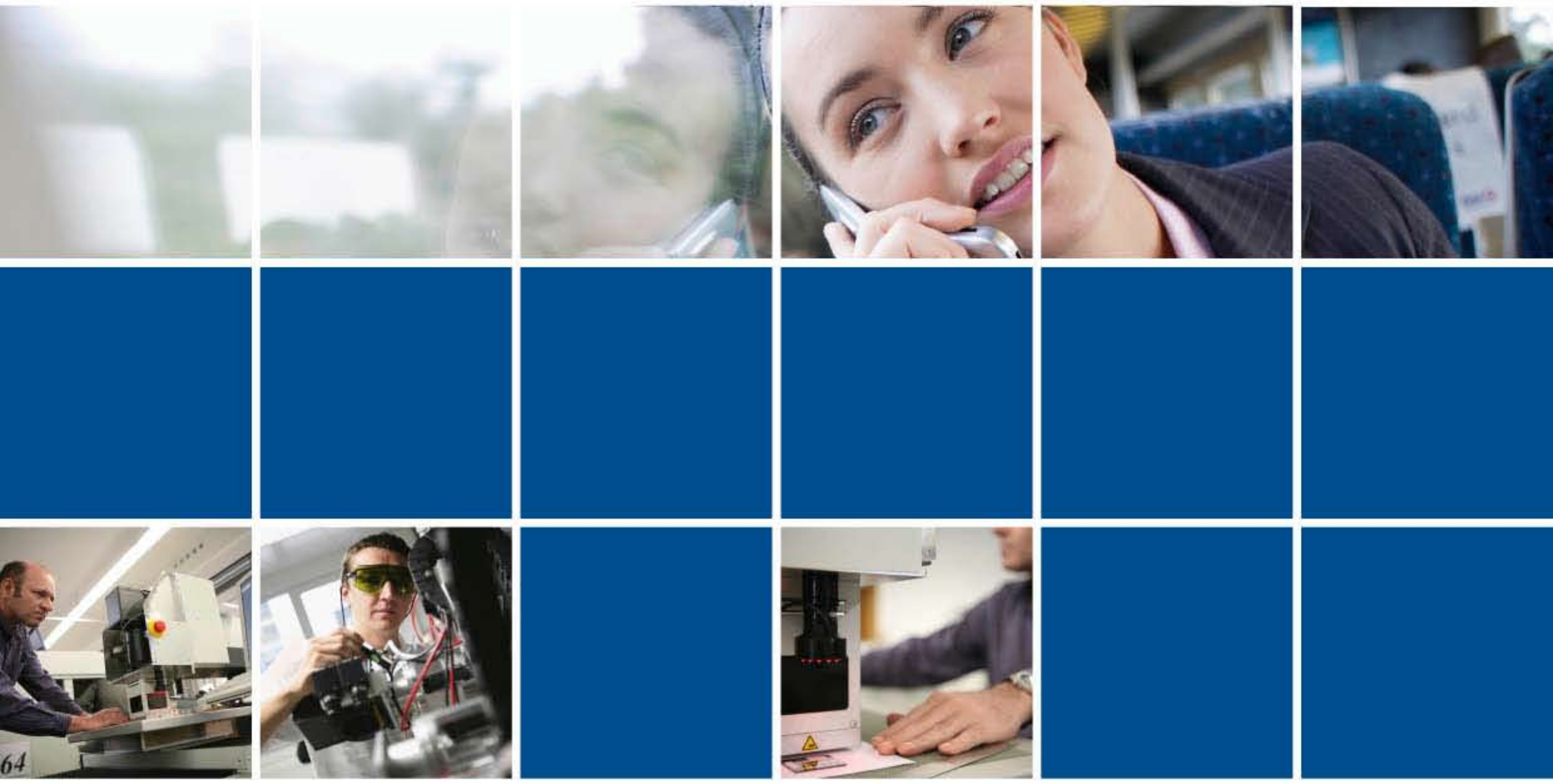
Annual Report 2007



LPKF®
Laser & Electronics

Short portrait

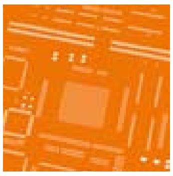
LPKF Laser & Electronics AG in Garbsen/Hannover is an internationally active company specialising in **laser material processing systems**. 75 % of the company's turnover is generated abroad. LPKF laser systems are used in the **electronics industry**, the **automotive industry**, and for the production of **solar panels**. Established in 1976, the company currently employs 340 staff worldwide, and has an extensive global network of representations.

Key Group figures		2007	2006	2005
Turnover	€ million	42.2	39.8	34.9
EBIT	€ million	6.0	6.4	6.0
Cash flow	€ million	6.6	6.3	5.3
Investment in tangible and intangible assets	€ million	5.7	7.5	1.9
Profit per share, diluted	€	0.36	0.37	0.28
Turnover per region				
Germany	€ million	10.5	7.5	6.5
Rest of Europe	€ million	8.1	9.0	5.2
North America	€ million	6.4	6.7	6.0
Asia	€ million	15.9	15.6	16.7
Others	€ million	1.3	1.0	0.5
Turnover per product				
Lasers	€ million	24.8	23.5	18.1
Rapid Prototyping	€ million	15.3	12.7	10.5
Special systems	€ million	0.1	2.2	4.4
Production services	€ million	1.8	1.2	1.4
Others	€ million	0.4	0.2	0.5
Employees		339	292	248

Business segments at a glance

Rapid Prototyping

LPKF supplies everything needed by electronics laboratories for the in-house prototyping and assembly of PCBs of all kinds without the use of chemicals.



Stencil

As the leading supplier, LPKF delivers laser systems for stencil cutting. These stencils are used to print solder paste onto PCBs.

PCB Processing

LPKF specialises in laser systems for cutting PCBs and flexible circuit carriers.

MID

LPKF builds specialised laser systems for the manufacture of three-dimensional circuit carriers using the LPKF-LDS method.

Plastic Welding

LPKF produces standardised and customised laser systems for plastic welding.

Solar

LPKF develops and manufactures specialised laser systems for scribing thin film solar panels.

Investment: LPKF.

As the **technology leader** in selected laser micro-machining segments, LPKF is a symbol world-wide for highest quality products “made in Germany”. Our laser systems are used in markets enjoying dynamic growth rates, where they play a key role in the manufacturing of products such as mobile phones, vehicle sensors and solar panels.

LPKF combines the dynamism and innovative strength of a globally active high-tech organisation with the solidity of a medium-sized German mechanical engineering enterprise. We have enjoyed many years of **profitable business development**.

In addition to our well established basic business, our portfolio covers three business segments with extraordinarily high **development potential**. Key decisions were made and implemented in 2007 to generate profitable growth from this promising potential.

As a publicly quoted company, it is our aim to continually boost the **market value** of LPKF Laser & Electronics AG. We consider the strong commitment and technical expertise of our employees to be a major positive factor in sustaining our success. In addition, our company also enthusiastically endorses social responsibility and environmental thinking.

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Bernd Hackmann CEO

Message from the CEO

Ladies and Gentlemen,

We can look back on a successful financial year. 2007 was a year of strategic decision making for LPKF. With in-depth investment in the Solar, Plastic Welding and MID growth segments, we armed our company for above average, profitable growth. Our well established segments – Rapid Prototyping, Stencil and PCB Processing – again provided the Group with a solid platform in 2007. Given the high level of orders in hand and the rise in operating opportunities our company is in good shape at the beginning of the 2008 financial year.

Entry into the solar market promises major growth potential

In the 2007 financial year we succeeded in boosting turnover by over 6 % to € 42 million. Around a third of this was generated by the three growth segments. Particularly exciting here is the LPKF Group's successful entry into the solar market. Renewable energies in general, and solar panels in particular are enjoying explosive growth worldwide. The LPKF Group is ideally placed to make a major contribution to the further development of thin-film solar panel production technology.

We recognised the opportunities in 2007 and started up this business segment with proactive investment. Starting with our first order at the beginning of 2007, development was immediately launched and led to delivery of the first installations by the middle of the year. Comprehensive marketing began simultaneously, alongside the expansion of production capacity in our Suhl factory, and the establishment of our subsidiary LPKF SolarQuipment GmbH. The solar sector has already identified LPKF as a reliable supplier of high quality laser scribing systems – a situation which is highlighted by the new orders worth almost € 5 million which we attracted in February 2008.

The Plastic Welding and MID segments are also performing very dynamically. This success was attributable in part to considerable investment in the expansion of international sales activity – which resulted in the closing of master agreements with major clients.

Mixed outcome of established business segments

Our long-established Rapid Prototyping segment made an important contribution to our overall performance with a

36% share of turnover, and a rise in turnover of more than 20%. Below target results were generated by the PCB Processing and Stencil segments which failed to match the same high level of turnover as the previous year. However, on the basis of a number of new product developments, we are confident that we have good opportunities of reversing this trend.

With an EBIT margin of 14%, the Group generated a profit of € 3.9 million in the 2007 financial year. This corresponds to € 0.36 per share.

Confident outlook for 2008

We have started the 2008 financial year with full order books. Orders in hand on 31.12.2007 were up 25% year-on-year at € 7.6 million.

We expanded our structures in 2007 on the basis of comprehensive efforts in development, production and sales. Although this had an impact on our performance in the reporting period, it forms the essential platform for further profitable expansion.

The aim is to considerably boost turnover further even during difficult economic times, and to maintain our EBIT margin at its current high level. An important role will be played here by our growth segments: their share of Group turnover is set to increase to around 50% in the medium term.

We could not have achieved the success we enjoyed in 2007 without the commitment of our highly motivated employees. We owe them our sincere thanks for their devotion to the company. We would also like to thank our customers and business partners, not to mention our shareholders, for their loyalty to our Group. We will continue to do all in our power to boost the value of LPKF Laser & Electronics AG further in future.

Yours faithfully,

Bernd Hackmann
CEO

The Board of Managing Directors

Kai Bentz

Dipl.-oec.
CFO

Finance/Controlling
Investor Relations
Human Resources

Bernd Hackmann

Dipl.-Ing.
CEO

Sales
Production
Logistics

Bernd Lange

Dipl.-Ing.
COO

Technology
Marketing

Corporate Governance Code

The Supervisory Board of LPKF Laser & Electronics AG passed the following Declaration of Compliance according to Section 161 German Stock Corporation Act at its meeting on 19 November 2007. The Declaration of Compliance is published in the internet at www.lpkf.com and thus made permanently accessible to all shareholders and potential investors.

Declaration of Compliance according to Section 161 German Stock Corporation Act

The Board of Managing Directors and the Supervisory Board of LPKF Laser & Electronics AG accept the recommendations of the government commission on the German Corporate Governance Code dated 14 June 2007, and declare that the recommendations of the code have been observed and will be observed in the future with the following exceptions:

1. The size of the Supervisory Board of LPKF Laser & Electronics AG reflects the size of the company and consists of three people: Mr Bernd Hildebrandt, Dr. Heino Büsching, and Prof. Dr. Erich Barke. This means that even without forming committees, LPKF Laser & Electronics AG can effectively, quickly and competently involve the members of the Supervisory Board in the company affairs, to guarantee intense supervision of the Board of Managing Directors based on a well informed understanding of the facts. For LPKF Laser & Electronics AG to form committees would also contravene best practice because the committees also need to consist of at least 3 members. For this reason, the recommendations of Article 5.2, Section 2 as well as Article 5.3.2 GCGC are also not relevant to LPKF Laser & Electronics AG.
2. The interim and half year financial reports are published 60 days at the latest after the reporting period due to the extensive Group interdependencies. It is, however, planned to subject this period to annual examination and to shorten it if possible (Article 7.1.2 Section 2, Second Subsection GCGC).

Comment

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

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

Garbsen, March 2008
LPKF Laser & Electronics AG

Bernd Hackmann
Chairman of the Board of Managing Directors

Bernd Hildebrandt
Chairman of the Supervisory Board

Bernd Hildebrandt
Chairman of the Supervisory Board

Report of the Supervisory Board

In addition to ten formal Supervisory Board meetings in 2007 (seven Supervisory Board meetings in 2006), the Board of Managing Directors and the Supervisory Board also worked closely together at short notice in the periods between the Supervisory Board meetings. This extra-meeting co-operation arose for two main reasons: firstly, urgent issues involving corporate strategy, and secondly, the need to restructure and expand the Board of Managing Directors because of the increase in the amount of work on the sales and service side.

The Supervisory Board and the Board of Managing Directors are unanimous that the company's sales revenues have to be increased to optimise returns and corporate value.

The Chairman of the Board of Managing Directors, Bernd Hackmann, whose main responsibilities include distribution, handed over some of his other duties in October 2007 to Kai Bentz, who was appointed to the Board of Managing Directors at the same time. In addition to investor relations activities, Kai Bentz is also responsible for accounting and finance, as well as human resources. Bernd Hackmann can now concentrate much more on global product sales. Bernd Lange continues to concentrate on new technologies, from development to marketing.

The Supervisory Board is confident that the enlargement of the Board of Managing Directors improves the bundling of management resources.

The 2007 financial year was marked by the increasing importance of the growth segments, Solar, Plastic Welding and MID, when compared with the Group's traditional core business. Risk management is of particular significance in such a situation, and was therefore a priority for the close co-operation between Supervisory Board and Board of Managing Directors. The risk management system is designed to identify risks early on, avoid any negative impact, and to reduce the risk of any potential damage. The associated tools and the company reporting system continue to be upgraded to maintain optimal protection. Recent measures in 2007 included the implementation of a customer administration system – a major instrument for distribution controlling.

The follow up audits of the DIN EN ISO 9001:2000 quality management systems in Garbsen, Erlangen and Suhl were conducted successfully. The auditor tested the process security, and gave its seal of approval.

The regulations defined by the German Corporate Governance Code were discussed in detail by the Supervisory Board as in previous years. LPKF Laser & Electronics AG complies with the updated Corporate Governance Code with the exception of the items disclosed on page 10 of this annual report. The Declaration of Compliance (according to Section 161 German Stock Corporation Act) was published in the internet.

The Supervisory Board engaged PricewaterhouseCoopers Aktiengesellschaft to audit the 2007 annual financial statements and Group financial statements in accordance with the resolution passed by the annual general meeting. Individual and Group financial statements were audited and given unconditional approval by the auditor. The auditor participated at special Supervisory Board meetings arranged for the purpose, where he reported on the audit of the annual financial statements, and provided additional information. The Supervisory Board reviewed the annual financial statements, the management report and the profit appropriation proposal, and approved the annual financial statements. They are now authorised.

The Board of Managing Directors and the Supervisory Board will propose a resolution at the annual general meeting on 11 June 2008 to appropriate part of the net income for the 2007 financial year of LPKF Laser & Electronics AG to pay a dividend of 12 Cent per share. The total dividend payment for the share capital with dividend entitlements of € 10,858,052.00 will be € 1,302,966.24.The remaining net income of € 202,988.81 is to be carried forward.

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

The Supervisory Board thanks the Board of Managing Directors and all of the employees for their successful work in 2007. This thanks also goes to the management and staff of other Group companies, and the works council.

Our representatives around the world, and naturally also our customers, are crucial factors for our commercial success – we therefore also gratefully acknowledge their contributions, and those of our often flexible suppliers.

Innovative and competitive products are ready for sale, and have benefited from new or further development. Together with our motivated employees, they open up major opportunities for additional strong growth in the coming years.

Garbsen, March 2008
on behalf of the Supervisory Board

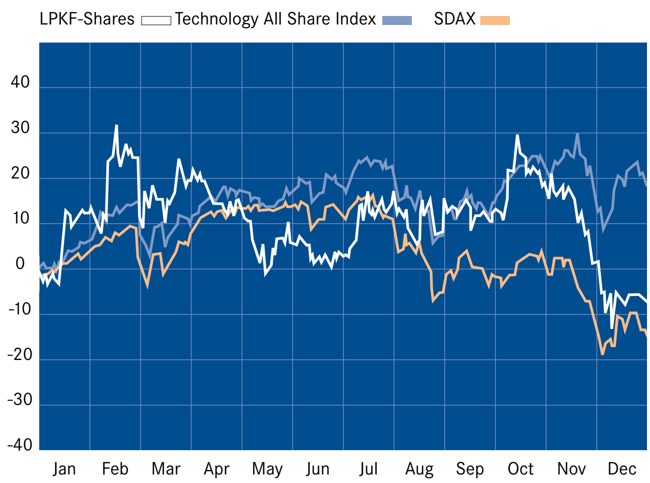
Bernd Hildebrandt

LPKF share price affected by strong fluctuations

Movement in share price

2007 was a very difficult year on the stock markets for small stock corporations in particular. Most small-cap companies enjoyed a significant increase in their share prices up to the middle of the year on account of strong economic growth. Rises in share prices of over 10 % were not unusual. In the middle of July, however, news of the crisis in the US property market, and the fears of a recession which this news fostered, caused a major reversal with a significant downturn in share prices. Under these circumstances, small caps in particular suffered from the tendency of investors to mainly prefer less risky blue chips when continuing to invest in shares. The SDAX small caps index therefore dropped by around 7 % year-on-year. The LPKF shares did not escape this slump. Although the LPKF shares managed to keep well above the year's starting price of € 5.22 for most of the year, it eventually closed at € 4.99 at the end of the year, losing around 4 % of its value during 2007. Things had looked very promising at the beginning of the year. Against a positive background, and news of the company's entry into the solar technology market, the price of LPKF shares rose in the first quarter to its 2007 peak of € 6.95. The price in the second and third quarters fluctuated in a corridor between € 5.50 and € 6.50 and was barely affected for a long time by the instability plaguing the markets. After rising again to € 6.80 at the beginning of October, the subsequent drop in price, attributable as described earlier, to the concentration of investors on blue chips in the latter part of the year, dragged the share price down below than the overall trend in the broad market for small caps and technology shares. The price fell to its lowest level of the year at € 4.58. The recovery experienced by LPKF shares in December was no longer adequate to move the share price above its starting point at the beginning of 2007.

Movement in share price in 2007 (%)



Overall, the development of LPKF shares in 2007 was disappointing given the company's existing growth potential. In addition to the general weakness of small caps in the stock market, this development may also be attributable to the failure of turnover to climb to the level forecast by the company, despite the high level of orders received. At the beginning of 2008, the share price was dragged down further by a global slump in share prices, and a decline in technology shares in particular, dropping down as far as € 3.92. The LPKF share price at the editing deadline was € 4.00.

LPKF shares were regularly analysed in 2007 by analysts from NORD/LB Norddeutsche Landesbank, DZ-Bank and SES Research. After the publication of its third quarter 2007 figures, the experts issued recommendations to "hold" or "buy". The latest available analysis at the beginning of 2008 from Dr. Kalliwoda Research dated 10 December 2007 issued a recommendation to buy LPKF shares with a share price target of € 7.79.

Transparent communications for all investors

Our goal is to continually boost the value of our company. We are therefore intensively involved in continuous communications with all financial market players. Open and transparent information policies are an integral part of our corporate philosophy to bind investors to our company in the long term, and to attract new investors.

We inform all interested parties quickly about the economic development of our company, as well as any important commercial news. This policy is implemented in various ways including the quarterly reporing stipulated by our listing in the Prime Standard of the Deutsche Börse. Ad hoc announcements are published immediately to disclose any information relevant to our share price. We also made significant investment in our press and public relations work in 2007 to optimise transparency and enhance the information available on the company's development. Our equity story focuses on LPKF AG's growth potential in the MID, Plastic Welding and Solar segments. In addition to the financial news, we also provided our shareholders with information on technical and human resource news within the company.

We place a high priority on personal contact with investors and analysts. In addition to the annual general meeting, LPKF's Board of Managing Directors is also available to answer questions on other occasions. Kai Bentz has been in charge of the Investor Relations department since being appointed to the Board of Managing Directors in October 2007. Together with the Chairman of the Board of Managing Direc-

Kai Bentz Director/CFO

tors, Bernd Hackmann, he has participated in numerous private discussions with institutional investors, as well as explaining LPKF AG's strategies and objectives at a whole range of investor conferences and road shows. Our road show activities in particular were considerably strengthened in the reporting period. Meetings in European countries other than Germany also attracted attention, in addition to attendance at a range of analysts conferences. As in previous years, LPKF contributed corporate presentations to the Equity Forum in Frankfurt and at specialised investor events. In response to the increased level of interest shown by the financial community, starting in 2008 we will also be arranging conference calls for analysts and investors to coincide with the publication of our annual and quarterly reports.

Investor Relations in the internet

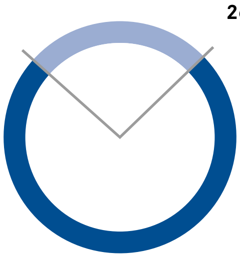
To make the same information available to all interested parties at short notice, the Investor Relations section of our website is always completely up-to-date with all of the important news concerning our company. Users can quickly find information on key Group figures, the development of our share price, ad hoc announcements, financial reports, the annual general meeting and a great deal more. Internet chats are also part of our direct financial market communications activities and are particularly popular with private investors. These chats with our management are available on a regular basis whenever our quarterly and annual reports are published.

Dividend remains stable

Our dividend policy is aimed at sustainability, and enables LPKF shareholders to benefit from the success of our company after taking into consideration planned investments and other financial requirements. Against this background, the Board of Managing Directors and the Supervisory Board will propose a resolution at the annual general meeting 2008 to pay a dividend of 12 cent per share for the 2007 financial year. This would correspond to a dividend yield of 2.4 % with respect to the year-end closing price in 2007 of € 4.99.

Shareholders' structure

The share capital of LPKF Laser & Electronics AG at the end of 2007 remained unchanged at € 10,858,052.00. This corresponds to 10,858,052 shares. The original owners and founders of the company held 26.37 % of the shares, 73.63 % were in free float. The shares held by the management of the company accounted for less than 5 % of the total free float volume.



Key figures LPKF shares

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

Light of the Future: Laser technology

Electronic devices have become an indispensable part of our daily lives. The breathtaking **speed of technical progress** is almost unprecedented in any other sector. Mobile phones become smaller and smaller as the power of their functions grows larger. And every new car model built by the automotive sector incorporates new functions to make driving safer and more comfortable. Consumer expectations increase alongside the technical possibilities, and force very high demands on the developers and manufacturers of electronic modules.

LPKF develops the technologies required to fulfil these sophisticated demands. The unbroken trend towards further **miniaturisation** of electronic devices means that **laser technology** plays an increasingly important role in material processing. Lasers work faster, more precisely and more economically than conventional technologies.

Toolless production with lasers offers greater **flexibility** and is therefore the automatic choice for many manufacturers for launching products onto the market with shorter and shorter product cycles and correspondingly small batch numbers.

In all its business activities, LPKF follows a clear paradigm: What do our customers need? How can we develop it, produce it and make it available at sensible prices?

Our commitment here is backed up by a distribution network of branches and representative offices throughout the world. The proximity to our clients is the basis for close and professional co-operation and enables us to further develop our products in line with the needs of our customers.

Our markets

Electronics industry

LPKF technology is used for the development and production of PCBs and electronic modules. Our precise and flexible processing systems profit from the never-ending miniaturisation of electronic devices. We counter the continuing shift of the electronics industry to low-wage countries through our global sales and service network.

With a turnover share of approx. 85 %, the dynamic as well as cyclic electronics industry is currently LPKF's most important market.

Plastic processing

Polymers are used in many industries including the automotive, packaging, medical technology and life science sectors. We specialise in the precise and gentle bonding of plastic components using laser beams. Laser plastic welding is being used in an increasingly wide range of applications, where it has been welcomed by a growing and very interested market.

MIDs are largely thermoplastic injection-molded components incorporating electrical circuits. LPKF's LDS method is a particularly flexible technique for producing MIDs from modified polymers.

Plastic processing is a growth market with a very large potential for LPKF.

Energy

With our entry into the solar market at the beginning of 2007, we profit from the increasing global importance of renewable energies. Thin film solar panels are a new, more economical alternative for solar power generation. They can be easily integrated into buildings, and generate a high energy yield even during cloudy weather.

Laser scribing systems are indispensable parts of the production lines for thin film solar panels. Our solar scribing machines boast high productivity and precision. Most of the solar factories under construction are currently pilot plants for new technologies.

Strong growth is forecast in the sale of manufacturing equipment to meet future requirements.

Production site Branch Representation

Our competencies

Laser material processing

LPKF has acquired a great deal of experience in micromachining with lasers, and has been active in this sector for almost 20 years. The spectrum of our laser applications includes the cutting of metallic and non-metallic materials, as well as drilling, and the structuring of PCB materials and layers only a few micrometres thick.

Another focus of our business involves the laser bonding of plastic components.

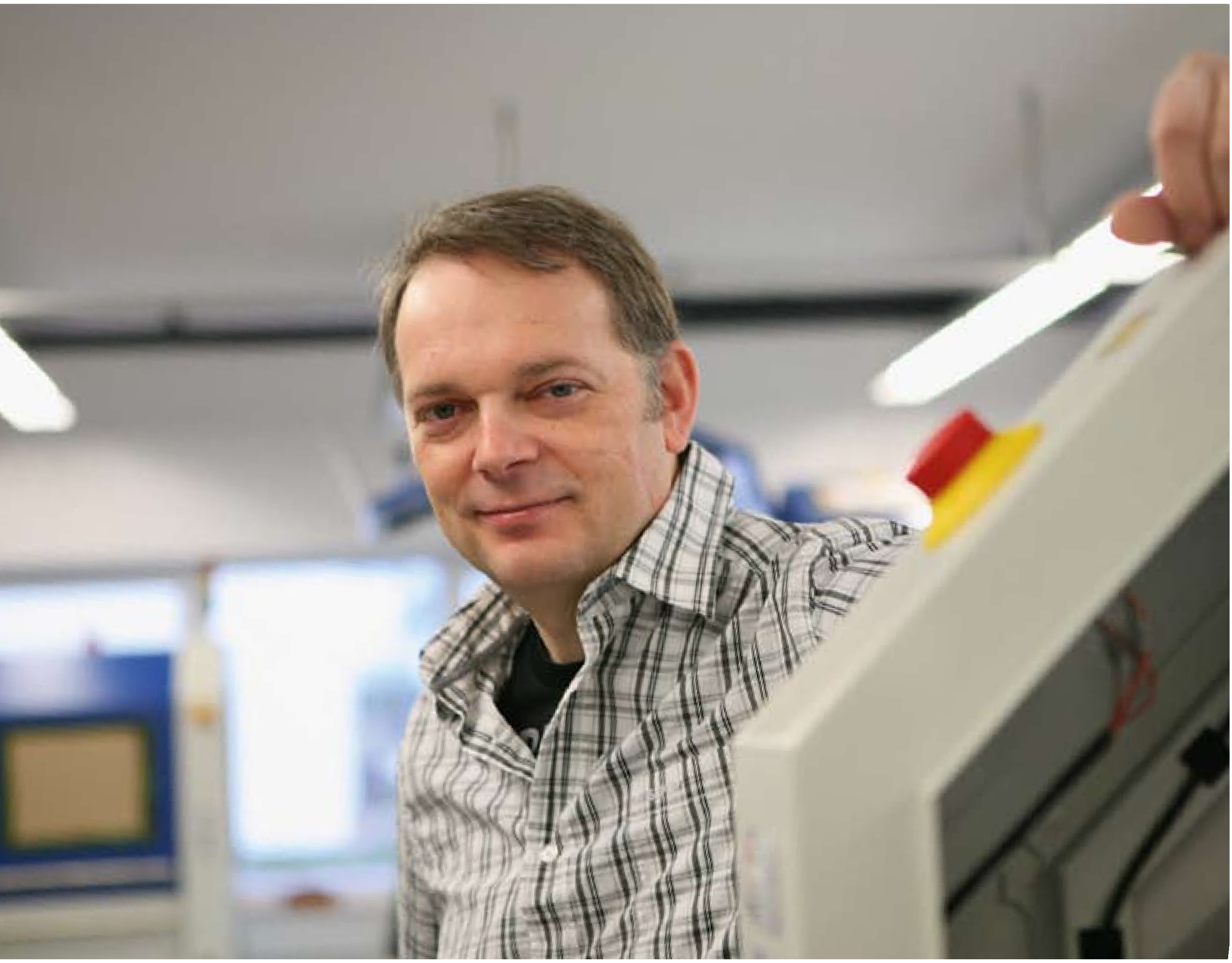
Laser technology

In addition to using a large number of different laser sources for micro-machining, the LPKF Group also develops its own laser sources designed for special areas of application. This underpins our performance-optimised and economical system solutions.

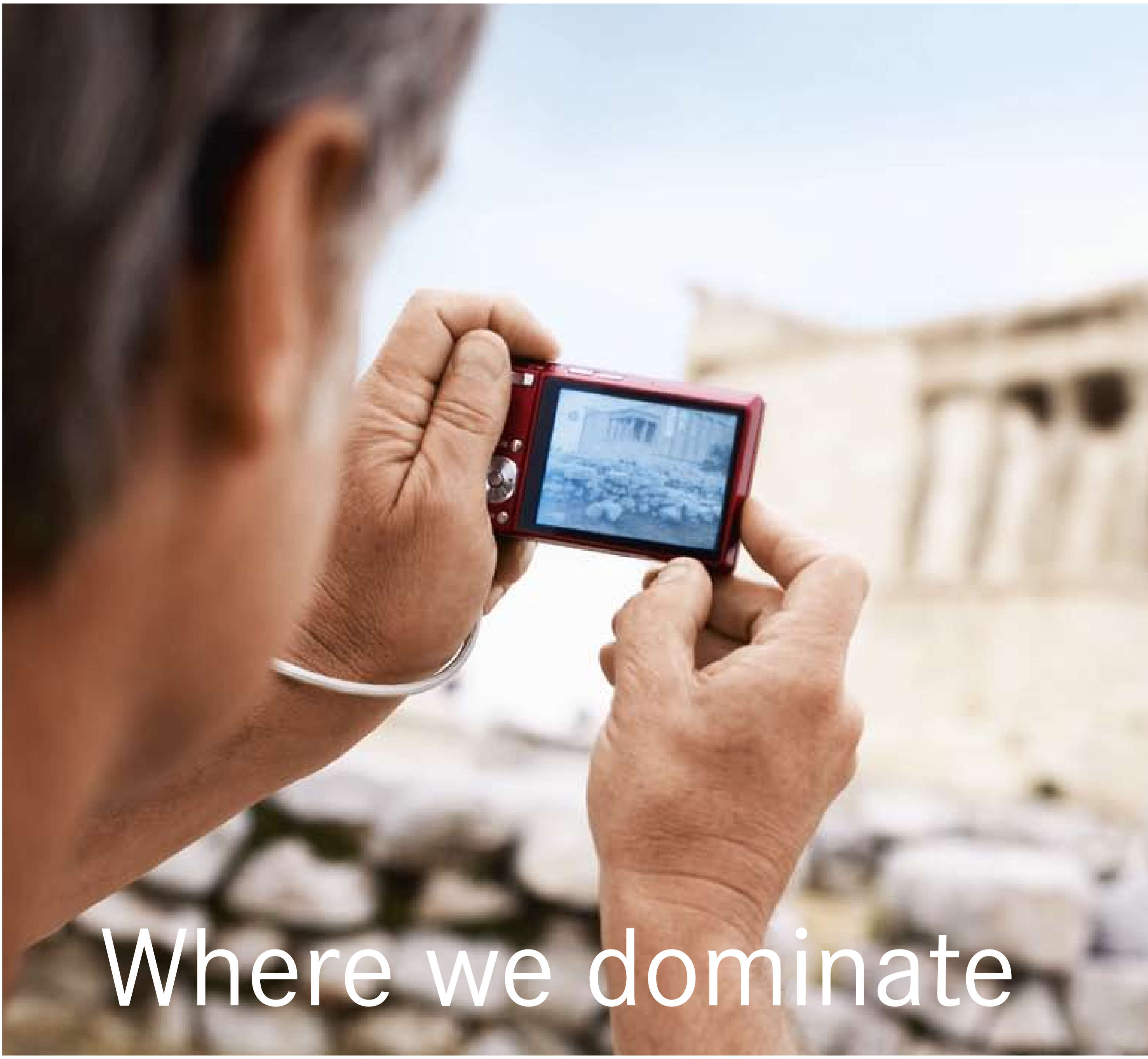
Drive technology

Our expertise in drive and control technology is an important factor in the development and manufacture of our high-performance laser systems.

Development here is focused on very precise, large-area moving apparatus for rapid micro-material processing.



Michael Agater Vice President Production



Where we dominate

>> The electronics market is ever hungry for new ideas, and continuously shortening its product cycles. The solution: highly specialised systems from LPKF improve the efficiency of many development and production processes.

How have lasers improved my new camera?

Rapid Prototyping

LPKF supplies everything needed by electronics laboratories for the in-house prototyping and assembly of PCBs of all kinds without the use of chemicals.

Stencil

As the leading supplier, LPKF delivers laser systems for stencil cutting. These stencils are used to print solder paste onto PCBs.

PCB Processing

LPKF specialises in laser systems for cutting PCBs and flexible circuit carriers.

Fast changing markets require shorter development times

The electronics industry opens up enormous opportunities for growth world-wide. The central organisation for the electrical engineering and electronics industry in Germany forecasts that the German electronics industry can again look forward to a further growth in turnover to continue the expansion experienced in the last four years.

Electronic products are becoming more complex, shorter lived and cheaper. Manufacturers are forced to react increasingly fast to new trends. The time factor is therefore becoming more important than ever, because surviving successfully in the global market means continuously keeping ahead of the competition.

Rapid Prototyping – the faster route to prototype PCBs

Development engineers in research institutes, universities and international companies have relied on LPKF for over 30 years to provide them with efficient solutions for the faster implementation of their new ideas. This involves technology for the production of high quality prototype PCBs in in-house development laboratories. The many benefits of this approach include keeping sensitive data safely within the company, and producing prototype PCBs in only a fraction of the time required by external suppliers. LPKF's rapid prototyping systems are even capable of producing multilayered prototypes in-house within one day. LPKF supplies all the equipment needed including machines, tools, installations and consumables. Its wide-spread distribution network ensures smooth customer care from California to Australia.

Fast, flexible, eco-friendly

Developers using our rapid prototyping equipment also profit from what is missing – they can produce their prototypes without using any etching chemicals: no more problems with disposal and environmental compatibility.

Market leadership being expanded further

The Rapid Prototyping segment again enjoyed solid growth of over 20 % to € 15.3 million in 2007 – and boasts an impressive market share of around 70 %. The successful development of this segment over many years inspires LPKF to continuously set new standards with its innovative range of products.

LPKF is more than a match for the competition at all levels, from simple circuit board plotters to ProtoLasers for small batch production. The growing number and continuous satisfaction of its clients underpin the forecast growth of 10 % per year on average for the Rapid Prototyping segment. LPKF is therefore well on course to continue to defend its market leadership.

Britta Schulz (middle)
Manager Business Unit Rapid Prototyping
with LPKF representatives from Greece

Perfect stencils for new PCBs

PCBs are the main constituents of every electronic device. They link up the electronic components soldered onto the PCB. The solder paste is quickly and precisely applied to the surface of the PCB by way of stencils. Service companies around the world specialise in the production of these stencils.

The demands made on stencil manufacturers have grown in parallel with the rapid technical further development, and the regional spread of electronics manufacturing to new production areas such as India and Vietnam. They not only have to manufacture stencils faster and more precisely than before, they also have to provide customer service wherever their clients are located. Profits per stencil are dropping at the same time. Medium-sized stencil manufacturers in particular, with smaller budgets, are looking for more productive and economical stencil production systems.

Fast and productive

LPKF responds proactively to the changing market conditions by developing high-productivity machines with a high throughput. After launching its newly developed SL MultiCut in 2006, LPKF had already brought the next generation of StencilLasers onto the market at the end of 2007. The SL G 6080 is built around a new drive system and is currently the fastest and most productive laser system on the market for print stencil cutting. High cutting speeds and low operating costs reduce unit costs per stencil to help customers achieve much faster CapEx amortisation. LPKF has also identified a parallel demand for smaller entry-level machines with lower throughputs. A new model launch is planned in the 2008 financial year to serve this market segment.

Knowing what customers want

The long period of successful business in the Stencil segment, and LPKF's leading market position, is attributable to its extremely close relationship to its clients in the stencil manufacturing sector. The new SL G 6080 model for instance was developed and tested in collaboration with leading stencil manufacturers. This guarantees that the real production flows, needs and specifications of our customers become directly incorporated at the conception stage of new machine development.

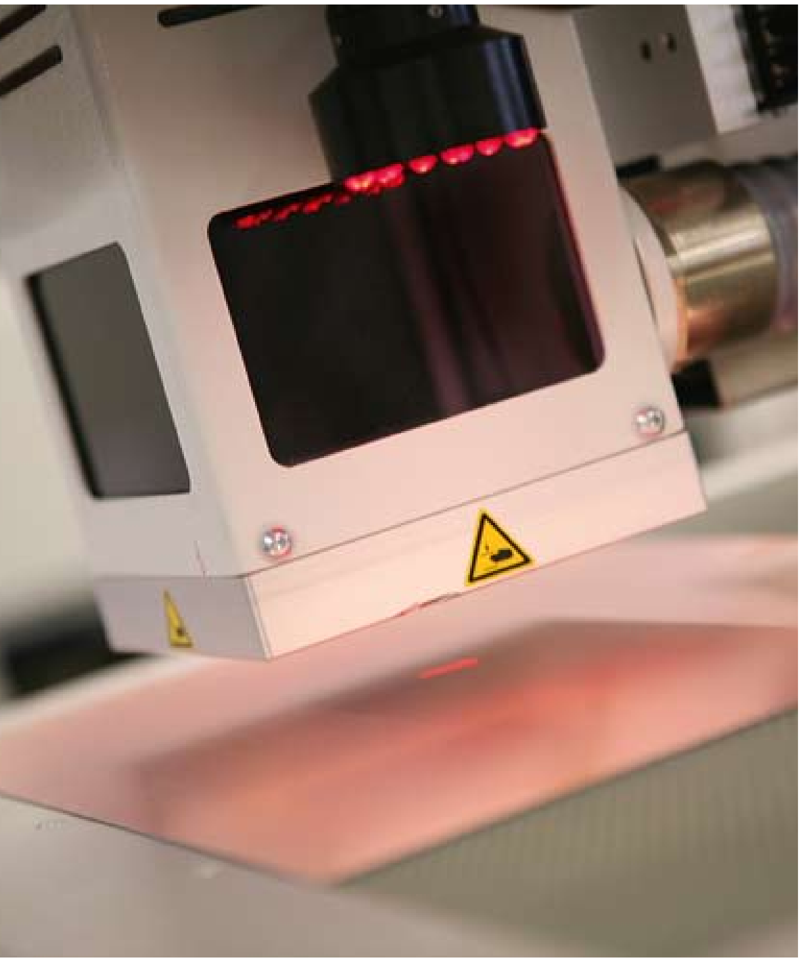
Outlook

The StencilLaser division has successfully fought since 2006 to maintain its leading position in the face of continually growing competition. The conditions for importing into China have also become much more difficult. The continuing weakness of the US-dollar has also had a negative impact on turnover in the StencilLaser business during the 2007 financial year. With its new product developments, LPKF is expecting this segment in the coming years to generate modest growth of 2-3% per year. The objective is to maintain the company's technical lead and secure its market dominance.

Torsten Nagel Vice President Stencil

New contours for modern PCBs

The mobile electronics market continues to boom and sets new challenges for manufacturers. Devices are becoming more refined at the same time as packing in more functions. This demands an ever rising level of precision during manufacturing, particularly with respect to the PCB in its function as the substrate for electronic components in these devices. There is an increase in the use of thin, film-like PCBs, for instance in folding mobile phones. The increase in the number of manufactured mobile phones goes hand in hand with a rise in the diversity of individual models within a particular series, effectively meaning that each specific model is only produced in smaller batches. This in turn demands increasingly short product cycles. Machines for PCB production therefore have to be extremely flexible and designed for rapid modification.



State-of-the-art technology through specialisation

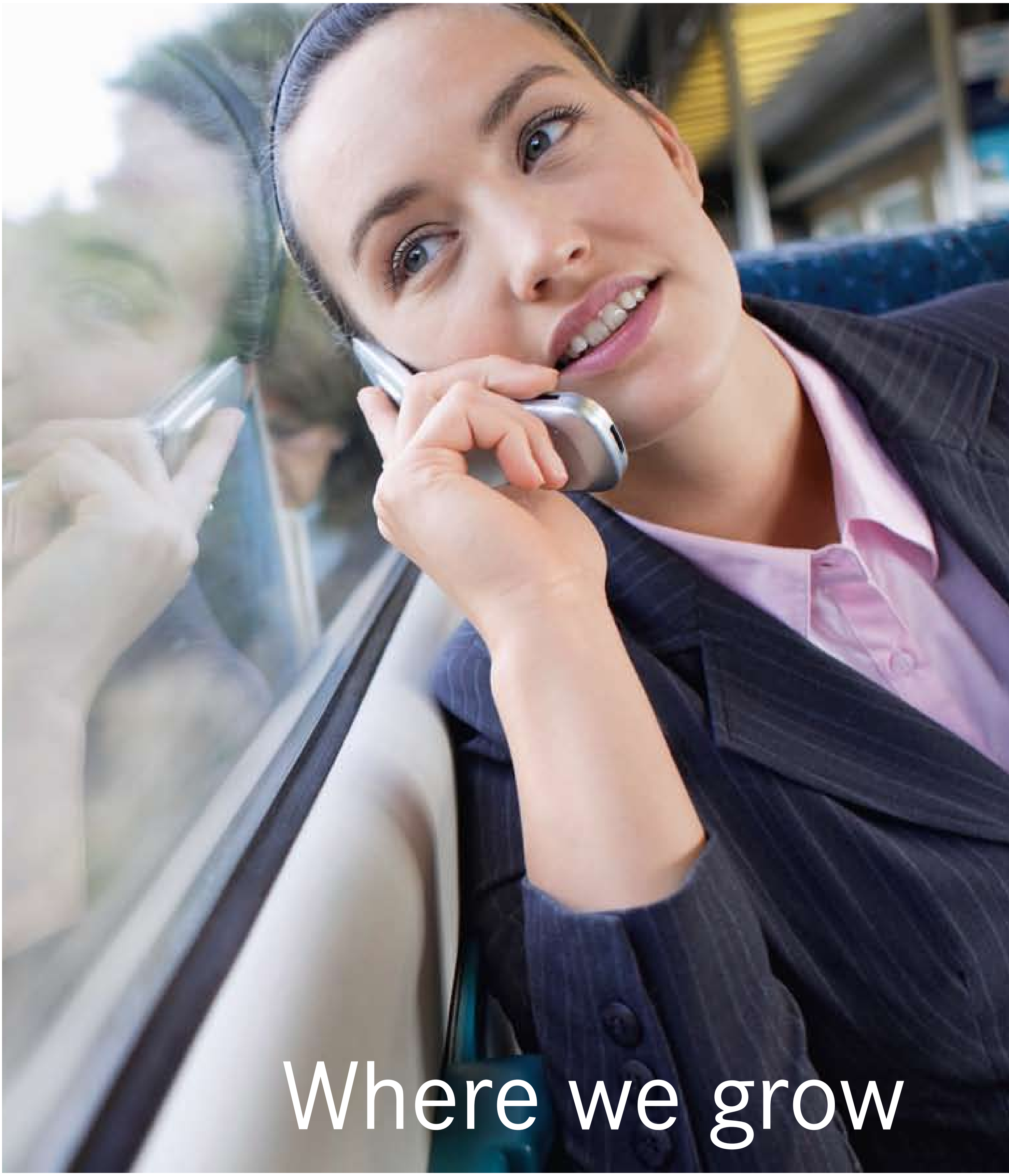
Thanks to its dedicated specialisation in laser cutting, LPKF has captured a leading position in the highly competitive market for PCB processing. Toolless UV laser systems can be flexibly incorporated in PCB production processes – even though the shapes and contours of PCBs are continually changing.

Reliable partner for the PCB industry

Big-name manufacturers of flexible PCBs in Europe and Asia work with LPKF laser cutting systems. The LPKF machines are usually used for the fast, toolless production of prototypes or small batches. They profit here in particular from the extremely precise modus operandi of laser systems – guaranteed to meet even the finest PCB tolerances. Most users produce in Asia and expect very intensive local customer service. By expanding its service centre in Hong Kong, and extending its Asian distribution network, LPKF has created the conditions necessary to acquire and service customers at their own locations.

Outlook

LPKF Laser & Electronics AG forecasts growth of over 10% per year in the PCB Processing segment. LPKF is also totally focused on its strategic objectives: further expanding its market position and establishing LPKF as the supplier of choice for leading PCB manufacturers.



MID

LPKF builds specialised laser systems for the manufacture of MIDs using the LPKF-LDS® method.

Why are there MIDs in my mobile phone?

>> Mobile phones require compact high-performance antennae to ensure that they remain connected everywhere and in all networks. The solution: molded interconnect devices (MIDs).

Nils Heininger
Vice President PCB Processing/MID

MIDs gaining new ground

Times have changed: PCBs are no longer always flat. Modern electronic devices such as mobile navigation systems or notebooks are becoming increasingly compact. Displays and operating elements located all around the device have to be connected to PCBs. And the growing number of antennae required in mobile electronic devices are a new challenge to be met by the manufacturers. The answer to many of these challenges involves the conquering of space – three-dimensional circuit carriers, otherwise known as moulded interconnect devices (MIDs), are the answer.

PCB and housing in one

LPKF has been refining a new technology since 1997 for the production of MIDs: to produce three-dimensional PCBs combining electrical and mechanical functions within one module. These molded interconnect devices can be part of a housing and at the same time carry antennae or electrical circuits. They are perfect for reducing the weight and size of modern electronic devices. MIDs also save costs by simplifying production and assembly processes.

MIDs open up new opportunities

The patented Laser Direct Structuring (LPKF-LDS®) method developed by LPKF for the production of MIDs attracted a great deal of international attention in 2007. More and more manufacturers of PCBs and electronic modules now recognise the advantages of this method and are convinced of its ability to help develop completely new modules. Thanks to the LDS method, PCBs incorporating a number of modules can be integrated within a single MID. The MID is produced in a simple injection moulding process and requires much less space than the conventional modules used previously.

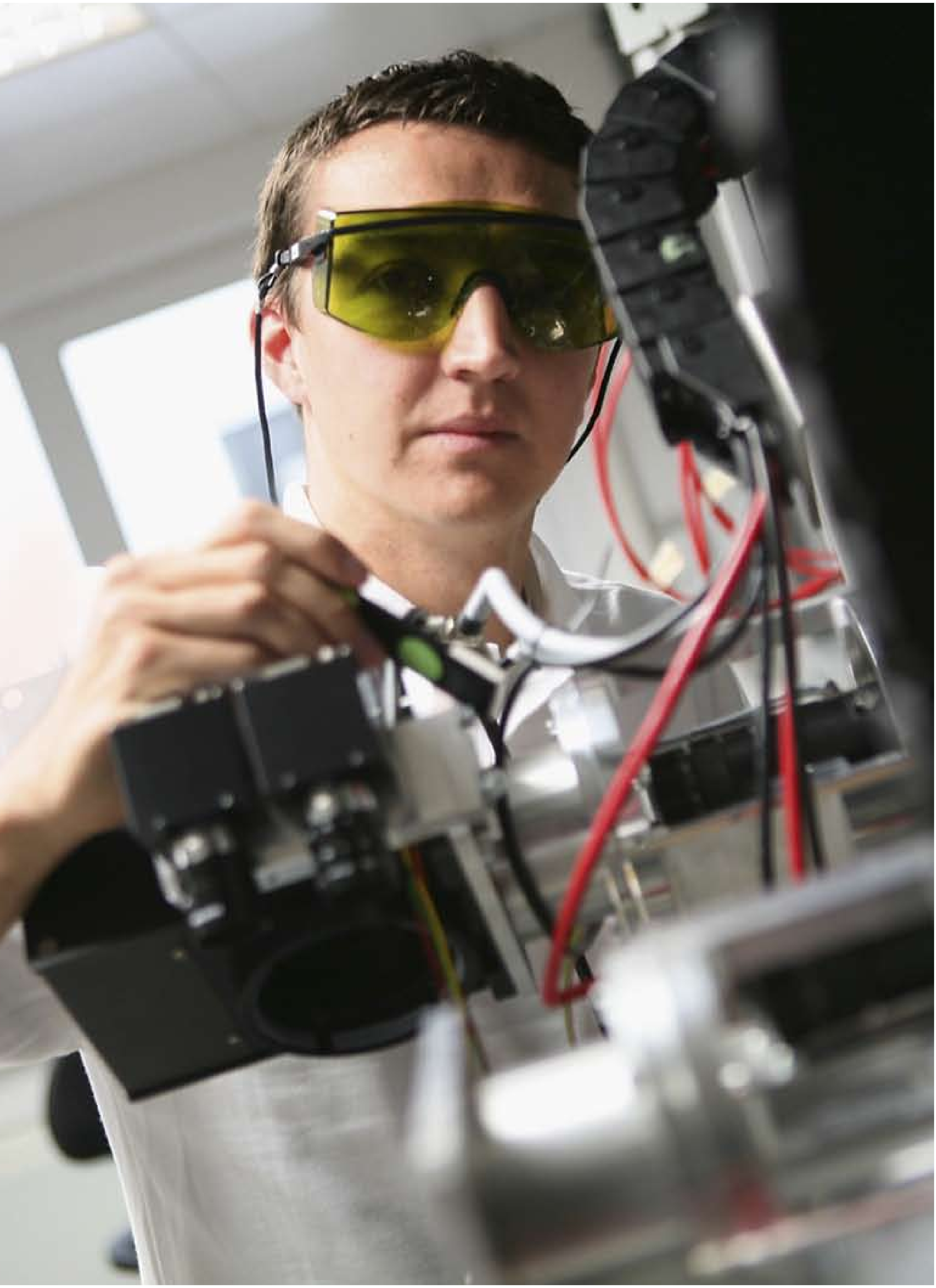
Co-operation and consulting

Launching a new production method such as LDS is a complex and time-consuming business as it demands close co-operation with numerous partners. LPKF has built up co-operation agreements with leading polymer producers, who also push the LDS method and supply a number of specially modified LDS-compatible polymers. Co-operation with metal coating companies and their chemical suppliers is also just as important. Potential users of the LDS method are provided with comprehensive consultation by all of these experts working together. The strategic goal is to establish LDS around the world as the standard process for MID manufacture, and to integrate the method right at the start within the concept phases of the manufacturers. This “jump into the development engineer’s toolbox” boosts the technical options open to manufacturers right from the start, and generates considerable cost savings. The LPKF subsidiary LaserMicronics GmbH specialises in supplying users with functional samples of MIDs during the development phase of new LDS projects, and training the employees of new clients.

Growth ahead

In 2007, the MID division generated a turnover of € 4.8 million and grew more strongly than the other divisions within the LPKF Group with a rise of 79%.

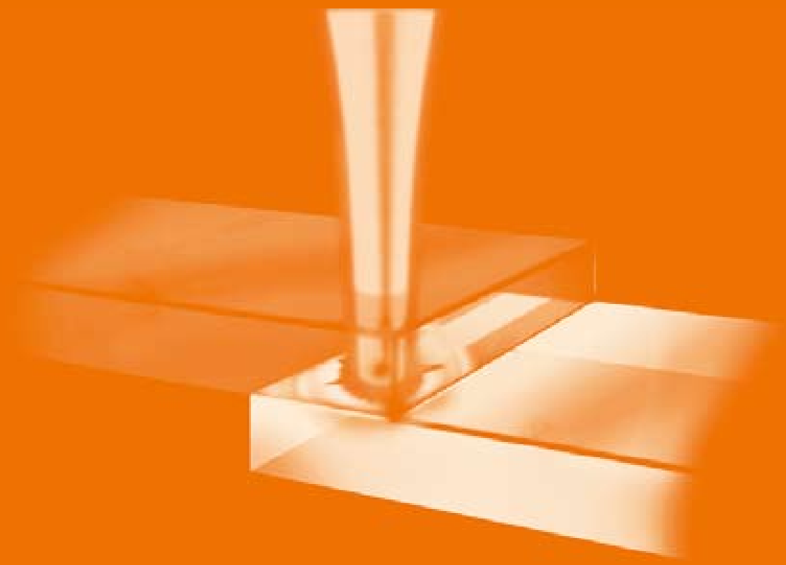
New solutions are currently being developed specially focused on high-volume production: these solutions are based on a fully automatic system which is capable of producing major product batches such as several million mobile phone antennae. In the medium term, the segment will be able to contribute approx. € 10 million per year to Group turnover.

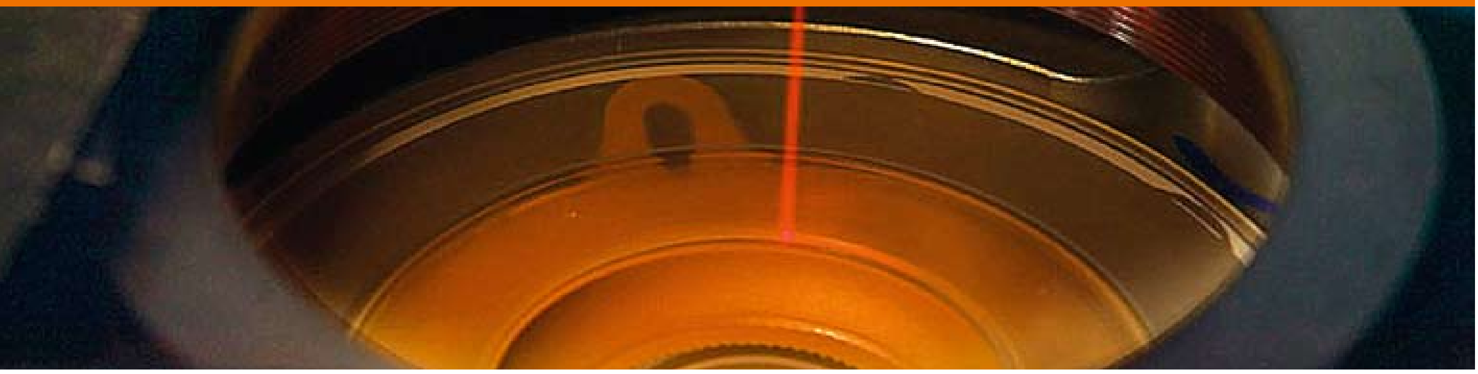


PLASTIC WELDING

LPKF produces standardised and customised laser systems for plastic welding.

Why are tyre pressure sensors weatherproof ?





>> Plastic components are exposed to extreme conditions and often have to remain gas-tight for many years. The solution: laser plastic welding.

Frank Brunnecker
Division Manager Plastic Welding

Good connections are key

Polymers are now widely used in many aspects of daily life. Carmakers, the packaging industry, medical technology companies, and the electronics industry, all make use of the many superb properties of a wide range of polymers. Wherever polymers are used, one of the most important associated aspects is bonding or welding. Polymer components, for medical applications for instance, have to be particularly clean and durably welded. The automotive industry also requires tight and firm plastic welds to protect sensitive components from moisture and dust. Lasers are being increasingly used to guarantee perfect bonding and welding results.

Plastic welding with lasers: safe, clean and tight

LaserQuipment is the brand name under which LPKF develops and manufactures complete systems for the laser welding of polymers. The automotive industry is currently the main customer for these systems. LPKF technology has many advantages compared to conventional ultrasonic welding or gluing techniques: the precise and pinpoint accuracy of the laser beam minimises damage to the materials. Containers and electronic housings can be welded with gas-tight bonds. The welding process can also be very precisely monitored. Laser welding is therefore an optimal technique for manufacturing micro-laboratories, which are used by doctors in their surgeries to directly analyse blood samples. The tight welding of such microfluidic structures requires seams with widths of only a few tenths of a millimetre – almost impossible using conventional welding techniques.

Hybrid welding for carmakers

A South Korean automotive subcontractor has been welding rear lights for the first time since the end of 2007 using LPKF Laser & Electronics AG laser systems. The technique involves LPKF's patented hybrid welding method. This technology combines laser light with infrared radiation and is ideal for the safe bonding of large polymer components. After conducting detailed tests, the client chose LPKF technology.

LPKF is now one of the technology leaders in this sector and has a wealth of experience in this still relatively new welding method. To expand this position internationally, more money was invested in 2007 in the establishment of distribution structures in particular. In December, LPKF opened a sales office in Detroit, the centre of the US automobile industry. LPKF has also established its own application opportunities in the USA.

Outlook

The numerous areas of application and the major international market potential make plastic welding one of the LPKF Group's main growth sectors. LPKF forecasts a growth in turnover of over 40 % in the next few years. Turnover in the medium term is expected to climb to over € 10 million per year.

SOLAR

LPKF develops and manufactures specialised laser systems for scribing thin film solar panels.

Why does solar power need laser technology?

>> For solar panels to capture more market share, they have to be manufactured more cheaply. The solution: thin film based solar technology.

Jürgen Bergedieck
Managing Director of LPKF SolarQuipment GmbH

Bright future for the solar industry

Solar energy is booming. The total output of photovoltaic installations in European Union countries has risen tenfold in the last six years. The German government is actively promoting the further development of renewable energy sources and has defined clear targets: at least 30 % of primary energy consumption in Germany is to be derived from renewable energy sources by 2020. Political support for climate-friendly energy sources is also gaining ground on a broader front outside of Germany. A good example is the state of California with its billion-dollar investment programme in the "million sunroof programme".

Major progress with thin film panels

There is a major demand for highly efficient and economically-produced solar panels. The shortage of crystalline silicon in recent years has given a major boost to the further development of thin film technology. Approx. 7.8 % of the solar panels installed in 2006 were based on thin film technology. An explosive growth in global production capacities is expected in the near future. Experts forecast that thin film technology will gain even more ground in the long term because of its physical and technical advantages. They predict that it will have a market share of around € 8.9 billion by 2010. The European Photovoltaic Industry Association (EPIA) forecasts that thin film modules will corner a market share of approx. 20 % by that time.

One of the main advantages of thin film solar panels is the high degree of automation possible in their production. And this is precisely where LPKF's laser systems come in for the scribing of the panels. Integrated within a complex production line, the precision of the lasers enhances the efficiency of the solar panels.

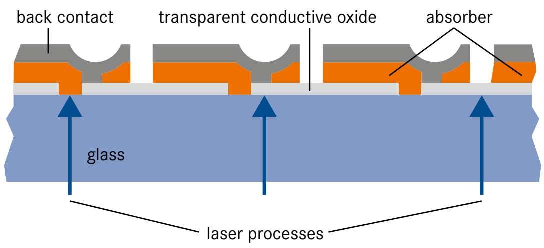
LPKF SolarQuipment

LPKF developed and sold the first solar scribing system in the 2007 financial year. The in-depth experience and expertise LPKF has acquired over many years in laser material processing and drive technology provided the perfect background for this successful start in a new field of business.

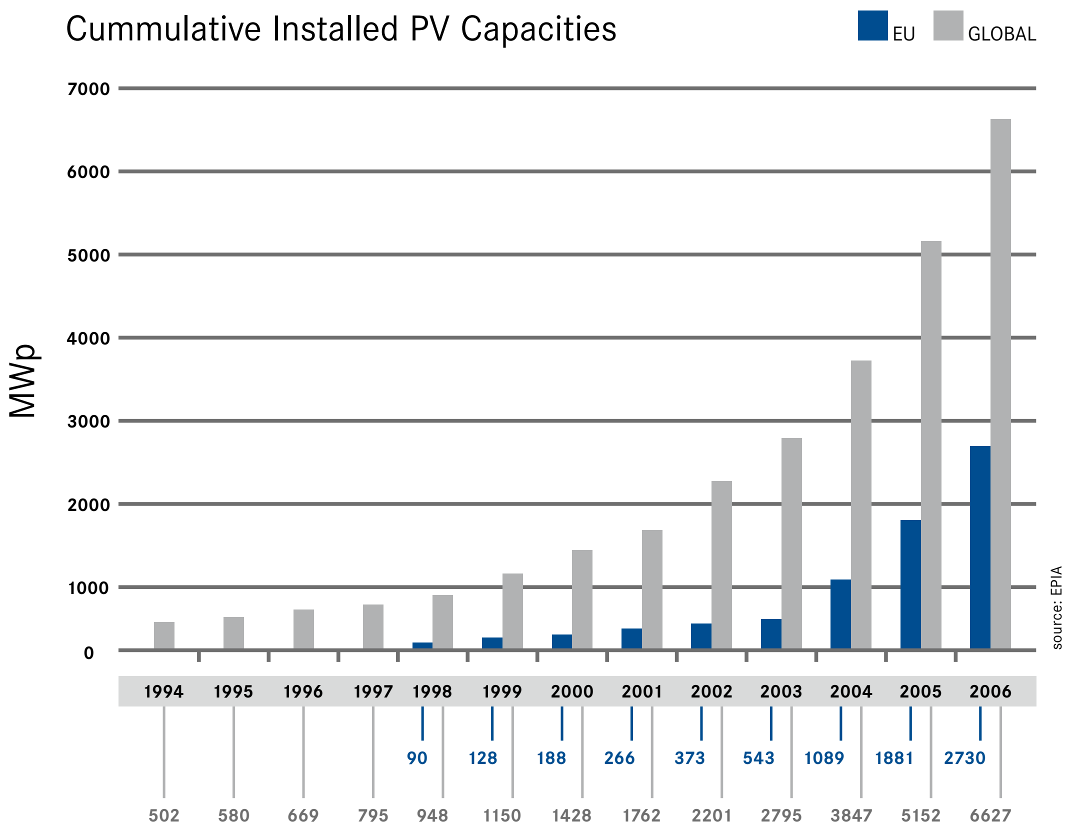
LPKF SolarQuipment GmbH, located in Suhl/Thuringia, was established as a separate company within the Group in 2007. It focuses exclusively on the solar business. LPKF SolarQuipment supplies laser systems for all thin film technologies. With its brand name LPKF Allegro®, it has established a platform with which the company can rapidly respond to the wide range of specifications for panel size and required coating technologies. The high degree of acceptance of our concept is reflected in the good level of orders received at the beginning of the 2008 financial year.

Sunny outlook

LPKF expects its Solar division to grow by over 50 % per year. Turnover in the medium term is forecast to rise up to € 10 million per annum. The company is already prepared to expand capacities beyond this level.



Cross section of a thin-film solar panel



Thin film technology

Thin film solar panels are produced in modules with large surface areas. They are manufactured by coating a sheet of glass or polymer film with an extremely thin layer of conducting and semiconducting materials such as cadmium-telluride (CdTe), copper-indium-selenide (CIS), amorphous or micromorphous silicon. After each coating phase, the new layer is divided up into strips so that the panels can be connected in series when the module is finished. The higher the precision during scribing, the greater the efficiency of the solar panel.

The production process only consumes a third of the energy compared to crystalline silicon panels – and more savings are possible in future. Thin film solar panels can be applied very flexibly and are capable of generating higher outputs, particularly during periods of weak sunlight.

LPKF Group management report for the 2007 financial year

I Report on business developments

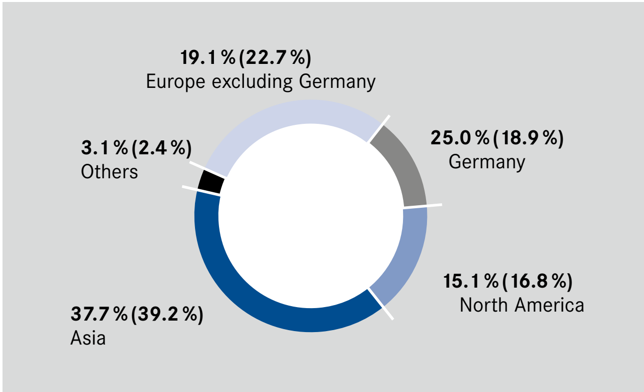
1. Development of the sector and the overall economy

The global economy grew again strongly in the 2007 financial year, albeit slightly less than in 2006. This expansion was not only very dynamic in the emerging economies, but also in industrial countries who posted significant increases in production. The growth was particularly strong in the United States and the Euro zone. The overall economic climate worsened, however, towards the end of the year as a result of the property crisis in the United States. Nevertheless, the economic state of the electronics and automotive industries continues to be good. There is also strong demand in the solar panel production sector for reasons including the current climate protection debate. Overall, the conditions for manufacturers of investment goods were favourable.

2. Turnover and sales development

The LPKF Group closed the 2007 financial year with a turnover of € 42.2 million compared to € 39.8 million in the previous year. This growth in turnover was particularly marked in the MID, Plastic Welding and Solar segments, as well as in the basic Rapid Prototyping business. On the other hand, the turnover in the StencilLasers, PCB Processing and Inspection Systems segments experienced a significant drop. There has been a considerable increase in competition in the StencilLaser market during the financial year. The strength of the Euro compared to the US-Dollar and the Japanese Yen depressed this segment in two ways: firstly, it led to a delay in investment decisions, and secondly, it gave competitors from the "non-Euro zone" a price advantage. This put considerable price pressure on LPKF, which responded at the end of 2007 by launching a new StencilLaser with a better price performance ratio. Turnover in the Laser Systems segment overall increased by € 1.3 million. Rapid Prototyping enjoyed a growth of 21.1 % to € 15.3 million, producing a very satisfactory boost in turnover which was largely attributable to relatively young products such as the ProtoLaser 200.

Turnover per region (previous year)



Asia and in particular China are still the most important markets for LPKF. The German market has grown in significance in 2007. The structure of the sales revenues continues to remain balanced both regionally as well as according to segments.

Orders received in the reporting year total € 43.2 million, up 12.3 % year-on-year from € 38.4 million. Orders in hand also grew by 25.0 % from € 6.1 million at the end of 2006 to € 7.6 million on the 2007 reporting date.

3. Production and procurement

LPKF Motion & Control GmbH in Suhl/Germany continued to be the Group's main supplier of table systems and machine controls. In addition, 2007 saw the first sales of solar scribing systems manufactured in Suhl in close co-operation with the participating subsidiaries. Circuit board plotters and other equipment were supplied by LPKF Laser & Elektronika d.o.o. from Naklo/Slovenia.

In addition to Group companies, components and services were also supplied by a large number of subcontractors. However, most of the procurement involved a relatively small number of suppliers on which LPKF relies.

The economical state of the electronics and automotive industries continues to be good. There is also strong demand in the solar panel production sector.

The capital bound up in inventories rose slightly year-on-year by 7.1 %, reflecting the rise in turnover. The inventories include order-related articles as well as new products and components, where holding them in stock guarantees relatively short delivery times.

4. Investments

After an unusually high investment level in 2006 due to the construction and conversion of production buildings in Garbsen and Naklo, a total of T€ 5,683 was invested in tangible and intangible assets in 2007, T€ 1,849 less than the previous year.

Large-scale investments arose in 2007 for the establishment of the solar activities at the site in Suhl/Germany, and for the construction of a new company building in the United States. Capitalisable development work totalling € 1.7 million was undertaken. In addition, € 3.3 million was invested in non-capitalisable development work. The planning for the 2008 financial year includes investments mainly in Solar, MID and Plastic Welding. The investment volume in 2008 will be similar to the one in 2007.

These investments, combined with the high level of investment in the previous years, are a key factor in the LPKF Group's growth strategy.

5. Financing measures

The Group's financial position with financial resources of € 3.0 million (previous year: € 5.2 million) can be described as balanced. Like in the previous year, inflow of funds from the operative business arose from the short-term rise in trade account receivables due to the strong business at the end of the 2007 financial year and a modest rise in inventories. Dividends totalling T€ 1,303 were paid to shareholders in the 2007 financial year. The inflow of US-Dollar funds as well as the wind-up of LPKF Properties LLC was used by LPKF to undertake investment measures in the US. As in previous years, the current account overdraft facilities were only used for brief periods for operative payment transactions.

As part of its risk management activities, the Group engaged in foreign exchange deals for currency hedging purposes. Hedging was conducted for existing foreign currency trade accounts receivable, as well as intra-Group foreign currency loans and other firmly contracted transactions which cannot yet be capitalised in the balance sheet. The main goals of the hedging are to underpin the reliability of estimates and to avoid or reduce exchange rate losses.

6. Human resources

Numerous new employees were recruited in the 2007 financial year. This primarily involved rises in the workforces of the Solar and Plastic Welding segments, as well as in China.

LPKF's basic philosophy is to hire and bind employees to the company on a long-term basis. However, to maintain the necessary degree of flexibility on the human resources side, new recruits were partly hired on short-term contracts. Temporary staff were also again taken on to quickly cover short-term needs. Hiring more staff for specific jobs mainly in the rapidly growing segments and Asian locations is also planned for 2008.

LPKF's HR development strategy involves the further education and training of staff in all segments on the basis of internal and external seminars, as well as other measures to raise the standard of staff qualifications. As part of its proactive moves to acquire properly qualified new staff, LPKF is particularly involved in training mechatronic technicians and industrial clerks. The Group employed 22 trainees on reporting date.

7. Take-over-relevant details

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

The share capital of LPKF Laser & Electronics AG totalling € 10,858,052.00 is divided up into 10,858,052 ordinary

LaserMicronics GmbH provides production services and is an important marketing tool and a significant factor in the run-up to the sale of machines.

shares. The Board of Managing Directors is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 5,300,000.00 (authorised capital) until 14 June 2010 by one or more issues of up to 5,300,000 new shares with a proportional share of the share capital (ordinary shares) of € 1.00 in return for cash or contributions in kind. The Board of Managing Directors is also authorised, with the approval of the Supervisory Board, to exclude the legal subscription rights of the shareholders with the aim of

a) issuing up to 1,050,000 new shares at a price which is not significantly lower than the market price of the company shares at the time the Board of Managing Directors defines the issue price;

b) issuing up to 5,300,000 new shares as part of a capital increase in return for contributions in kind with the aim of acquiring trade investments and/or companies and/or business units, by surrendering shares in the company;

c) issuing up to 100,000 new staff shares.

The Annual General Meeting on 24 May 2007 authorised the acquisition of the Company's own shares according to Section 71 Paragraph 1 No. 8 AktG (German Stock Corporation Act).

There are no other disclosable matters pursuant to Section 315 Para. 4 HGB (German Commercial Code).

8. Report on affiliated companies

LaserMicronics GmbH
This subsidiary provides production services on systems made by the LPKF Group. LaserMicronics therefore provides a service to a circle of clients who have not yet acquired their own machines but still want to benefit from LPKF's expertise. LaserMicronics is therefore an important marketing tool and a significant factor in the run-up to the sale of machines. Since 1 January 2007, the company has also provided plastic-welding services from a production site in Erlangen/Germany. The company achieved its growth targets.

LPKF Services Inc. (formerly: A-Laser Inc.) in the USA
The main assets of this company were sold at the beginning of 2005. The company was liquidated in the 2007 financial year after clearing the remaining liquid assets.

LPKF Motion & Control GmbH
This company plays a crucial role in setting up the new Solar segment. LPKF Laser & Electronics AG and LPKF Motion & Control GmbH established the joint subsidiary LPKF SolarQuipment GmbH to market the solar scribing equipment.

Intra-Group turnover declined as a result of the weaker Group business with StencilLasers. The inspection systems business, which experienced a considerable slump in the previous year, was almost non-existent in 2007. LPKF Motion & Control GmbH devalued the remaining unpaid trade accounts receivable totalling T€ 89 at the end of the financial year. A revival is presently considered unlikely. However, LPKF will continue to observe the technological development and the market segment of inspection systems. A considerable boost in turnover is expected in 2008 in line with the orders received in the Solar segment. Investments were therefore made in enlarging the production space during the reporting year.

LPKF SolarQuipment GmbH
LPKF SolarQuipment GmbH was established in Suhl/Germany in April 2007 as the distribution and technology company for the Solar segment. The company met its targets in the 2007 financial year.

LPKF Laser & Elektronika d.o.o. in Slovenia
The performance of LPKF Laser & Elektronika d.o.o. declined slightly against the background of a moderate rise in turnover as a result of adjustments for one-off effects. The framework for a further expansion in production has been put into place with the completion of the company's new office and factory building. Growth in the Laser Systems segment in particular is expected in 2008.

LPKF Distribution Inc. in the USA
As the sales and service partner for the North American region, LPKF Distribution Inc. can look back on an outstanding and successful year. However, the continuing weakness of the US-Dollar compared to the Euro depressed the turnover and performance of LPKF Laser & Electronics AG. The company began work during the 2007 financial year on the construction of a new factory and office building with more space for offices, machine demonstrations, training and warehousing. This has been done to accommodate the growing business. The investment is scheduled for completion at the beginning of 2008.

LPKF Properties LLC in the USA
The business purpose of this company founded in 2000 was to provide LPKF Distribution Inc. with property. The company was the owner of the property in Wilsonville/USA scheduled for use by LPKF Distribution Inc. until April 2008. The property was sold in April 2007 and the revenue used to amortise liabilities and make payments to the partners. LPKF Properties LLC was then wound up.

LPKF France S.A.R.L.
The French sales and service company ended the 2007 financial year with a loss on operations. Distribution activities are to be expanded in the future in the Plastic Welding and MID segment to boost turnover. The long-standing managing director stepped down in 2007 for age reasons, and was replaced by a new managing director with previous experience in the automotive subcontracting industry.

LPKF (Tianjin) Co. Ltd. in China
LPKF (Tianjin) Co. Ltd. is accountable for the sales and servicing of LPKF products in China. It operates branch offices in Tianjin, Suzhou and Shenzhen. Additional sales offices were also opened in Beijing and Chengdu in the 2007 financial year. LPKF (Tianjin) Co. Ltd. generated the highest turnover and best performance in its history in 2007.

LPKF Laser & Electronics (Asia) Ltd. in Hong Kong
LPKF Laser & Electronics (Asia) Ltd. assists Asian distributors on the sales side, and works on new markets in the south Asian region. It also acts as the Asian technical service headquarters for LPKF laser systems, and is being expanded further. However, the company's expansion is taking longer than originally planned. It is expected to move into profit during the 2008 financial year.

9. Research & Development

Continuous investment in research & development is vital for a high-tech Group such as LPKF. In 2007, the LPKF Group spent € 4.8 million on these activities, corresponding to 11.4 % of turnover. The Group's development workforce was significantly expanded. This move benefited all of the Group's segments.

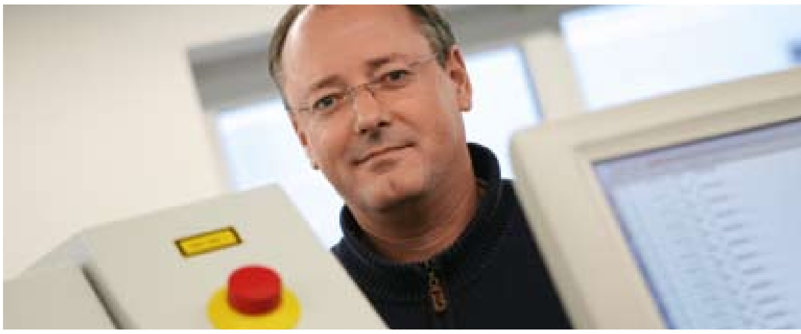
The new Solar segment was the main area of development activity during the 2007 financial year. The Group's existing technical excellence in the laser processing of thin layers, and the construction of fast, precise processing systems based on highly complex technology, made a major contribution in 2007 to the development of the first laser scribing machines for thin film solar panels.

Intense R&D work began in the middle of 2007 on developing a StencilLaser system with an even better price/performance ratio. The new system which gives LPKF a clear cutting edge, was launched on the market in November 2007.

A revolutionary machine concept was also elaborated in the MID segment designed for high throughputs and largely automatic workflows.

The development work carried out in these sectors is intended to lead to additional product launches in the first half of 2008.

LPKF also participated in publicly funded joint development projects, including the development of a micro-fuel-cell.



Numerous other projects were directly focused on customising systems in line with customer specifications.

10. Risk management system

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

The LPKF Group is exposed to numerous risks as it pursues its global business activities within the rapidly changing con- ditions affecting its target markets. Risk management, and particularly the risk early warning system, has therefore always been a fundamental element in the planning and implementation of the company's business strategy. Generally, although risks can be limited by suitable measures and can be rapidly and precisely identified by an early warning system, they can never be completely excluded and always need to be reassessed at the time the risk evaluation is carried out. LPKF therefore makes use of a number of highly developed management and control systems to measure, monitor, control and handle the risks which the company is exposed to. A particularly important aspect here is the Group-wide strategic corporate planning and the associated reporting. The Board of Managing Directors of LPKF Laser & Electronics AG is responsible for risk policy and the internal control and risk management system. These functions are implemented by the decentralised management of each segment in each organisational unit in accordance with the Group structure. A risk manager co-ordinates and authorises the various measures implemented to control the risk. This procedure has proven itself time and again in the past. The risk management system is assessed at various times including annually by an auditor. An IT risk inspection by an external service company was also carried out in the 2007 financial year on the companies based in Garbsen.

As part of the risk identification and control procedure, existing instruments such as the risk management manual and the reporting tools are continuously updated, whilst the daily implementation of the risk management system is documented. Risk management discussions of all types are always recorded in minutes. As in previous years, a risk inventory was also conducted in the 2007 financial year. This reviewed the existing and potential risks, and checked the efficiency of reporting with respect to the management of risks. Another important element in the risk early warning system and the regulated transaction of business processes is the quality management system according to DIN EN ISO 9001:2000. An additional instrument for risk limitation and eradication is the implementation of the recommendations of the German Corporate Governance Code, which plays an important part in the co-operation between the Supervisory Board and the Board of Managing Directors. LPKF therefore welcomes the related initiatives implemented in Germany and internationally.

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

Business opportunities

The electronics industry is a strongly growing sector and LPKF's most important target market. The trends that favour the use of LPKF products are the ever shortening product life cycles, frequent product redesign, and increasing miniaturisation. Clients in the automotive subcontracting sector and the solar industry also operate in a very dynamic environment. This is also where the LPKF Group's product developments really bite. The opportunities lie in the successful marketing of these new developments. If LPKF succeeds in replacing established technology with new LPKF methods, quantum jumps in growth in the relevant sector could be enjoyed. LPKF is the market and technology leader in its well established Rapid Prototyping and Stencil sectors. The Group has a cutting edge over its competitors and plans

Trends that favour the use of LPKF systems are the ever shortening product life cycles, frequent product redesigns and increasing miniaturisation.

to rigorously defend this lead now and in the future. With respect to PCB Production Systems and Plastic Welding, LPKF has established itself in the relevant markets, and considerably boosted awareness of its brand name. The MID and Solar sectors also open up a broad range of growth opportunities. The Group has just begun to take the first steps in a very promising area of development, as also highlighted by the growth in turnover in these segments in the 2007 financial year.

Business risks

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

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

The systematic development of new technologies and business segments is in principle associated with the risk that the planned business model fails to meet its targets due to unforeseen circumstances. The further development of the Solar business is also dependant on the continuation of the Renewable Energy Act (EEG) which governs the remuneration levels for feeding power into the grid from renewable energy sources such as photovoltaic power.

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

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

Dependence on suppliers

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

Dependence on customers

The regional spread of the sales markets is balanced. This has been demonstrated over many years by the distribution of turnover according to regions so that there are no special

risks associated with this factor. In general, there is no dependence on individual major customers.

Exchange rate fluctuations
The exchange rates between foreign currencies and the Euro sometimes undergo major fluctuations. For LPKF, the main fluctuation of any significance is that with respect to the US-Dollar, and to a lesser extent the Japanese Yen. Fluctuations in exchange rates can have a positive as well as a negative effect on results. In the reporting period, the Dollar weakened sharply again against the Euro. Measures to counteract this trend 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. In accordance with the risk management strategy, most of the cash flow is used either for the procurement of materials in the Dollar zones, or is hedged by taking out forward contracts or the acquisition of put options. The positive effect on performance of these currency hedging measures totalled T€ 72. Lost profits from these transactions amounted to T€ 1.

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

Patent risks
LPKF owns 22 patents, and most of them have international validity. The company continually applies for new patents thanks to its intense research activities. LPKF Laser & Electronics AG considers the acquisition of patent rights to be the most effective means of protecting its R&D investments from depreciation. In the MID segment in particular, commercial success also depends on the patent situation. In the Plastic Welding sector, there are intense disputes between competitors for patents and licences, which can also have an impact on LPKF's business. It is also possible that existing and new protection rights held by third parties could have an impact on LPKF's commercial situation.

Human resource risks
The demand for highly qualified technical staff has risen con-siderably recently because of the upswing in the economy. Thanks to its contacts with universities and the growing level of awareness the company enjoys in the laser sector, LPKF has so far not had any serious problems in recruiting adequately trained staff. However, recent developments in the job market mean that delays cannot be excluded in future in filling vacancies for scientists and technicians. There is also a risk associated with the loss of key staff as a result of head hunting.

II. Outline of the remuneration system

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

The performance-based component was related in the 2007 financial year and the previous year to Group EBT and only comes into effect when a minimum net profit for the year of € 1.0 million has been generated. No retrospective changes in the performance targets are permitted. In addition, share options were assigned as salary components as part of a long-term motivation strategy defined in the 2001 share option programme.

LPKF used the 2007 financial year for a focused expansion of the Solar, MID and Plastic Welding segments.

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

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

The pension is paid upon stepping down from the company

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

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

A support fund for two other active members of the Board of Managing Directors was set up, into which the company has to pay a fixed annual amount. No provisions for pensions are required in this case.

III Business report

The LPKF Group has experienced a year of profound change against a favourable economic background. Whilst a considerable decline in turnover was posted in its established Stencil and PCB Processing segments, significant growth in turnover was experienced by the new Solar, MID and Plastic Welding segments. LPKF used the 2007 financial year for a focused expansion of these business activities. This went hand in hand with increases in the workforce, particularly on the Plastic Welding side and in the Chinese subsidiary.

Business performance analysis

The Group's earnings situation overall failed to achieve its targets in the 2007 financial year. This was attributable to only a minor rise in turnover against the background of the budgeted higher costs.

Sales revenues rose by 6.1 % to € 42.2 million (€ 39.8 million). Manufacturing costs for prototypes and capitalized development costs are reported under other work capitalised. Other operating income rose by € 0.8 million, particularly due to income from the sale of the property in the US amounting to € 0.4 million. The material deployment ratio has dropped slightly from 31.2 % to 31.1 %. The personnel costs ratio, reflecting the ratio between personnel costs and sales revenues, rose to 36.6 % (previous year: 34.4 %). The rise in personnel costs by T€ 1,798 or 13.2 %, is mainly attributable to the growth in workforce in the Plastic Welding and solar segments and in China as well as ongoing wage rises. The other operating expenses have risen by T€ 925 to T€ 9,398, mainly due to the T€ 472 rise in sales costs, including travel expenses. The Group generated an EBIT of T€ 6,007 (previous year: T€ 6,350), corresponding to an EBIT ratio of 14.2 % (16.0 %). The decrease in financial performance by T€ 293 in partly attributable to an interest refund from a tax lawsuit of T€ 199 received in 2006. The taxation ratio is 29.1 % (previous year: 32.2 %). The tax burden in the reporting period was reduced by T€ 310 by a tax refund arising from previously unasserted losses in previous years. After deducting tax and minority interests, the Group performance was € 3.9 million compared to € 4.0 million the previous year.

The Group's cash and cash equivalents have declined from € 5.2 million to € 3.0 million. This is mainly due to the short term increase in accounts receivable at the end of the financial year and the payment of a dividend. The financial situation is rated as balanced.

The company's asset situation also continues to be extremely sound, as reflected e.g. by the high capital ratio of 69.3 % (previous year: 71.8 %). Share capital finances 198.1 % of the fixed assets (previous year: 223.2 %). Provisions for long-running low-yielding claims have been made by discounting, and setting up other provisions against specific debts.

IV Outlook

The start of 2008 was affected by turbulence in the international financial markets and fears of a recession in the USA. It is currently not clear to what extent these developments will have an impact on the global production of electronics, cars and solar panels, and how capital expen-diture in these industries will evolve over the course of the year.

In this business environment, LPKF puts its faith in its broad position with laser-based products for a range of industries, and on its global distribution strategy. Further optimisation of the global distribution network lies at the heart of the Group's endeavours for all of its products. The company's priorities in 2008 will therefore be focussed on customer satisfaction, expanding the distribution network, and cost savings. These measures have the overall aim of optimising opportunities in all segments, and simultaneously helping the company to weather all eventualities.

This gives rise to a number of different tasks in each of the segments:

After a period of unsatisfactory business, the StencilLaser and PCB Processing segments are to be given an additional boost in 2008 by launching a number of newly developed products which meet the latest demands of clients in these markets.

For the Rapid Prototyping segment, which enjoyed a successful 2007 financial year, 2008 will bring further optimisation of the distribution structure. In addition, new products will make LPKF interesting for even more electronic design engineers.

The MID and Plastic Welding growth segments will continue to concentrate on internationalising their business and setting up application centres in Asia and the USA. CapEx is therefore aimed at the necessary equipment and training of local staff.

In the Solar segment, the Group will expand its production capacities to meet the growth in orders in hand, and strengthen its international presence.

LPKF is well positioned overall to realise the ambitious targets for 2008 and subsequent years.

V Events after the balance sheet date

No events occurred after the balance sheet date requiring disclosure.

Garbsen, 6 March 2008

Bernd Hackmann **Bernd Lange** **Kai Bentz**

Group Annual Financial Statement

Group annual financial statements for the 2007 financial year compliant with International Financial Reporting Standards (IFRS)

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Consolidated balance sheet at 31.12.2007

Assets

T€	Notes	2007	2006
NON-CURRENT ASSETS			
Intangible assets	10		
Software		471	388
Goodwill		74	74
Development costs		2,826	1,524
Right to use		69	6
		3,440	**1,992**
Tangible assets	10		
Land and building		9,113	7,339
Technical equipment and machinery		1,565	1,637
Other equipment, factory and office equipment		1,244	1,239
Construction in process		1,753	2,003
		13,675	**12,218**
Financial assets	10		
Other loans		17	0
		17	**0**
Accounts receivable and other assets			
Trade accounts receivable	12	463	268
Tax refund claims	13	354	395
Other assets	13	224	226
		1,041	**889**
Deferred taxes	16	**531**	**497**
		18,704	**15,596**
CURRENT ASSETS			
Inventories	11		
(System) components		7,484	6,491
Work-in-process		1,642	2,601
Finished goods and merchandise		6,388	5,320
Prepayments		103	173
		15,617	**14,585**
Accounts receivable and other assets			
Trade accounts receivable	12	9,784	7,392
Tax refund claims	13	615	216
Other assets	13	1,146	734
		11,545	**8,342**
Securities	14	**284**	**1,826**
Cash on hand, bank balances	15	**2,824**	**3,330**
Non-current assets held for sale	17	**0**	**519**
		30,270	**28,602**
		48,974	**44,198**

Liabilities and shareholders' equity

T€	Notes	2007	2006
SHAREHOLDERS' EQUITY			
Share capital	18	10,858	10,858
Additional paid-in capital		3,953	3,953
Other earnings reserves		7,000	6,000
Market value of hedging transactions		0	14
Market value of securities		-7	0
Reserves for share-based payments		274	161
Net income for the year		10,599	9,034
Foreign currency translation adjustments		-1,289	-864
Minority interest	19	2,552	2,559
		33,940	**31,715**
NON-CURRENT LIABILITIES			
Provisions for pensions	20	335	309
Convertible bond	23	106	113
Medium and long-term liabilities due to banks	22	3,558	2,929
Deferred grants	3	373	305
Deferred taxes	16	1,234	873
		5,606	**4,529**
CURRENT LIABILITIES			
Tax provisions	21	1,027	1,270
Other provisions	21	1,782	1,937
Short-term liabilities due to banks	22	1,347	625
Trade accounts payable	22	2,101	2,034
Other liabilities	22	3,171	2,088
		9,428	**7,954**
		48,974	**44,198**

Consolidated statement of income from 01.01.2007 to 31.12.2007

T€	Notes	2007	2006
Sales	1	42,208	39,780
Changes in inventories of finished goods and work-in-process		-65	826
Other work capitalised	2	2,331	1,239
Other operating income	3	1,729	959
		46,203	**42,804**
Cost of materials	4	13,116	12,675
Personnel expenses	5	15,469	13,671
Depreciation and amortisation	6	2,213	1,635
Other operating expenses	7	9,398	8,473
		6,007	**6,350**
Financial income	8	149	389
Financial expenditure	8	228	175
Results from ordinary activities		**5,928**	**6,564**
Income tax	9	1,725	2,111
Net income		**4,203**	**4,453**
Net income thereof			
Shareholders of parent company		3,868	3,973
Minority interests		335	480
		4,203	**4,453**
Earnings per share – basic (in €)	25	0.36	0.37
Earnings per share – diluted (in €)	25	0.36	0.37

Consolidated cash flow statement from 01.01.2007 to 31.12.2007

T€	Notes	2007	2006
OPERATING ACTIVITIES			
Net income for the year		4,203	4,453
Income tax		1,725	2,111
Interest charges		228	175
Interest income		-149	-389
Depreciation and amortisation of fixed assets		2,213	1,635
Profit/loss from sale of assets		-383	15
Including reclassification into current assets		153	44
Other non-payment income/expenses		119	176
Changes in inventories, accounts receivable and other assets		-4,621	-3,855
Changes in provisions and accrued liabilities		155	826
Changes in liabilities and deferred income		1,156	180
Payments from interest		153	393
Paid income tax		-2,253	-1,954
Net cash flow from operating income		**2,699**	**3,810**
INVESTING ACTIVITIES			
Fixed assets investments intangible assets		-2,013	-1,403
Fixed assets investments tangible assets		-3,512	-6,029
Purchase of minority interests		-17	0
Receipts on sale of equipment		1,350	32
Cash flow from investing activities		**-4,192**	**-7,400**
FINANCING ACTIVITIES			
Dividends paid		-1,303	-1,084
Dividends paid to minority shareholders		-270	-40
Interest paid		-228	-175
Deposits from shareholders		0	72
Repayments convertible bond		-8	0
Change in long-term bank loans		1,870	1,860
Repayments long-term bank loans		-667	-390
Cash flow from financing activities		**-606**	**243**
CHANGES IN CASH AND CASH EQUIVALENTS			
Changes in cash and cash equivalents due to exchange rates		-23	-61
Changes in cash and cash equivalents		-2,099	-3,347
Cash and cash equivalents as at 1.1.		5,156	8,564
Cash and cash equivalents as at 31.12.		**3,034**	**5,156**
COMPOSITION CASH AND CASH EQUIVALENTS			
Cash		2,824	3,330
Securities		284	1,826
Bank overdraft		-74	0
Cash and cash equivalents as at 31.12.	24	**3,034**	**5,156**

Consolidated statement of the changes in shareholders' equity

Consolidated statement of the changes in shareholders' equity for the financial year ended 31 December 2007 (previous year in brackets)

T€	Share capital	Additional paid-in-capital	Other earnings reserves	Market value of hedging transactions
As at 1.1.2007 (1.1.2006)	10,858 (10,838)	3,953 (3,901)	6,000 (4,700)	14 (-3)
Cost of capital increase	0 (0)	0 (0)	0 (0)	0 (0)
Preceeds from capital increase	0 (20)	0 (52)	0 (0)	0 (0)
Buying back own stock	0 (0)	0 (0)	0 (0)	0 (0)
Issue of own stock	0 (0)	0 (0)	0 (0)	0 (0)
Additions from measurement of cash flow hedge	0 (0)	0 (0)	0 (0)	0 (14)
Reductions from measurement of cash flow hedge	0 (0)	0 (0)	0 (0)	- 14 (3)
Additions from market valuation of securities	0 (0)	0 (0)	0 (0)	0 (0)
Allocation to reserves	0 (0)	0 (0)	1,000 (1,300)	0 (0)
Transfer from earnings reserves	0 (0)	0 (0)	0 (0)	0 (0)
Dividend payment to shareholders	0 (0)	0 (0)	0 (0)	0 (0)
Net result	0 (0)	0 (0)	0 (0)	0 (0)
Expenditure for granted option rights	0 (0)	0 (0)	0 (0)	0 (0)
Settlement of difference from acquisition of minority shares	0 (0)	0 (0)	0 (0)	0 (0)
Foreign currency translation adjustments	0 (0)	0 (0)	0 (0)	0 (0)
as at 31.12.2007	**10,858**	**3,953**	**7,000**	**0**
as at 31.12.2006	(10,858)	(3,953)	(6,000)	(14)

Market value of securities	Reserves for share-based payments	Net income for the year	Foreign currency translation adjustments	Minority interest	Total
0 (-29)	161 (93)	9,034 (7,445)	-864 (-564)	2,559 (2,173)	31,715 (28,554)
0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (72)
0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (14)
0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	- 14 (3)
-7 (29)	0 (0)	0 (0)	0 (0)	0 (0)	-7 (29)
0 (0)	0 (0)	- 1,000 (- 1,300)	0 (0)	0 (0)	0 (0)
0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
0 (0)	0 (0)	- 1,303 (- 1,084)	0 (0)	-265 (-40)	- 1,568 (- 1,124)
0 (0)	0 (0)	3,868 (3,973)	0 (0)	335 (480)	4,203 (4,453)
0 (0)	113 (68)	0 (0)	0 (0)	0 (0)	113 (68)
0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
0 (0)	0 (0)	0 (0)	-425 (-300)	-77 (-54)	-502 (-354)
-7	**274**	**10,599**	**- 1,289**	**2,552**	**33,940**
(0)	(161)	(9,034)	(-864)	(2,559)	(31,715)

Notes to the 2007 consolidated statements

A. Basic information

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

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

Osteriede 7
30827 Garbsen
Germany.

These consolidated financial statements were authorised for publication by the Board of Managing Directors on March 14 2008.

B. Basis of preparation of the consolidated financial statements

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

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

LPKF applied the following IASB statements for the first time in the 2007 financial year:

- IFRS 7 Financial Instruments – Disclosures
- Modifications to IAS 1 Presentation of Financial Instruments – Capital Disclosures
- IFRIC 7 Applying the Restatement Approach under IAS 29 Reporting of Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim financial reporting and impairment

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

The following supplements to the issued standards, or revised and/or new issued standards adopted prior to the balance sheet reporting date were not applied in the 2007 financial year:

Standards/Interpretation		Mandatory implementation deadline	Acceptance by EU Commission*	Effects
IFRS 8	Operating segments	1 .1 .2009	Yes	Segment reporting
IAS 1	Presentation of the annual financial statements	1 .1 .2009	No	Segment reporting
IAS 23	Cost for loan capital	1 .1 .2009	No	Raising the finance reporting value of qualified assets
IFRIC 12	Service licence agreements	1 .1 .2008	No	None
IFRIC 13	Customer loyalty programmes	1 .7 .2008	No	None
IFRIC 14	The limitation of a performance-related asset value, minimum financing regulations and their interaction	1 .1 .2008	No	None significant

*as at 31.12.2007

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

Consolidated Group

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

Name	Domicile	Holding %	Acquisition/founding
Full consolidation			
LaserMicronics GmbH	Garbsen/Germany	100.0	1989
LPKF Laser & Elektronika d.o.o.	Naklo/Slovenia	75.0	1995
LPKF Distribution Inc.	Wilsonville/USA	85.0	1994/1999/2005
LPKF Services Inc. (former: A-Laser Inc.)	Beaverton/USA	100.0	1995/1999
LPKF Motion & Control GmbH	Suhl/Germany	50.9	1991/1999
LPKF Properties LLC	Wilsonville/USA	60.0	1999
LPKF France S.A.R.L.	Lisses/France	100.0	1999/2007
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0	2000
LPKF Laser & Electronics (ASIA) Ltd.	Hong Kong/China	100.0	2005
LPKF SolarQuipment GmbH	Suhl/Germany	83.7	2007

LPKF SolarQuipment GmbH was founded in March 2007. 33.3% of the shares in the company are held by LPKF Motion & Control GmbH, 66.7% by LPKF Laser & Electronics AG. The acquisition costs for the shares correspond to the nominal capital of T€ 100.

The shares held by a minority shareholder in LPKF France S.A.R.L. were acquired in September 17th, 2007. This boosted the stake from 94% to 100%. The agreed purchase price was T€ 4. From the Group's point of view, no significant assets or debts were acquired.

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

The inactive company LPKF Services Inc. was also wound up.

The land property held by LPKF Properties LLC in the USA was reported in the previous year under the balance sheet heading "Long-term assets scheduled for sale", and sold in the 2007 financial year. The company was subsequently wound up. To strengthen the Group's activities in the USA, construction was begun in the reporting period on a new larger building built on land acquired by LPKF Distribution Inc.

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

C. Consolidation principles

The consolidated financial statements are based on the financial statements prepared according to standard accounting and measurement rules as at 31 December 2007 of those companies included in the consolidated financial statements.

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

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

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

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

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

D. Foreign currency translation

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

In € (1 € = x currency)	Reporting date rate		Average rate	
	31.12.2007	31.12.2006	2007	2006
Slovenian Tolar	–	239.6400 SIT	–	239.5964 SIT
US-Dollar	1.4721 US$	1.3170 US$	1.3706 US$	1.2557 US$
Chinese Renminbi Yuan	10.75240 CNY	10.27930 CNY	10.41859 CNY	10.00899 CNY
Hong Kong-Dollar	11.4800 HKD	10.2409 HKD	10.69282 HKD	9.75491 HKD

E. Critical estimates and assumptions in accounting and measurement

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

Critical estimates and assumptions in the accounting

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

(a) Estimated impairment of goodwill

The Group carries out analysis annually in compliance with the accounting and measurement methods described in Note 10.1 to determine whether there is any impairment of goodwill. The attainable amount of cash generating units (CGUs) was determined on the basis of a calculation of the utility value. These calculations have to be based on assumptions made by the management on 31 December 2007.

(b) Income tax

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

(c) Fair value of derivative and other financial instruments

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

F. Segment reporting

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

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

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

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

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

The segment data was determined as follows:

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

T€		Laser Systems	Rapid Prototyping	Special Systems	Production Services	Others	Not distributed	Total
External sales	2007	24,766	15,294	52	1,771	325	0	42,208
	2006	23,505	12,618	2,246	1,158	253	0	39,780
Operating income	2007	4,261	2,208	-77	268	1	-654	6,007
	2006	5,303	1,752	246	152	31	- 1,134	6,350
Assets*	2007	28,027	15,822	48	875	594	3,608	48,974
	2006	22,235	14,642	1,543	434	234	5,110	44,198
Debts	2007	5,214	3,145	0	328	198	6,149	15,034
	2006	3,738	2,631	678	126	25	5,285	12,483
Investments	2007	3,356	1,910	11	266	88	69	5,700
	2006	3,588	3,594	46	22	61	221	7,532
Depreciation	2007	1,329	694	2	104	22	62	2,213
	2006	933	554	66	32	11	39	1,635
Non-cash expenses	2007	1,528	587	7	125	46	1,101	3,394
	2006	525	739	22	69	7	1,563	2,925

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

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

T€		Germany	Rest of Europe	North America	Asia	Others	Total
External sales	2007	10,537	8,056	6,367	15,892	1,356	42,208
	2006	7,525	9,049	6,668	15,569	969	39,780
Assets*	2007	36,391	6,272	4,197	2,114	0	48,974
	2006	32,345	6,389	4,358	1,106	0	44,198
Investments	2007	3,774	579	989	358	0	5,700
	2006	4,502	2,101	593	336	0	7,532

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

G. Consolidated statement of income

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

The sales revenues of T€ 42,208 include order revenues of T€ 1,197 pursuant to IAS 11, determined using the POC method. The projects will be completed within the next 12 months.

2. Own work capitalised

The own work capitalised reported in the financial statements totals T€ 2,331. This comprises technical equipment and machinery used by Group companies for production, prototype development projects activated during 2007, and machinery produced in-house to be used throughout their lifetimes for Group production operations. Research costs are immediately reported as expenditure when they arise. Costs which arise as part of development projects (involving the design and test operation of new or improved products) are capitalised as intangible assets if it is considered likely that the project will be commercially successful and technically implementable, and the costs can be reliably determined. Other development costs which do not satisfy these criteria are reported as expenditure when they arise. Development costs previously reported as expenditure are not capitalised as assets in the subsequent reporting periods. Development costs reported on the assets side of the balance sheet are reported as intangible assets which are linearly written off for a maximum period of five years over their useful lives from the time they become available for use. Development costs are subject to an annual impairment test in compliance with IAS 36.

3. Other operating income

T€	2007	2006
Grants for research and development	785	563
Gains from sale of plant and machinery	384	9
Exchange gains	129	37
Gains from reversal of value adjustments	71	22
Reversal of deferred item for grants	21	22
Others	339	306
	1,729	**959**

The “Grants for research and development” exclusively concern government grants – in some cases with the involvement of project executing agencies with a private sector structure – granted for specific confirmed costs incurred during the financial year (expenditure grant). Payments are made in line with project progress.

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

4. Cost of materials

T€	2007	2006
Cost of (system) components and purchased merchandise	12,592	12,121
Cost of purchased services	524	554
	13,116	**12,675**

The cumulative costs of the production orders uncompleted on the balance sheet date total T€ 662, the cumulative reported profits T€ 535.

5. Personnel expenses and employees

T€	2007	2006
Wages and salaries		
Wages and salaries	12,934	11,475
Share-based remuneration recorded as a charge to the income statement	113	68
Other	238	180
	13,285	**11,723**
Social security costs and pension costs		
Employer’s contribution to social security	1,944	1,704
Pension costs	141	163
Workman’s compensation board	99	81
	2,184	**1,948**
	15,469	**13,671**

The social security costs and pension costs item includes contributions of T€ 801 (previous year: T€ 674) to the National Pension Scheme. There are no ongoing pension payments (see also Note 20).

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

	2007	2006
Production	63	56
Distribution	68	59
Research and Development	75	61
Service	32	25
Administration	81	74
	319	**275**

In addition, there were also 10 part-time employees and 22 trainees as at 31.12.2007.

6. Depreciation and amortisation

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

7. Other operating expenses

T€	2007	2006
Advertising and distribution expenditure	1,811	1,416
Entertainment expenses, travel	1,192	1,169
Rent, incidental costs, leasing, real estate and building costs	717	655
Repairs/Maintenance/Operating materials	654	484
Sales commissions	546	440
Legal and consultancy costs	513	464
Trade fair costs	412	464
Voluntary social expenses/training	402	253
Consumables Development	380	282
Services	362	347
Telephone, postage, facsimile	310	258
Insurance, contributions, levies	295	232
Exchange losses	260	275
Investor Relations	248	221
Vehicle costs	206	153
Supervisory Board expenses	171	161
Allocation to bad debts	167	230
Financial statements, publicity and auditing costs	151	143
Bank charges	147	110
Office materials, books, software	81	82
Charge for warranties	15	127
Others	358	507
	9,398	**8,473**

The total expenses for Research and Development in 2007 were T€ 4,828 made up of the cost of materials and other costs totalling T€ 1,126 plus additional costs including personnel costs and depreciation totalling T€ 3,702.

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

Significant agreements reported under leasing mainly include leasing agreements for vehicles. Note 29 "Other financial commitments" still includes separate details on the reported leasing agreements.

8. Financial results

T€	2007	2006
Financial income		
Other interest and similar income	149	389
Finance expenditure		
Interest and similar expenses	-222	-169
Interest on convertible bond		
Changes in present value	0	0
Payment to subscribers	-6	-6
	-228	-175
	-79	**214**

9. Income taxes

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

T€	2007	2006
Corporate tax and solidarity surcharge	1,011	945
Trade tax	391	858
Deferred taxes	323	308
	1,725	**2,111**

In the balance sheet, tax claims of T€ 142 were formed for the tax losses of subsidiaries unused so far. Because of the budget accounting, realisation of the future benefits arising from loss carryforwards are rated as likely. The amount of so far unused tax losses from subsidiaries for which no deferred tax claim was calculated is T€ 772, cf. Note 16. For the preparation of the consolidated financial statements, the individual corporate tax rates in the countries involved were used for the calculation of the deferred taxes.

Reconciliation between anticipated and effected tax expenditure

T€	2007	2006
Consolidated net income before income taxes	5,928	6,564
Anticipated tax expense 38 % (previous year 38 %)	2,253	2,494
Non-activated deferred taxes in a loss situation	120	160
Tax rate variances amongst subsidiaries	-296	-154
Other tax payments unrelated to the reporting period	-326	5
No allowance made for deferred taxes on reported exchange rate differences with a neutral effect on results	-21	24
No allowance made for deferred taxes on share-based remuneration transactions credited to the appropriate income account	43	26
Liquidation of deferred tax assets	62	0
Tax effects of non-deductable operating expenses	77	1
Capitalised tax imputation credit purs. § 37 KStG	-7	-395
Tax rate differences when establishing deferred taxes	-21	0
Adjusting deferred taxes because of changes in tax rates	-107	0
Other variances	-52	-50
Effective tax expense 29.1 % (previous year 32.2 %)	**1,725**	**2,111**

In the light of changes to the tax regulations relevant to LPKF, the Group tax rate for the 2008 financial year and subsequent years is estimated to be 30 % (previous year: 38 %).

H. Consolidated balance sheet: Assets

10. Fixed assets

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

Consolidated fixed assets schedule 2007

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

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

Consolidated fixed assets schedule 2006

	PROCUREMENT / MANUFACTURING COSTS					
T€	As at 01.01.2006	Currency differences	Additions	Reclassi-fication	Disposals	As at 31.12.2006
INTANGIBLE ASSETS						
Software	807	0	333	0	0	1,140
Goodwill	74	0	0	0	0	74
Development costs	4,087	0	1,064	0	0	5,151
Right to use	864	0	6	0	0	870
	5,832	**0**	**1,403**	**0**	**0**	**7,235**
TANGIBLE ASSETS						
Land and buildings	7,190	- 110	3,010	0	607	9,483
Technical equipment and machinery	4,029	-32	457	254	71	4,637
Other equipment, factory and office equipment	4,071	41	658	-2	308	4,460
Prepayments and constructions in process	253	-2	2,004	-252	0	2,003
	15,543	**- 103**	**6,129**	**0**	**986**	**20,583**
FINANCIAL ASSETS						
Others loans	3	0	0	0	3	0
	3	**0**	**0**	**0**	**3**	**0**
	21,378	**- 103**	**7,532**	**0**	**989**	**27,818**

In accordance with the regulations under IFRS 3, the acquisition costs of the goodwill were reduced from 1 January 2005 by the cumulative amortisation.

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

ACCUMULATED DEPRECIATION						NET BOOK VALUE	
As at 01.01.2006	Currency differences	Additions	Reclassi-fication	Disposals	As at 31.12.2006	As at 31.12.2006	Previous year
639	0	113	0	0	752	388	168
0	0	0	0	0	0	74	74
3,505	0	122	0	0	3,627	1,524	582
853	1	10	0	0	864	6	11
4,997	**1**	**245**	**0**	**0**	**5,243**	**1,992**	**835**
1,901	- 14	349	0	92	2,144	7,339	5,289
2,567	-34	533	- 11	55	3,000	1,637	1,462
3,001	- 10	508	11	289	3,221	1,239	1,070
0	0	0	0	0	0	2,003	253
7,469	**-58**	**1,390**	**0**	**436**	**8,365**	**12,218**	**8,074**
0	0	0	0	0	0	0	3
0	**0**	**0**	**0**	**0**	**0**	**0**	**3**
12,466	**-57**	**1,635**	**0**	**436**	**13,608**	**14,210**	**8,912**

10.1 Intangible assets

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

The complete takeover of the shares in LPKF France S.A.R.L. gives rise to a minor goodwill amount which was fully recorded as a charge to the income statement in the acquisition year.

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

Software

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

Capitalised development services

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

T€	2007	2006
Laser Systems	2,101	868
Rapid Prototyping	725	656
	2,826	**1,524**

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

	Years
Software	3
Development costs	5
Rights of use	5

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

10.2 Tangible assets

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

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

The following useful lives are assumed:

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

Bank loans totalling T€ 3,127 (previous year: T€ 3,420) are secured by land and buildings.

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

Assets held as part of finance leasing arrangements are reported as Group assets at the lower fair value compared to the cash value of the leasing rates at the time of acquisition. The associated liabilities with respect to the lessor are reported in the balance sheet as finance leasing obligations. The financial result of the difference between the total leasing obligations and the fair value is distributed over the term of the leasing arrangement in the statement of income to ensure that there is a constant interest rate for the remaining balance for the periods involved.

There is a finance leasing arrangement which on the balance sheet date is reported with a net book value of T€ 0 (acquisition costs T€ 25, accumulated depreciation T€ 25), and on the liabilities-side with a value of T€ 5.

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

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

T€		Face value	Interest portion	Cash value
Leasing rates, reported in the 2007 financial year:	2007 2006	6 64	– –	– –
Up to 1 year	2007 2006	5 11	0 1	5 10
Longer than 1 year, and up to 5 years	2007 2006	– –	– –	– –

11. Inventories

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

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

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

Value adjustments of T€ 900 were applied to the lower net sales values of the stock.

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

T€	2007	2006
Laser Systems	9,792	9,242
Rapid Prototyping	5,606	4,862
Special Systems	9	395
Production Services	84	20
Others	126	66
	15,617	**14,585**

12. Trade accounts receivable

T€	2007	2006
Nominal amount of accounts receivable	10,632	8,006
Provision for doubtful accounts including exchange losses	-319	-292
Lump-sum provisions including discounting	-66	-54
Accounts receivable after value adjustments, discounting and exchange losses	**10,247**	**7,660**

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

The trade accounts receivable include T€ 744 derived from POC receivables. The total amount of payments included is T€ 453 and has been deducted from the receivables.

The residual book value of the receivables totals T€ 463 (previous year: T€ 268) and concerns receivables with a remaining term of more than one year.

13. Other assets and income tax refunds

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

T€	2007	2006
Input tax refunds	674	483
Income tax refunds	969	611
Reinsurance	224	226
Deferred insurance premiums	361	212
Outstanding investment grants	6	0
Others	105	39
	2,339	**1,571**

Other assets and income tax refunds totalling T€ 578 (previous year: T€ 621) have a remaining term of more than one year.

Corporation tax and trade tax refund claims are reported under income tax refunds. Long-term corporation tax refund claims total T€ 354.

14. Securities

Reported here are shares in funds held for a short term.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand of T€ 19 (previous year: T€ 8) as well as cash in other banking accounts of T€ 2,805 (previous year: T€ 3,322).

16. Deferred tax

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

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

Deferred tax assets

T€	2007	2006
Tax loss carry forwards	142	19
Inter-company profit elimination and other deductible temporary differences	389	478
	531	**497**

Deferred tax liabilities

T€	2007	2006
Capitalised development costs and other deductible temporary differences	1,234	873
	1,234	**873**

Within the next 12 months, T€ 410 of deferred tax assets and T€ 344 of deferred tax liabilities will be realised.

17. Long-term assets held for sale

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

The assets reported under this heading the previous year were completely sold in the 2007 financial year.

Consolidated balance sheet: Liabilities

18. Share capital

The resolution adopted by the Annual General Meeting on 1 June 2005 authorised the Board of Managing Directors, with the approval of the Supervisory Board, to increase the share capital by up to € 5,300,000.00 (authorised capital) by one or more issues of up to 5,300,000 new shares for cash or contributions in kind up to 14 June 2010.

The conditional capital according to Article 4 Section 7 of the Memorandum and Articles of Association, was adapted in accordance with Section 218 AktG to enable the share capital to be contingently raised by up to € 352,105.00. The conditional capital increase shall only be realised in proportion to the extent to which the holders of convertible bonds, issued by the company on the basis of the resolution passed by the Annual General Meeting on 13 October 1998, exercise their conversion rights to convert the bonds into new shares. The new shares participate in the profits from the beginning of the financial year in which the option to utilise the conversion rights was exercised. The € 1.00 nominal value bonds entitle their owners to exercise a conversion right to acquire 1 new share in LPKF Laser & Electronics AG with an arithmetical share of the share capital of LPKF Laser & Electronics AG of € 1.00. The conversion price for the acquisition of such a share will be calculated on the basis of a formula reflecting a comparison of the increase in value of LPKF's shares compared to the German share index (DAX). When exercising the conversion right to acquire a share, a cash payment must be made corresponding to the amount the conversion price exceeds the proportional nominal amount of the bond being converted.

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

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

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

The legal subscription rights of the shareholders are excluded.

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

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

The new shares which are acquired by exercising the option rights are entitled to a share of the profits for the financial year in which the option rights were exercised. The shares required to fulfil the exercised option rights will be made available by a contingent capital increase. The share capital of the company currently will be contingently increased by up to € 600,000.00 by the issue of up to 600,000 shares. The contingent capital increase will only be implemented for the purpose of the Stock Option Programme 2001 and only to the extent corresponding to the assigned option rights. The Memorandum and Articles of Association of LPKF Laser & Electronics AG have thus been supplemented accordingly in Article 4.

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

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

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

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

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

- determining the number of option rights assigned to an individual or a group of option holders as well as the granting periods within the acquisition periods in each case;
- excluding or guaranteeing the transferability and/or tradability of the option rights;
- the details of the procedure involved in the programme as well as the terms of distribution and exercising, and in addition, the making available of the shares offered under conversion options in agreement with the listing requirements;
- the regulations concerning the treatment of option rights in special cases (e.g. the death or parental leave of an option holder);

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

• any revisions to the programme required to safeguard the economic basis of the Stock Option Programme 2001 in the light of changes in the law.

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

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

Tranche	Exercise price/€	Number of Options
2002	6.84	75,014
2003	2.92	76,706
2004	4.10	73,700
2005	4.21	87,220
2006	5.35	116,200
2007	5.71	136,900

The development in the options portfolio in the 2007 financial year is as follows:

	Average exercise price per option/€	Number of options
As at 1 January 2007	4.21	307,719
Granted	5.71	116,750
Forfeited	4.57	1,525
Expired	6.84	59,596
Exercised		0
As at 31 December 2007	**4.26**	**363,348**
(of which exercisable		0)

The variation range of the exercise prices of the options remaining on the balance sheet date lies between € 2.92 and € 5.71.

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

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

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

	2nd Tranche 2003	3rd Tranche 2004	4th Tranche 2005	5th Tranche 2006	6th Tranche 2007
Volatility in %	72.59	50.08	48.80	44.90	41.10
Risk-free interest rate in %	2.75	3.41	2.36	3.59	4.31
Dividends in %	1.07	0.98	2.38	3.18	2.85

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

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

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

19. Minority interest

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

T€	2007	2006
As at 1 January	2,559	2,173
Additions/disposals	-7	386
As at 31 December	**2,552**	**2,559**

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

20. Provisions for pensions

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

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

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

T€	2007	2006
Cash value of the non-externally financed obligations	345	396
Unreported time-adjusted losses	-10	-87
Net debt reported in the balance sheet	**335**	**309**

The following amounts were reported in the statement of income:

T€	2007	2006
Ongoing office hours expenditure	5	5
Amortised actuarial losses	3	4
Interest expenditure from obligations	18	16
Total expenses reported in the statement of income	**26**	**25**

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

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

T€	2007	2006
Provisions for pensions as at 1.1.	309	284
Net expenditure reported in the statement of income	26	25
Pensions paid out of company assets	0	0
Others	0	0
Net debt reported in the balance sheet as at 31.12.	**335**	**309**

The provisions for pensions were calculated using the following assumptions:

%	2007	2006
Discounting rate as at 31.12.	5.50	4.50
Future increase in remunerations	0.00	0.00
Future increase in pensions	1.75	1.75
Fluctuation rate	0.00	0.00

21. Tax provisions and other provisions

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

T€	2007	2006
Corporation tax and solidarity surcharge	607	779
Trade tax	420	484
Other taxes on the basis of external auditing	0	7
	1,027	**1,270**

Provisions schedule

Provisions T€	As at 01.01.2007	Utilisation	Releases	Addition	As at 31.12.2007
Provisions for pensions	309	0	0	26	335
Accrued taxes	1,270	614	0	371	1,027
Bonuses	1,374	1,330	2	1,135	1,177
Guarantees and warranties	547	506	13	517	545
Others	16	0	0	44	60
Total	**3,516**	**2,450**	**15**	**2,093**	**3,144**

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

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

22. Liabilities

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

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

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

		Liabilities schedule with a remaining term of				
Type of liability T€	**Total amount**	**Up to 1 year**	**1 to 5 years**	**More than 5 years**	**Secured amount**	**Type of security**
Convertible bond	106 (113)	106 (113)	– (–)	– (–)	– (–)	– (–)
Liabilities due to banks	4,905 (3,554)	1,347 (625)	1,815 (1,480)	1,743 (1,449)	3,827 (3,420)	*,** (*, **)
Trade accounts payable	2,101 (2,034)	2,098 (2,034)	3 (–)	– (–)	– (–)	– (–)
Other liabilities	3,171 (2,088)	3,171 (2,088)	– (–)	– (–)	– (–)	– (**)
	10,283 (7,789)	**6,722 (4,860)**	**1,818 (1,480)**	**1,743 (1,449)**	**3,827 (3,420)**	

* Land charge, assignment of claims
** Security assignments

The amount due to banks includes fixed interest loans totalling T€ 4,831 (previous year: T€ 3,554) which are subject to interest rates of 2.85 % p.a. to 5.85 % p.a. as in the previous year.

Running No.	Amount of loan paid out in T€	Interest rate p. a.	Term
1.	658	3.75	09/99 – 09/09
2.	1,150	5.85	09/99 – 09/09
3.	1,585	5.41	01/00 – 09/09
4.	672	5.50	01/03 – 12/07
5.	960	2.85	02/06 – 03/16
6.	1,200	4.40	09/06 – 06/16
7.	390	3.15	11/07 – 03/14
8.	330	5.76	11/07 – 06/11
9.	150	5.50	11/07 – 06/17

The fair value of the fixed interest loan is T€ 4,559. With the exception of the loan taken out in the 2003 financial year, the loans are specified for the financing of new construction measures, property acquisition and investment in expansion measures.

A long-term loan taken out in the reporting period and reported under other liabilities totalled T€ 238 to finance construction measures in the USA was extended by a minority shareholder in the US distribution subsidiary. The US-Dollar loan has a term until September 2017 and an interest rate of 6.0 % p. a..

The other liabilities carry no interest.

23. Convertible bond

Convertible bonds are combined finance instruments consisting of an equity component and a debt component. On the issue date, the fair value of the debt component is estimated from the determining interest rate for an analogous non-convertible bond. The book value of the convertible bond per 31 December 2007 corresponds to the fair value.

I. Other information

24. Cash flow statement

The short-term financial assets refer exclusively to the shares in a money market or bond fund or bonds reported in the balance sheet under Securities. The amounts reported in the balance sheet under Liabilities due to banks include T€ 74 (previous year: T€ 0) current account liabilities as well as loan liabilities totalling T€ 4,831 (previous year: T€ 3,554).

25. Earnings per share

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

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

	2007	2006
Number of shares undiluted	10,858,052	10,846,439
Effect of the issue of potential shares from convertible bond and option scheme	0	0
Number of shares diluted	10,858,052	10,846,439
Net result (in T€)	3,868	3,973
Adjusted net result (in T€)	3,868	3,973
Earnings per share, basic (in €)	0.36	0.37
Earnings per share, diluted (in €)	0.36	0.37

26. Dividend per share

The Supervisory Board and the Board of Managing Directors will propose at the Annual General Meeting on 11 June 2008 to pay from the net income of LPKF Laser & Electronics AG for the 2007 financial year of € 1,505,955.05, a divided of € 0.12 per share (this represents a total dividend pay out of € 1,302,966.24 based on the share capital with dividend entitlement of € 10,858,052) and to carry over the remaining amount of € 202,988.81.

27. Related parties transactions

Zeltra Naklo d.o.o., Slovenia

A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 100% of the shares in Zeltra Naklo d.o.o.. Materials and equipment, merchandise and services totalling T€ 6 were purchased or paid as interest from this related party in 2007.

PMV d.o.o., Slovenia

50% of the shares in PMV d.o.o. are held by a shareholder of the subsidiary LPKF Laser & Elektronika d.o.o., and 50% by other related parties. 2007, business relations with this company covered development and production services and rentals and/or licence agreements totalling T€ 664. In addition, Group companies carried out orders totalling T€ 146 for PMV d.o.o..

Parties related to Board members and other closely associated natural persons

The Managing Director of LPKF Distribution Inc. granted the company a long-term loan totalling TUS$ 350, for the financing of a construction measurement. Interest rates and provision of security are at prevailing market rates.

In addition, secretarial services totalling T€ 18 were provided by employees of a company in which the Managing Director of LPKF France S.A.R.L., who left the company in 2007, has a share.

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

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

28. Corporate Governance Code

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

29. Other disclosures

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

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

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

Total future rent leasing payments classified according to terms are:

T€	2007	2006
Leasing rates contained in the results for the year	74	72
up to 1 year	42	65
longer than 1 year and up to 5 years	24	28

All of the future rental payments for buildings can be divided up into the following terms:
There are no other significant financial obligations.

T€	2007	2006
up to 1 year	287	140
longer than 1 year and up to 5 years	664	308

Financial Instruments IAS 39

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

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

There are no financial instruments belonging to the categories “Financial assets or financial liabilities valued at the assignable fair value” and “Financial instruments held until reaching maturity”.

With respect to the “Issued loans and credits” these are primarily loans and trade accounts payables, other assets, liquid assets, payables associated with the convertible bond, liabilities due to banks, and other liabilities. The initial measurement was based on the assignable fair value plus transaction costs. In subsequent measurements, the amortisation costs are based on the effective interest method. Changes in assignable fair value are credited to the appropriate income account.

The “Financial assets available for sale” include liquid assets and the securities reported under current assets. The securities concern a money market fund, shares in a bond fund, and bonds. The initial measurement was based on the assignable fair value plus transaction costs. The subsequent measurements are based on the assignable fair value. The changes in value are also reported in shareholders’ equity with a neutral effect on net profit until the asset has been withdrawn. Losses are only reported with an effect on net profit if there are signs of a permanent reduction in value. The opening account values are amended accordingly.

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

2. Derivative financial instruments

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

During the course of the year, three futures contracts (fair value hedges) were entered into to hedge existing receivables totalling TUS$ 891. Two of these transactions with a total volume of TUS$ 191 were still open on the balance sheet date. These transactions which still had one and three months to run respectively on the balance sheet date were measured with a positive fair value of T€ 2. Two futures contracts involving TUS$ 500 and TJPY 45,260 respectively entered into in the 2006 financial year were squared in 2007 with an outcome of T€ 29. In addition, a currency option transaction (fair value hedge) was entered into to secure dollar receivables totalling TUS$ 700. Exercising the option produced a loss of T€ 1. To secure an inter-Group long term US$ loan, a currency swap (fair value hedge) was entered into for TUS$ 876. This hedge transaction runs to 30 September 2017. On 31 December 2007, the transaction had a negative fair value of T€ 3.

The derivative financial instruments were measured on the balance sheet date based on their fair value. An underlying transaction secured by a currency swap was measured based on the contractually binding translation rates defined at the settlement date. Any positive fair values for these instruments on the balance sheet date are reported under other assets, if not, they are reported under other liabilities. Their fair values were reported by the banks issuing the hedges. Changes in fair value are reported in the books with an effect on net income, insofar as reportable transactions have already taken place. The positive effects on earnings of these rate hedging transactions totalled T€ 72. The loss of prospective profits from these transactions totalled T€ 1. No other derivative or hedging transactions were in place on 31 December 2007.

3. Details pursuant to IFRS 7

Carrying amount, amounts recognized and fair values by measurement category

T€	Category in accordance with IAS 39[*]	Carrying amount 31.12.2007	Amounts recognized in balance sheet according to IAS 39			
			Amortized cost	cost	Fair value recognized in equity	Fair value recognized in pofit or loss
Assets						
Cash and cash equivalents	LaR	2,824	2,824			
Trade receivables	LaR	10,247	10,247			
Other receivables	LaR	1,357	1,357			
Other non-derivative financial assets						
Held-to-Maturity Investments	HtM					
Available-for-Sale financial assets	AfS	284	291		-7	
Financial Assets Held for Trading	FAHfT					
Derivative financial assets						
Derivatives with a hedging relationship	n.a.	13	5			8
Liabilities						
Trade payables	FLAC	2,101	2,101			
Bonds	FLAC	106	106			
Liabilities to banks	FLAC	4,905	4,905			
Other interest-bearing liabilities	FLAC	238	238			
Other non-interest-bearing liabilities	FLAC	2,930	2,930			
Derivative financial liabilities						
Derivatives with a hedging relationship	n.a.	3				3

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

Breakdown of maturity per 31 December 2007

Trade accounts receivable in T€	Book value per 31.12.2007 (2006)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2007	2,101	2,093	6	2	0
2006	2,034	2,006	10	18	0

Financial obligations from interest and amortization of loans in T€	Book value per 31.12.2007 (2006)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
of which principal repaid					
2007	4,905	514	809	1,980	1,602
2006	3,554	285	340	1,480	1,449

Financial obligations from finance lease in T€	Book value per 31.12.2007 (2006)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
of which principal repaid					
2007	0	0	0	0	0
2006	0	0	0	0	0

Fair value 31.12.2007	Category in accordance with IAS 39	Carrying amount 31.12.2006	Amounts recognized in balance sheet according to IAS 39				Fair value 31.12.2006
			Amortized cost	cost	Fair value recognized in equity	Fair value recognized in pofit or loss	
2,824	LaR	3,330	3,330				3,330
10,247	LaR	7,660	7,660				7,660
1,357	LaR	946	946				946
	HtM						
284	AfS	1,826	1,826				1,826
	FAHfT						
13	n.a.	14			14		14
2,101	FLAC	2,034	2,034				2,034
106	FLAC	113	113				113
4,905	FLAC	3,554	3,554				3,554
238	FLAC						
2,930	FLAC	2,087	2,087				2,087
3	n.a.	1				1	1

Risk of default per 31 December 2007

Trade accounts receivable extended loan in T€	Book value per 31.12.2007 (2006)	Therefor non impaired and not overdue	Non impaired, but overdue since				
			Less than 30 days	Between 30 – 60 days	Between 60 – 90 days	Between 90 – 360 days	More than 360 days
2007	10,264	7,503	1,081	841	255	149	174
2006	8,006	4,476	1,301	319	58	1,045	192

VALUE ADJUSTMENTS formed for trade accounts receivable and extended loans in T€	31.12.2007	31.12.2006
per 1.1.	**292**	**119**
+ addition	72	194
- reversals (not needed adjustments)	33	21
- availment (needed adjustment)	12	0
+/- currency differential	0	0
per 31.12.	**319**	**292**

3. Hedging policy and risk management

Risk management principles

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

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

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

Currency translation risk

Because of its international business activities, the LPKF Group is subject to currency risks, especially with respect to the US$. Hedging transactions are concluded during the year to hedge against currency risks.
The currency risks to which the LPKF Group is exposed result from financing measures and operating activities. Assets, quoted in currencies with declining exchange rates, lose value. At the same time, liabilities in a currency with a rising exchange rate become more expensive. From the Group's point of view, only the balance between income and expenditure in a foreign currency is exposed to risk.

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

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

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

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

The currency sensitivity analysis is based on the following assumptions:

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

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

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

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

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

If the € had risen (declined) in value by 10 % compared to the US$ by 31 December 2007, the other operating expenses (other operating income) would have been T€ 21 higher and the allocations in the adjustment item for currency differences would have been T€ 44 higher (lower).

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

Liquidity risk

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

Change in interest risks

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

Credit risks

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

The maximum default risk is reflected on the one hand by the book values of the assets reported in the balance sheets (including derivative financial instruments with positive fair values). Long-term trade accounts receivable including the associated short-term portions, are wholly secured by credit default insurance excluding the portion of loss borne by the insured. In addition, the trade accounts receivable are also secured by an amount totalling T€ 1,565 by payment commitments issued by banks (letters of credit). The creditworthiness risk is therefore borne by the issuer of the security.

Capital management details

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

30. Others

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

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

Dipl.-Ing. Bernd Hackmann (Chairman of the Board)

Dipl.-Ing. Bernd Lange

Dipl.-Oec. Kai Bentz (from 4 October 2007)

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

The total remuneration of the Board of Managing Directors in 2007 was T€ 1,193 (previous year: T€ 1,292).

This involved a fixed remuneration component of T€ 355 (T€ 318).

The fixed remunerations were as follows:

T€	2007	2006
Bernd Hackmann	166	166
Bernd Lange	154	152
Kai Bentz (from 4 October 2007)	35	–

The performance-based component in the 2007 financial year and the previous year was related to the Group EBT and only comes into effect when a defined performance target has been reached.

Reflecting the profit situation, performance related remuneration in the 2006 financial year totalled T€ 973 (previous year: T€ 860), which was paid in equal halves to Bernd Hackmann and Bernd Lange in the 2007 financial year.

The performance-based component for 2007 will not be paid until the 2008 financial year. Reserves were set aside for this purpose for Bernd Hackmann totalling T€ 406 (previous year: T€ 487), and for Bernd Lange totalling T€ 406 (previous year: T€ 487), and for Kai Bentz totalling T€ 26 (previous year: 0).

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

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

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

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

The reserves for pensions reported in the balance sheet exclusively refer to active and former members of the Board of Managing Directors. T€ 6 (previous year: T€ 4) was added to the pension reserves for Bernd Hackmann. Benevolent funds for two active members of the Board of Managing Directors were set up, into which the company has to pay a fixed annual amount. No provisions for pensions are required in this case.

The pension obligations towards two former members of the Board of Managing Directors currently total T€ 196 (previous year: T€ 186).

In addition, 15,500 (previous year: 14,000) share options were assigned to Bernd Hackmann and 15,500 (previous year: 14,000) share options to Bernd Lange during the 2007 financial year as salary components with a long-term incentive value as part of the 2001 Share Option Programme, at an exercise price of € 5.71 (previous year: € 5.35).

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

Board of Managing Directors	31.03.07	30.06.07	30.09.07	31.12.07
Bernd Hackmann	38,000	38,000	53,500	53,500
Bernd Lange	21,726	21,726	37,226	37,226
Kai Bentz	–	–	–	9,825

On 31 December 2007, the fair value of the options granted to Bernd Hackmann was T€ 20 (previous year: T€ 20), for Bernd Lange T€ 7 (previous year: T€ 7) and for Kai Bentz T€ 2.

During the reporting period, the share of the total expense for share-based remuneration packages assigned to Bernd Hackmann was T€ 14 and for Bernd Lange T€ 8.

No new shares were acquired by the Board of Managing Directors in the 2007 financial year by exercising options.

As at 31 December 2007, the members of the Board of Managing Directors held 230,535 shares (previous year: 217,310) shares, broken down amongst the Board members as follows:

Number of shares held by board members

Board of Managing Directors	31.03.07	30.06.07	30.09.07	31.12.07
Bernd Hackmann	212,800	217,800	217,800	222,800
Bernd Lange	4,510	6,010	6,010	7,010
Kai Bentz	n. a.	n. a.	n. a.	725
Supervisory Board				
Bernd Hildebrandt	871,746	871,746	871,746	871,746
Prof. Dr. Erich Barke	1,000	1,000	1,000	1,000

The members of the Supervisory Board are:

Bernd Hildebrandt	Businessman (Chairman) Supervisory Board Chairman of LPKF Laser & Elektronika d.o.o., Naklo/Slovenia
Dr. Heino Büsching	Lawyer/Accountant (Deputy Chairman)
Prof. Dr. Erich Barke	President of the University of Hannover Supervisory Board Chairman of the Innovationsgesellschaft Universität Hannover mbH and the Produktionstechnisches Zentrum GmbH Supervisory Board member of the following companies: Esso Deutschland GmbH ExxonMobil Central Europe Holding GmbH Technologie-Centrum Hannover GmbH Solvay GmbH

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

T€	2007	2006
Bernd Hildebrandt	70	70
Dr. Heino Büsching	40	33
Prof. Dr. Erich Barke	25	14
Klaus Sülter	0	18

A variable remuneration element for the 2006 financial year was paid in 2007 dependent on the paid dividend and totalled T€ 24 (previous year: T€ 18), the members of the Supervisory Board was therefore granted the following.

T€	2007	2006
Bernd Hildebrandt	8	6
Dr. Heino Büsching	8	6
Prof. Dr. Erich Barke	4	0
Klaus Sülter	4	6

31. Details on disclosed shareholdings in the company

Cura Consult GmbH, with its registered office in Hannover, has informed LPKF AG that its voting share in the company dropped below the 3 % threshold on 23 April 2007.

Therefore, the share of the voting rights in the company held by Mrs. Sabine Gilbert, domiciled in Hannover, the majority partner in Cura Consult GmbH, has also dropped below 3 % pursuant to Section 22 Para. 1 Sentence 1 No. 1 German Securities Trading Act.

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

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

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

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

T€	2007	2006
Annual financial statement auditing	69	72
Accounting services	24	29
Other services	0	5
Total	**93**	**106**

33. Events after the balance sheet date

No disclosable events took place after the balance sheet date.

Garbsen, 14 March 2008

LPKF Laser & Electronics AG
Board of Managing Directors

Bernd Hackmann **Bernd Lange** **Kai Bentz**

Balance sheet oath

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

Bernd Hackmann	**Bernd Lange**	**Kai Bentz**

Auditor's Report

We have audited the consolidated financial statements prepared by the LPKF Laser & Electronics AG, Garbsen, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1st January to 31st December 2007. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Hannover, 14 March 2008

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Günter Benz
German Public Auditor

ppa. Philip Friedel
German Public Auditor

Statement of income from 01.01.2007 to 31.12.2007

T€	2007	2006
Sales	34,683	33,650
Changes in inventories of finished goods and work-in-process	-147	169
Other work capitalised	527	146
Other operating income	956	495
	36,019	**34,460**
Cost of materials:		
Cost of raw materials and supplies	14,759	13,766
Personnel expenses:		
Wages and salaries	8,553	7,746
Social security and pension costs: thereof pension costs: T€ 76 (previous year: T€ 66)	1,363	1,230
Depreciation and amortisation	1,251	1,091
Other operating expenses	7,621	6,746
	33,547	**30,579**
Income from subsidiaries	513	265
Earnings from loans shown as financial assets thereof from affiliated companies: T€ 5 (previous year: T€ 15)	5	15
Other interest and similar income thereof from affiliated companies: T€ 31 (previous year: T€ 4)	111	126
Depreciation of financial assets	0	32
Other interest and similar expenses thereof from affiliated companies: T€ 0 (previous year: T€ 1)	117	129
Profit from affiliated operations	**2,984**	**4,126**
Income tax	688	1,204
Other tax	107	20
Net income	**2,189**	**2,902**
Retained earnings brought forward from the previous year	317	18
Allocation to other earnings reserves	1,000	1,300
Net income for the year	**1,506**	**1,620**

Balance sheet at 31.12.2007

Assets

T€	31.12.2007	31.12.2006
FIXED ASSETS		
Intangible assets		
Software	385	308
Right to use	34	19
	419	**327**
Tangible assets		
Land and building	5,120	5,353
Technical equipment and machinery	1,016	1,072
Other equipment, factory and office equipment	937	950
Construction in process	114	45
	7,187	**7,420**
Financial assets		
Shares in affiliated companies	1,477	1,405
Loans to affiliated companies	703	166
Trade investments	0	3
	2,180	**1,574**
	9,786	**9,321**
CURRENT ASSETS		
Inventories material		
Raw materals and supplies	6,923	6,766
Work-in-process	152	378
Finished goods and merchandise	4,047	3,516
Prepayments	230	293
	11,352	**10,953**
Accounts receivable and other assets		
Trade accounts receivable	7,322	5,252
Accounts due from affiliated companies	1,777	2,124
Other assets of which a residual maturity of more than one year T€ 579 (previous year: T€ 621)	1,244	969
	10,343	**8,345**
	21,695	**19,298**
Securities		
Other securities	0	1,100
	0	**1,100**
Cash on hand, bank balances and cheques	1,111	1,573
	22,806	**21,971**
DEFERRED CHARGES AND PREPAID EXPENSES	**176**	**151**
including disagio: T€ 32 (previous year: T€ 36)		
	32,768	**31,443**

Liabilities and shareholders' equity

T€	31.12.2007	31.12.2006
SHAREHOLDERS' EQUITY		
Share capital conditional capital: T€ 917 (previous year: T€ 917)	10,858	10,858
Capital reserve	4,650	4,650
Earnings reserves		
Other earnings reserves	7,000	6,000
	7,000	**6,000**
Net income for the year thereof Retained earnings T€ 317 (previous year: T€ 18)	**1.506**	**1.620**
	24,014	**23,128**
DEFERRED GRANT	**58**	**75**
PROVISIONS		
Provisions for pensions	272	256
Tax provisions	796	664
Other provisions	2,567	2,563
	3,635	**3,483**
LIABILITIES		
Bonds of which convertible: T€ 106 (previous year: T€ 113)	106	113
Liabilities due to banks	2,572	2,315
Prepayments received	756	435
Trade accounts payable	664	903
Accounts due to affiliated companies	525	555
Other liabilities thereof taxes: € 136 (previous year: € 112) thereof social cost: € 19 (previous year: € 7)	399	431
	5,022	**4,752**
DEFERRED INCOME	**39**	**5**
	32,768	**31,443**

Glossary

Circuit board plotter Machine for the mechanical structuring of PCBs during Rapid Prototyping.

Hybrid welding Laser plastic welding combined with infrared radiation.

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

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

ProtoLaser Laser system for the structuring of PCBs as well as for high-frequency and microwave applications.

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

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

UV laser Laser with ultraviolet radiation.

Company diary

27 March 2008	Publication of the 2007 annual report
27 March 2008	Balance sheet press conference
28 March 2008	Analysts meeting and conference call
15 May 2008	Publication of the Q1 report
11 June 2008	Annual general meeting
15 August 2008	Publication of the Q2 report
11 November 2008	Publication of the Q3 report

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Imprint

Publisher LPKF Laser & Electronics AG, D-30827 Garbsen

Concept, design, layout Agentur Punktlandung GmbH, Hamburg
www.punktlandung.net

Number of copies 1.500 German
2.000 English

Published March 2008

www.lpkf.com