052	6,547
Receivables from affiliated companies	5,735	2,301
Other assets	1,626	928
(of which due within more than one year: EUR 306 thousand; previous year: EUR 393 thousand)		
	15,413	9,776
	29,147	20,643
Securities	995	0
Cash-in-hand, bank balances and checks	8,068	6,769
	38,210	27,412
Deferred income	148	179
(of which discounts: EUR 20 thousand; previous year: EUR 24 thousand)		
Deferred taxes	55	0
Excess of plan assets over pension liability	100	0
	52,095	38,103

▶ EQUITY AND LIABILITIES

EUR THSD.	2010	2009
Equity		
Subscribed capital	11,006	10,858
(Conditional capital: EUR 417 thousand; previous year: EUR 490 thousand)		
Capital reserves	5,254	4,650
Revenue reserves		
Other revenue reserves	7,023	7,000
	7,023	7,000
Net retained profits	14,006	4,004
(of which retained profits brought forward: EUR 1,832 thousand; previous year: EUR 941 thousand)		
	37,289	26,512
Special reserve for investment grants and subsidies	6	23
Provisions		
Provisions for pensions	0	302
Provisions for taxes	3,182	997
Other provisions	7,040	3,771
	10,222	5,070
Liabilities		
Liabilities to banks	1,348	1,601
Prepayments received	1,429	2,290
Trade payables	671	1,472
Liabilities to affiliated companies	454	612
Other liabilities	671	515
(of which from taxes: EUR 256 thousand; previous year: EUR 153 thousand)		
(of which from social security: EUR 24 thousand; previous year: EUR 32 thousand)		
	4,573	6,490
Deferred income	0	8
Deferred taxes	5	0
	52,095	38,103

> Glossary of technical terms

CIRCUIT BOARD PLOTTER
Machine for the mechanical structuring of printed circuit boards during rapid prototyping.

LASER 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.

LASERSCRIBER
Laser systems for structuring thin film solar panels.

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
(MID: molded interconnect devices) Molded three-dimensional circuit carriers made of plastic.

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

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

STENCILLASER
Laser system for cutting fine, highly precise openings in a stainless steel stencil. Stencils are used for the precision printing of solder paste onto printed circuit boards – a 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.

> Financial calendar

30 MARCH 2011	Publication of the 2010 annual report
30 MARCH 2011	Financial press conference
31 MARCH 2011	Analyst conference
13 MAY 2011	Publication of the three-month report
01 JUNE 2011	Annual General Meeting
12 AUGUST 2011	Publication of the six-month report
11 NOVEMBER 2011	Publication of the nine-month report

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