ANNUAL REPORT **2005**

LPKF
Laser & Electronics

The company at a glance

Key facts and figures

LPKF Laser & Electronics AG in Garbsen/Hannover manufactures systems and equipment for electronics development and production. LPKF is the world market leader in laser systems for the production of solder stencils and for pro-environment solutions for the rapid prototyping of printed circuit boards. From the very beginning, LPKF's philosophy has been innovation and the highest levels of product quality.

1976 Foundation of LPKF and introduction of the first prototyping systems
1980 Branch in the USA
1984 Launch of a complete prototyping system (including CAD software)
1989 Entry into laser technology and laser material processing
1991 Foundation of LPKF Motion & Control GmbH
1993 First StencilLaser
Foundation of LPKF Laser & Elektronika d.o.o. in Slovenia
1996 First development projects for the laser structuring of MIDs
1998 Conversion to stock corporation and IPO
2000 Branch in China
Foundation of Laserquipment AG, Erlangen
2001 First laser systems for PCB production
2003 First production systems for sensors using the LPKF LDP method
2004 Series production started using the LPKF LDS method
2005 Share of Asian turnover reaches nearly 50%

Key Group figures	2005	2004	2003
Turnover (in million €)	34.9	25.2	22.7
EBIT (in million €)	6.0	1.7	1.3
Cash-flow (in million €)	5.3	2.9	3.1
Investment in tangible and intangible assets (in million €)	1.9	1.4	1.1
Profit per share (in €), diluted	0.28	0.08	0.07
Turnover per region (in million €)			
Domestic	6.5	5.1	5.6
Rest of Europe	5.2	5.6	4.1
North America	6.0	4.8	6.8
Asia	16.7	8.8	5.9
Others	0.5	0.9	0.3
Turnover per product (in million €)			
Laser	18.1	12.7	12.2
Rapid PCB Prototyping	10.5	9.8	9.1
Special systems	4.4	1.4	0.1
Production services	1.4	1.0	1.0
Others	0.5	0.3	0.3
Employees	248	223	200

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LPKF® Laser & Electronics

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"Making a name in Asia"

LPKF Laser & Electronics AG is looking back on a successful 2005 financial year. Total sales expanded much more positively than forecast, and new products were responsible for an extremely positive development in business activity. The current status of the Group and its future positioning were discussed at an interview between the journalist Bruno Brauer and Managing Directors Bernd Hackmann and Bernd Lange. LPKF provided frank answers to numerous questions including which trends are currently dominating the electronics sector? Where are the new markets? How to react appropriately to the growing importance of Asia? How to arm oneself properly against the risks associated with growth? And is LPKF planning to open up any previously untargeted countries?

Mr Hackmann, let us look back one year: do you recall the sales forecast you made for 2005?

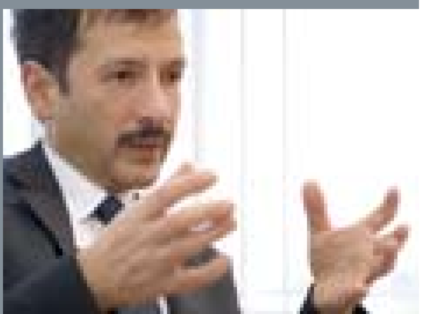
Hackmann "Of course, we forecasted growth to € 30 million – a target we were even able to exceed! We actually generated a turnover of around € 35 million, considerably more than the forecast we made in 2004."

What is the reason for this good performance?

Hackmann "Even during the difficult times we always remained forward-looking and developed or further developed new products in almost all segments. The market is now ripe for these products."

Lange "We succeeded in bringing the right products onto the market at the right time. We correctly evaluated the current demand and requirements in advance. The higher demands and specifications for more precision in the depanelling of flexible materials is exactly what our cutting equipment has been designed for."

Bernd Hackmann



Bernd Lange

That sounds very good for the future. What turnover are you now forecasting for 2006?

Hackmann "We are planning a turnover of € 41 million for 2006 and a turnover around the 50 million mark in 2007."

A successful year in 2005 – a good opportunity for getting LPKF into strong shape for the future?

Lange "Yes. We will use 2006 very intensively to get the company in good form for further necessary growth, and to prepare it for all eventualities. The electronics industry is a relatively cyclic business, and this should not be forgotten – in the good times especially."

Which trends can you currently make out in the electronics sector?

Hackmann "The megatrend is further miniaturisation at the same time as increasing precision: even lighter designs, even more functions. The increasing density of components on PCBs points straight to laser depanelling. And all the more so when even more highly sensitive components are positioned towards the edges of the PCBs. Lasers have clear benefits here compared to conventional, mechanical depanelling methods."

Lange "A special challenge will also be the integration of electronics with mechanical parts. 3D-MID in other words, as well as the highly precise cutting and fitting of PCBs and plastic welding. These are areas which will undoubtedly become of even greater importance in future."

How has the laser plastic-welding business developed?

Hackmann "Plastic welding is gradually establishing itself and is evolving into a commercial alternative to conventional joining methods. Moving into plastic welding was essentially a strategic investment to counteract the economic cycles in the electronics market. Customers for plastic welding equipment are mainly automotive subcontractors – a sector which is affected by different investment cycles to the electronics industry."

Does that mean that the complete takeover of Laserquipment AG was a good move for LPKF?

Lange "Yes! It was right to acquire the remaining shares in Laserquipment AG in Erlangen/Germany, and to make further investments in the company. There was a turnaround in this segment in 2005. Internal productivity was increased, and links to the parent company strengthened. At the end of 2005, we even generated a small profit in this segment."

What is your forecast for the Laser Plastic-Welding division in 2006?

Hackmann "We have many reasons for believing that this positive trend will continue in 2006. We have follow-up orders and very stable business relations with major clients who are already ordering their third, fourth or even fifth systems. LPKF has now established a reputation in the market as one of the problem solvers in the laser plastic-welding sector."

How have the other markets developed?

Lange "2005 saw growth in all sectors, with particularly satisfactory performance by StencilLasers and laser systems for PCB cutting. There was also a very positive development with the inspection systems produced by LPKF Motion & Control."

For a long time, LPKF Motion & Control was seen mainly as an internal subcontractor for LPKF in Garbsen. Has this changed in 2005?

Hackmann "Definitely. LPKF Motion & Control generated a turnover of around € 7 million in 2005, half of which is due to external sales. We are confident that this sales success will continue. We want to position the inspection equipment more strongly in the international markets. Marketing and distribution will therefore focus on opening up new countries. In our opinion, Motion & Control made a decisive step in 2005 as it moved from being a development division and subcontractor to becoming a system provider."

While we are in the process of discussing the divisions: the 3D-MID segment involved in the production of three-dimensional PCBs tended to be seen in the past as a future option. Is the business now worthwhile?
Lange "This segment is becoming more dynamic. Components need to be increasingly miniaturised and lighter, for installation in new hand-held devices for instance. The LDS method developed by us over the course of many years is precisely aimed at satisfying this need. We sold five systems in 2005 alone. I am confident that LPKF will boost its 3D-MID turnover further in 2006."

"Our products are well on the way to moving from niche to volume markets"

You report growth in all of the divisions just discussed, but isn't this growth automatically limited because of the strong focusing on highly specialised niche markets?
Hackmann "This may apply to a few segments. However, we are confident that with 3D-MID and PCB cutting, we have technologies developed and brought to perfection by LPKF which will become standard in the foreseeable future. This means that our products are well on the way to moving from niche products to systems for the volume market."

LPKF has been market leader in stencil technology for many years now. How will this segment develop in future?
Lange "We continue to expect steady growth for StencilLasers. 2005 did, however, also show that one can even boost turnover with new products which are sufficiently ahead of the previous state-of-the-art – just think of MicroCut for instance."

Considerable growth during the last financial year. How is it possible for a relatively small company like LPKF to cope with such expansion?
Hackmann "The main thing is to look ahead on the human resources side. For instance, skilled technicians for servicing and installation need to be trained in advance. This is only possible with long-term planning."

Does LPKF plan to increase the workforce in 2006?
Hackmann "It is clear that we cannot leave the size of the workforce unchanged in the face of the doubling of turnover from 2004 to 2007. Just as last year, we will employ additional staff particularly in areas directly involved with our clients, such as sales, application and service. We put a very high priority on having highly qualified employees, and demand a great deal from our staff: specifically this means technical competence, as well as foreign languages, intercultural skills and team integration at head office as well as in the international environment. Most of the jobs will be created in Germany. But we are also naturally increasing the workforce wherever more staff are required – currently also in Asia, e.g. China and Hong Kong."
Lange "Increasing the workforce, however, is only one measure. A very important contribution to boosting efficiency must also include the optimisation of workflows and processes. This is precisely where our investments for 2006 are planned."

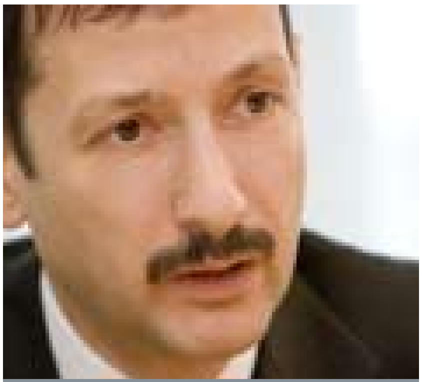
Where will LPKF be investing this year?
Hackmann "A large amount will be invested in the infrastructure in Garbsen and Slovenia. We will also continue to invest strongly in the development of new products. In absolute terms, we will invest more in R&D in 2006 than in 2005 – in percentage terms though, the research and development ratio might be lower than 2005 because of the increase in turnover."

Are there any plans for setting up production sites in Asia?
Hackmann "We think it is important to keep the expertise in house. Having production sites overseas, particularly in Asia, always involves the risk of know-how leaking out. However, the best protection against plagiarism is still the production of new products."

High pace of innovation against cheap copies?
Lange "And broad-based process expertise: process know-how is very difficult to copy. Having said that though, the strongest arguments against cheap competitors in our opinion are stable customer relations, loyalty, and particularly the provision of comprehensive services throughout the transaction, which is typical of our company."

Dipl.-Ing. Bernd Hackmann
(47, Chairman of the Board of Managing Directors)
Joined LPKF in 1983. Focus: development, service, sales, product management and production. Sales, production and design Director from 1998. Chairman since May 2001.

Dipl.-Ing. Bernd Lange
(45, Managing Director)
Joined LPKF in 2000 as sales engineer for laser systems. Responsible for strategic and operative marketing from 2003. Managing Director since November 2004, responsible for technology and marketing, as well as for subsidiaries and affiliates.



"We are always in contact with our clients"

Being in close contact with clients continues to be a priority for LPKF?
Lange "Yes. We are always in contact with our clients. Only by finding out today what our business partners want to achieve in two years gives us the cutting edge to adjust our own development activities for these needs."

Can you give any examples of this from the past?
Hackmann "If we consider the UV cutting technology or 3D-MID, this is precisely what happened: we were on the market with the right technologies when the first concrete needs arose. The time is ripe for this technology because the major mobile phone producers are tightening their specifications for precision. This is fulfilled by our technologies which can therefore deliver significant benefits in production!"

LPKF now does a large proportion of its business in Asia. How important are these markets today?
Hackmann "The Asian markets have become very important for LPKF in the last two years. From 25 per cent of our turnover in the past, Asia accounted for 47.8 per cent in 2005. The most important markets for us are China and Taiwan. South Korea and Japan are also very important."

Asia is booming – how is LPKF reacting?
Hackmann "We are adapting our internal structures to these changing market conditions. As planned, we will continue to expand our LPKF branch office in Hong Kong this year. Staff from Garbsen has been seconded there since the beginning of 2006. This means that we will be able to provide marketing and servicing on our customers' doorstep. We are further assisted by our new branch in Suzhou near Shanghai. This means we can respond to the wishes of our customers who want direct access to the manufacturer's staff when servicing is required."

Are there still any white spaces on LPKF's map?
Hackmann "We already cover most of the markets, but naturally there are also a few areas where we have no presence yet. I am thinking here of South America and some countries in south-east Asia. There is certainly still more potential here."

Is LPKF at risk of being taken over?
Hackmann "Because of our wide product spectrum we have too broad a base to be an attractive takeover candidate for most of the companies who are only interested in one of our technologies."

"We posted growth of around 30 per cent in 2005...."

Will LPKF itself be searching for suitable candidates for acquisition in 2006? Or will you continue to pursue your strategy of slow organic growth instead of fast acquisitive expansion?
Hackmann "Slow is always relative. In 2005 we boasted growth of around 30 per cent, which is not what I would call slow. Our aim has always been to grow through our own strength, which in retrospect has shown to be very prudent. Take-overs are not and never have been an important aspect for us."

Will LPKF be paying a dividend in 2006?
Hackmann "The Board of Managing Directors and the Supervisory Board will propose a resolution at the annual general meeting on 8 June 2006 to pay a dividend of 10 Cent per share"
Lange "The good business development in 2005 has certainly raised expectations. However, successfully continuing our growth necessarily means increasing the reinvestment of some of the profit into the company for product development, improving the infrastructure, and expanding inventories."

How will LPKF's business develop in 2006?
Hackmann "For the first half, we forecast a continuation of the positive performance of the previous year – in all segments."

One final question: Would you tell us about LPKF's strategy for 2006?
Hackmann "The key word is further development. LPKF will continuously develop new and improved products which will clearly stand out from our competitors in terms of quality and their price-performance ratio, as well as having environmental benefits. We will continue to do all in our power to further expand our market leadership. The basic strategy of our company focuses more on intensification and specialisation than on opening up completely new business activities. Our aim is to generate margins which underpin permanent further development." ■

Report of the Supervisory Board

Bernd Hildebrandt, Chairman of the Supervisory Board

The 2005 reporting period in which six formal Supervisory Board meetings took place was characterised by a consolidation of the work carried out by the Board of Managing Directors with its new membership structure, as well as the underlying management levels.

The personnel restructuring and reorganisation which took place the previous year affecting higher and lower management levels led to much more effective company management during the reporting period and to noticeably higher motivation amongst the workforce and partners.

2005 was again marked by the very close co-operation between the Supervisory Board and LPKF management, which goes well beyond the mere exchange of information at formal Supervisory Board meetings.

Whilst the 2004 financial year was characterised by several significant product developments, the 2005 reporting period was marked by the successful market launch of new processes and systems. Research and development work, in some cases going back several years, reaped their rewards with additional sales and the clear and promising signs that the newly developed products and processes were being accepted by the market.

The strategic decision to invest further in the plastics sector – in the 3D-MID project as well as in laser plastic-welding – paid off with the generation of profits for the first time in these segments. We are confident that the thermoplastic technologies will have an even more positive influence on the consolidated results in future, and in particular, will help reduce the complete dependence on the electronics market. We can open up additional business sectors here in the automotive, medical and telecommunications markets.

The cutting laser segment developed very satisfactorily during the reporting period. Thanks to the very high level of innovation, we were able to increase our lead over our competitors even further. The ever increasing trend for the further miniaturisation of electronic components is turning the laser developments pushed forward proactively with great foresight by LPKF in the last 15 years into standard technologies in electronics production.

The optimistic assessment of the development of the company's business published by the Supervisory Board and the Board of Managing Directors in the previous year can now be positively confirmed. And the opportunity for boosting turnover and profitability in the coming years is now also considered to have improved even further.

As already successfully put into practise between the Supervisory Board and the Board of Managing Directors for many years now, the company's risk management will be subject to further expansion. In line with the risk management manual, the risk early identification systems are permanently optimised and systematised to enable potential problems to be immediately localised. The DIN EN ISO 9001:2000 quality management system provides up-to-date data for the early identification and minimisation of risks.

The updated corporate governance code was implemented, and the declaration of compliance according to Section 161 German Stock Corporation Act was published in the internet. With the exceptions posted in the internet, LPKF Laser & Electronics AG has incorporated and complied with the corporate governance code.

The Supervisory Board engaged PricewaterhouseCoopers Aktiengesellschaft to audit the 2005 annual financial statements and Group financial statements according to 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 a Supervisory Board meeting and reported on his 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 8 June 2006 to appropriate part of the net income for the 2005 financial year of LPKF Laser & Electronics AG totalling € 1,101,695.48 to pay a dividend of 10 Cent per share. The total dividend payment for the share capital with dividend entitlements of € 10,838,347.00 will be € 1,083,834.70. € 17,860.78 is to be transferred to earnings reserves and the remaining net income is to be carried forward.

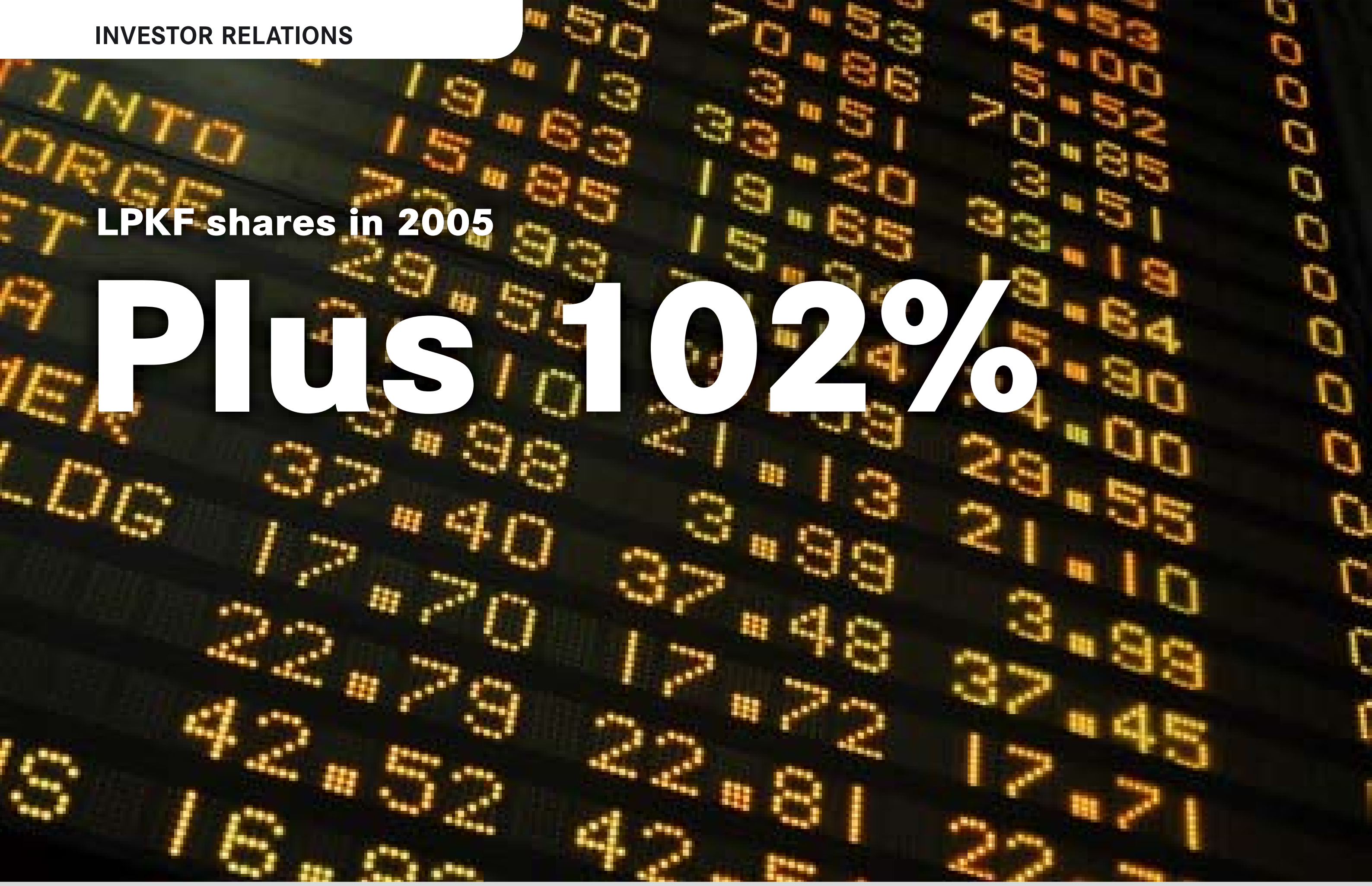
The consolidated financial statements, the management report on the state of the company, and the auditor's report were available for reference during discussions with the Board of Managing Directors and the auditor. The consolidated financial statements and the management report on the state of the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

The Supervisory Board would like to thank the Board of Managing Directors, all employees, the works council and the management and staff of subsidiaries and partner companies for their commitment and the successful work they have carried out in 2005. The LPKF Group has now finally set the points during the reporting period for continuing and expanding commercial success in the future. We have been greatly assisted here by the faith shown in us by numerous customers who have in many cases already worked together with us and used our technologies for over a decade. We owe a special debt of gratitude to them, and naturally also to all of our new customers.

We would also like to express our thanks to our suppliers and partners in research institutions who have repeatedly given us ideas for the development of innovative products.

Garbsen, March 2006
On behalf of the Supervisory Board

Bernd Hildebrandt



LPKF shares in 2005

Plus 102%

International Securities Identification Number (ISIN)	DE 000 645 0000
Wertpapierkennnummer (WKN)	645 000
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, Düsseldorf, Hamburg
Investor relations contact	Bettina Schäfer Telephone +49 (0) 51 31-70 95-3 82 Fax +49 (0) 51 31-70 95-90 b.schaefer@lpkf.de

LPKF calendar

Publication of the annual report	22 March 2006
Balance press conference	22 March 2006
Analysts meeting	23 March 2006
Publication of 3 months report	18 May 2006
Annual general meeting	8 June 2006
Publication of 6 months report	16 August 2006
Publication of 9 months report	23 November 2006

Change in share price 2005

Development in share price and trading activities

LPKF shareholders can look back on a successful 2005 year on the stock market. The share price rose by 102 per cent at an annual closing price of Euro 6.15. It therefore lay above the 1998 IPO price of Euro 6.00.

The volume of trading in LPKF shares in 2005 averaged 32,908 shares per trading day. Approx. 8.5 million LPKF shares were traded in total in 2005.

The rise in share price reflects the faith of the financial markets in LPKF Laser & Electronics AG's sustainable growth and solid financial base. There has been a clear upswing in interest amongst institutional and private investors during the course of the year.

Active investor relations work made an important contribution to the rise in share price. The numerous discussions with private investors, institutional investors and analysts in Germany and abroad, and participation in events such as the Stock Exchange Day in Hannover, or the Equity Forum in Frankfurt, benefited from the presence and personal commitment of the Chairman of the Board of Managing Directors Bernd Hackmann, who successfully put across convincing arguments on behalf of the Group and LPKF shares. June 2005 saw him participate in a road show in London to raise the awareness of international investors in LPKF shares.

Stock Exchange Day Hanover,
November 2005

The main focus of investor relations work in the reporting period was continuous communications with financial market participants. Many enduring and reliable contacts with investors, analysts and business journalists highlight the success of LPKF's open information policy over the years. The regular internet chats with the Board of Managing Directors following the publication of the quarterly reports have become a very popular forum for direct discussions between shareholders and the Board, and are set to continue in future.

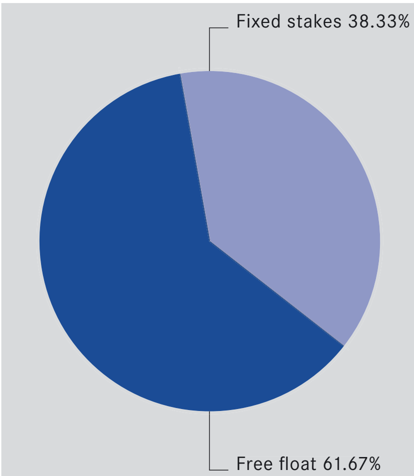
Naturally, the LPKF website www.lpkf.com and its investor relations section in particular, enables shareholders and potential investors to inform themselves quickly and comprehensively on all aspects of the company and LPKF shares.

Contact at LPKF

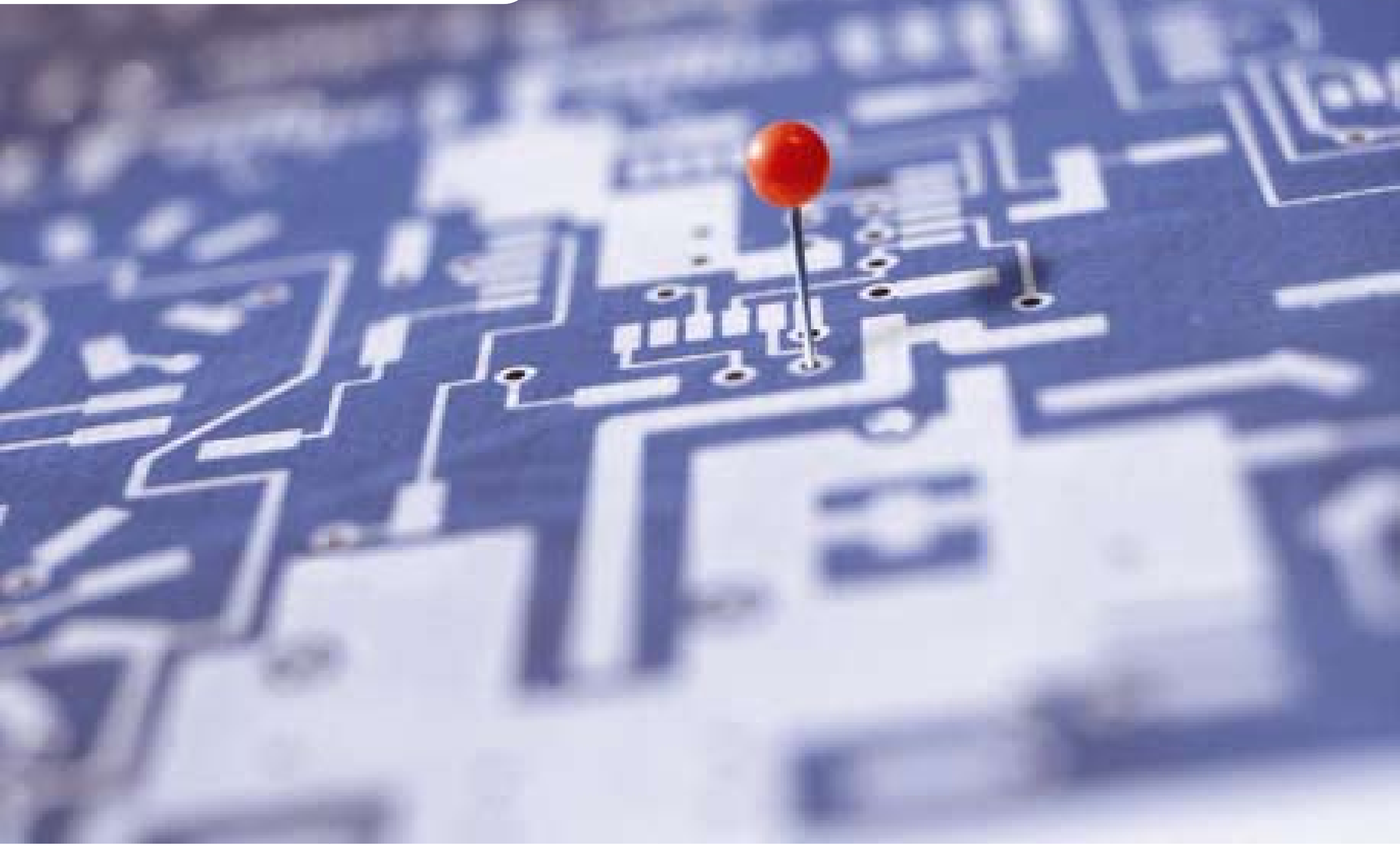
Kai Bentz,
Manager Finance and Accounting

Shareholders' structure

The shareholders' structure as at 31 December 2005 shows that 38.33% of the shares are held by the former owners of the company. 61.67% of the shares are widely spread; this includes the shares held by the management which account for less than 5% of the total volume.



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



LPKF Group Management Report

for the financial year 2005

Corporate bodies

The Annual General Meeting

The Supervisory Board
Bernd Hildebrandt, Chairman
Klaus Sülter, Deputy Chaiman
Dr. Heino Büsching

The Board of Managing Directors
Bernd Hackmann, Chairman
Bernd Lange

I Report on business developments

1. Development of the sector and the overall economy

The global economy again enjoyed strong growth during the 2005 financial year. The main engine of growth was again Asia (excluding Japan). In contrast, Europe and Japan only experienced a slight upswing. The German economy also developed positively, although growth lagged behind the global economy. German mechanical engineering and plant engineering companies in particular benefited from the rise in exports. As LPKF's most important market, the electronics industry enjoyed a continuation of the expansion begun in 2004. The demands forced on LPKF's clients by the markets have again risen at an increasing rate: production life cycles were shortening even further, the demands for more precision were continuing to rise, and the trend towards further miniaturisation continued apace. Unlike the electronics industry in Asia which still built up considerable production capacities and invested in expansion, Europe and North America were characterised by investment on replacements. A notable feature was the difference in the length of time required for investment decision making in Asia compared to Europe and the USA. Many Asian customers were investing quicker and with less concern for the risks than clients from other regions. The main priority for investments in cutting and drilling lasers was rapid amortisation: new products which promise higher outputs, greater precision and better processing for demanding applications gave LPKF clients a significant cutting edge in a highly competitive environment.

Customers in the Rapid PCB Prototyping segment reach their decisions on the basis of other criteria. Organisations in the public sector as well as private institutions and companies have investment cycles primarily governed by the budget situation. Budgets were considerably cut back in recent years and have only now been expanded in part. The range of new products covering prototype PCB production processes, and suitable for the manufacture of even very small batches, proved highly popular amongst the clients.

2. Turnover and sales development

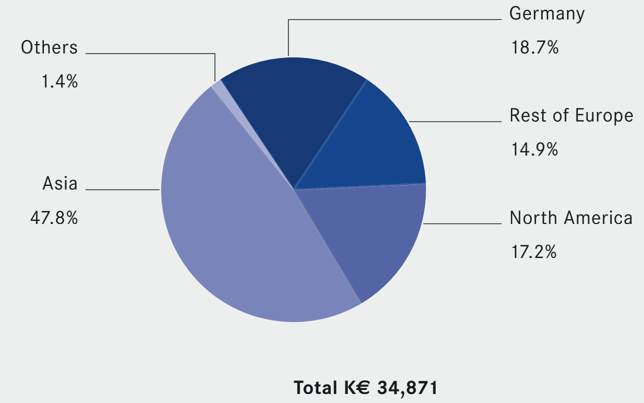
In the 2005 financial year, the LPKF Group generated a turnover totalling € 34.9 million, corresponding to a year-on-year increase of 38.6%. The most significant successes were achieved in the Laser Systems division with cutting and drilling lasers. Turnover here rose by K€ 5,408 or 42.6% to K€ 18,101. This growth was attributable to new and further developed products. The success in the sales of the MicroCut, the high-end StencilLaser system, is typical of this growth and considerably exceeded the forecasts. Sales of inspection systems produced by LPKF Motion & Control GmbH also rose considerably year-on-year by € 3.1 million to significantly exceed the planning figures. The performance of the Rapid PCB Prototyping division was slightly more modest because a few technical questions still had to be resolved after the introduction of a newly developed standard system – as a result, sales only really began to take off in the fourth quarter. Overall, planning forecasts were achieved on an annual basis.

The 3D-MID division boasted a growth in turnover of 56.1%. This is a particularly satisfying development because there was a further upswing in orders received towards the end of the financial year. The Laser Plastic-Welding division was able to conclude the business establishment phase with a boost in sales of 90.5%.

The regional distribution in sales revenues shifted further from American and European markets to Asia. In this strategically very important region for the company, LPKF achieved a growth in turnover of 88.4%. The structure of the sales revenues continues to remain balanced both regionally as well as according to segments.

The year-on-year increase in orders received, which are up 44.0% to € 30.2 million, is further evidence of the continuing positive development of the LPKF Group. This is also mirrored in the rise of orders-in-hand of 129.0% to € 5.4 million on the balance sheet date for LPKF Laser & Electronics AG.

Turnover according to regions



3. Production and procurement

In the 2005 financial year, LPKF Motion & Control GmbH in Suhl/Germany continued to be the main supplier to the Group of table systems and machine controls for laser systems and Protomats. In addition, Group synergies were also harnessed: LPKF Motion & Control assisted the development department in Garbsen/Germany with Rapid PCB Prototyping. The subsidiary LPKF Laser & Elektronika d.o.o. Kranj/Slovenia supplied circuit board plotters and other equipment for Rapid PCB Prototyping, as well as in-house manufactured laser sources. The in-house production of Rapid PCB Prototyping accessories was increasingly outsourced to system suppliers. In addition to Group companies, components and services were also supplied by a large number of subcontractors. However, most of the procurement involved a relatively small number of suppliers on which LPKF relies heavily.

The capital bound up in inventories rose significantly year-on-year, particularly as a result of the increase in turnover volume, the higher level of orders-in-hand, and in the light of planned turnover in the near future. The inventories include order-related articles as well as new products, where holding them in stock guarantees relatively short delivery times when clients finally make their investment decisions. LPKF considers the ability to supply the Rapid PCB Prototyping market “off the shelf” to be a strategic advantage. As always, the secret here is to find the optimum balance between inventory availability and tying-up of capital in stocks. LPKF benefits here from a sophisticated production planning and control system, and a rolling primary materials planning system.

The renewed auditing of the DIN EN ISO 9001:2000 quality management system was passed successfully at the Garbsen and Suhl production sites in Germany. The certification company BVQI-Dasa-Zert investigated the process reliability and the risk early warning system over a period of several days. The auditor reported that the system was functioning properly and certified it accordingly.

4. Investments
The total investments in tangible and intangible assets of K€ 1,916 was 37.2% up on the previous year.

The main investments were on systems for development and in the Service division. This involved developments to expand the LPKF product range as well as investment in laser technology and laser plastic-welding in particular. Other investments were made in the IT infrastructure. In addition, the stake in the sales company LPKF Laser & Electronics Inc. in the USA was expanded by the acquisition of the shares of a minority shareholder. Major investments in new buildings and the conversion of existing buildings at the Garbsen headquarters in Germany are planned for the new financial year. Major investments have also been budgeted as part of measures associated with the planned merger of various production sites and the administration office in Slovenia. The implementation of a new customer relationship management system is also one of the main focuses of investment, as is the further development of the software for the products. Total investment in 2006 will therefore increase further compared to the 2005 financial year because of the aforementioned measures.

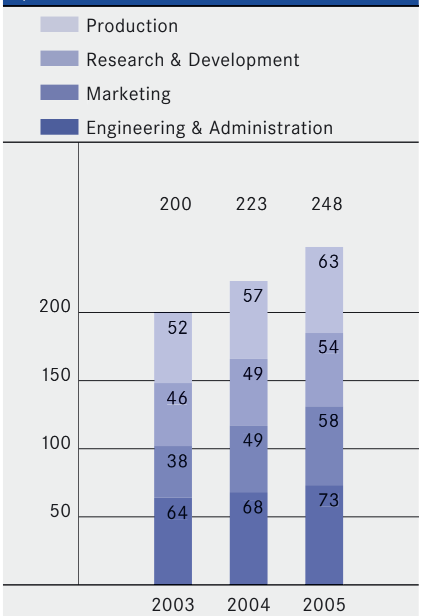
Investments totalling K€ 3,088 which cannot be capitalised in the balance sheet were made in development activities during the 2005 financial year. These investments are a key factor in the LPKF Group's growth strategy.

5. Financing measures
The Group's financial position improved further with a rise in financial resources to € 8.6 million (previous year: € 7.1 million). The inflow of funds from the operative business was used by the Group to reduce its long-term liabilities, implement investment measures, and pay a dividend to the shareholders. As in previous years, the current account overdraft facilities were only used for brief periods for operative payment transactions. The financial situation of the LPKF Group continues to remain very solid.

As part of its risk management activities, the Group engaged in forward exchange deals for currency hedging purposes. This involved five contracts with a face value of KUS$ 1,450 and KGB£ 21.

6. Human resources
The number of employees has been increased to reflect the current development in turnover and the potential for growth. As in the previous year, new employees were primarily hired in areas directly related to sales activities such as sales, servicing and applications. New staff were also hired for some of the development activities. With this proactive change of course, the Group now feels that it has the human resources required to deal with the forecast growth. In general, LPKF's philosophy is to hire and bind employees to the company on a long-term basis. However, some new recruits are initially hired on short-term contracts to maintain the necessary flexibility in its human resources management and to be able to adjust the associated costs to the developments in turnover with the shortest possible delay. Temporary staff are also taken on in some specific cases to quickly cover short-term needs. It may also be necessary to hire new staff for specific departments in future to maintain further growth. The staff positions involved will be similar to those in 2005.

Changes in workforce
per 31 December 2005



Qualification measures continued to be carried out in all segments during 2005. The systematic further education and training of the staff will be continued in 2006 on the basis of seminars and training courses.

7. Report on affiliated companies

LaserMicronics GmbH
The turnover target was exceeded by 19.6% with a boost in service activities. LaserMicronics will continue to focus further on production services and expand the range of services available to its clients. The intention here is to serve clients who have not (yet) acquired their own machinery but wish to benefit from LPKF expertise.

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

LPKF Motion & Control GmbH
The economic performance of LPKF Motion & Control GmbH developed extremely satisfactorily in the reporting period. As in the previous year, this good performance was helped by the upturn in the parent company's business, and particularly this year, Motion & Control's own external turnover – especially in the measuring technology sector. Worthy of mention here in particular is the sale of inspection systems for circuit packaging. During the reporting period, the company again successfully passed the audit of its DIN EN ISO 9001:2000 quality management system. Considerable potential for further growth is seen in the forecast development in the parent company's turnover as well as another significant increase in external sales in 2006. The internationalisation which has now begun is to be continued with a consequent expansion of its client base in Asia.

LPKF Laser & Elektronika d.o.o. in Slovenia
Turnover and profits at LPKF Laser & Elektronika d.o.o. developed satisfactorily during the 2005 financial year. This is attributable to an increase in turnover with the parent company. External turnover again declined. Further improvement in its business is forecast in 2006, particularly because of the planned development in business of the parent company.

When selecting the site for this operation in 1994, the company chose a location with a favourable tax status. The subsequent unilateral cancellation of this favourable tax status by the authorities led to the demand for a tax and interest repayment of K€ 534 in 2000. The Group considers this demand unjustified and initiated legal proceedings. The Upper Administrative Court in Slovenia has still not issued its judgement on the case. It is impossible to predict when the final judgement will be made by the upper court. However, favourable judgements on similar cases handed down by the court during the reporting period give grounds for optimism.

The plan which has been in place for some time to merge the three factories at one site near Kranj is to be implemented in the 2006 financial year.

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

LPKF Laser & Electronics Inc. in the USA
LPKF Laser & Electronics Inc. is the Group's sales and service partner in the North American region. Turnover in the Rapid PCB Prototyping segment as well as in the laser segment has developed satisfactorily here. The strengthening of the US dollar has a positive effect, from a Group point of view, because of the favourable impact this has on turnover and profits calculated in Euros. LPKF acquired another 25% stake in the company from a partner in the 2005 financial year. This made use of an opportunity to expand the company's involvement in this important market and participate even more strongly than before in the positive performance of this subsidiary.

LPKF Properties LLC in the USA
The business purpose of this company founded in 2000 is to provide LPKF Laser & Electronics Inc. with real estate. The company owns the company offices currently used by LPKF Laser & Electronics Inc. There were no significant changes during the reporting period.

LPKF France S.A.R.L.
The commercial success of LPKF France again suffered during the reporting period from the weakness of the electronics market in France. The investment climate in the French electronics industry has remained very subdued for many years now. Against this background, the almost balanced result can be considered as a minor success. The region is still thought to have good business potential particularly in the Rapid PCB Prototyping sector. The opportunities potentially available in the automotive industry are also to be exploited further.

LPKF Benelux N.V.
The company again failed to generate a profit in the 2005 financial year. The company was wound up in the second half of the financial year because no potential was seen in the region for any

Group structure per 31 December 2005

LPKF Laser & Electronics AG, Garbsen
10,838,347 EUR

LPKF Motion & Control GmbH Suhl, Germany	**51%**	**LPKF Laser & Electronics Inc.** Wilsonville, USA	**85%**
LPKF Laser & Elektronika d.o.o. Kranj, Slovenia	**75%**	**LPKF Properties LLC** Wilsonville, USA	**60%**
LaserMicronics GmbH Garbsen, Germany	**100%**	**LPKF Laser & Electronics France** Lisses, France	**94%**
LPKF Laser & Electronics (Asia) Ltd. Hong Kong, China	**100%**	**LPKF (Tianjin) Co. Ltd.** Tianjin, China	**100%**
LPKF Laser Components GmbH Garbsen, Germany	**100%**	**PhotonicNet GmbH** Hannover, Germany	**8%**
LPKF Services Inc. (formerly A-Laser Inc.) Beaverton, USA	**100%**		

significant and sustainable improvement in the business climate. Sales activities are maintained by a representative.

LPKF (Tianjin) Co. Ltd. in China
LPKF (Tianjin) Co. Ltd. is responsible for marketing LPKF products in China. It also undertakes maintenance and repair activities. The strategic expansion and associated investment in the Chinese company has again proven to be very prudent. The access to the Chinese PCB market has also been expanded by setting up a marketing office in the southern Chinese city of Shenzhen. An additional office was opened up in Suzhou near Shanghai in the 2005 financial year to boost the company's presence further. These activities contributed to making China the most important market for LPKF in addition to Taiwan and Korea.

PhotonicNet GmbH
LPKF holds a 8.33% stake in PhotonicNet GmbH, a competence centre for optical technologies. The company is a public-private partnership involving numerous established companies and has the overall aim of accelerating the development of optical technologies in Germany, and to set up and expand an associated network. LPKF will withdraw from this company at the end of 2006 because LPKF's own wide-ranging contacts and its presence at trade fairs and congresses already adequately underpins the company's intense communication with its business partners.

8. Research and development

Comprehensive development activities took place in all divisions during 2005 with the aim of rapidly renewing the spectrum of products. Several new products were successfully put into production.

In the Rapid PCB Prototyping division, a whole product line of new Protomats was developed and launched onto the market for the high-turnover standard segment. Built on a standard platform, and with logically stepped specifications tailored to meet the different requirements of various customer groups, the LPKF ProtoMat® S product line establishes a new quality benchmark for functionality and ease of operation. It will help underpin and expand LPKF's leading position in the market.

Another cause for congratulation in 2005 was the successfull realisation of a wish frequently formulated by customers. The LPKF ProConduct® now makes it possible to make production-quality through-plated PCBs in an electronics laboratory without the use of any liquid chemicals.

Other projects were aimed at rounding off the PCB prototyping range.

After the successful market launch of the LPKF MicroCut, the development activities in the StencilLaser division also focused on the fundamental renewal of the product range. The objective here is to start work early on new developments in laser technology and drive technology and to implement them in new StencilLasers to bring all customers considerably higher productivity and lower operating costs. The strategy in this segment is also to maintain and expand market leadership with a broad and intelligent range of equipment.

The MicroLine 350Ci is a new laser system developed for the PCB Cutting Systems segment. It was launched at Productronica 2005. MicroLine 350Ci uses a CO_2 laser source and expands the areas of application of the MicroLine series to fibreglass reinforced PCBs. This system enables the stress-free depanelling of assembled PCBs in all conceivable shapes. The product heralds LPKF's entry into the assembling market.

Other activities were aimed at boosting the productivity of all MicroLine series machines.

Development work in the 3D-MID division reflected the feedback and demands revealed by the ongoing international marketing campaign. This involved further improving the system engineering as well as assisting marketing partners and key customers with the successful installation of the whole LDS process chain for batch production. The concentration of MID activities in Garbsen had a positive effect on this work.

In the Laser Plastic-Welding division which arose in mid 2005 from Laserquipment AG, development activities were focused on enhancing the in-house share of the laser welding system value chain. The hybrid welding method moved forward into the applications testing stage.

The subsidiary LPKF Motion & Control concentrated its development work on fully automatic inspection systems for circuit packaging. It succeeded here in implementing a new product generation with much higher productivity.

9. Risk management system

Risk management within the LPKF Group involves the formulation and implementation of measures that are able to identify existing risks and either shift them onto insurance companies, restrict the chances of their occurring, avoid them completely or deliberately accept them if the risks are at a reasonable level.

The LPKF Group is exposed to numerous risks as it pursues its global business activities within the rapidly changing conditions affecting the electronics market. Risk management, and particularly the risk early warning system, have therefore always been a fundamental element in the planning and implementation of LPKF's business strategy. While this was vital in the recent past in the weak overall economic environment, it is also all the more important today during a period of renewed economic growth. Generally, although risks can be limited by suitable measures and can be rapidly and precisely identified by an early warning system, they can never be completely excluded and always need to be reassessed at the time the risk evaluation is carried out. LPKF therefore makes use of a number of highly developed management and control systems to measure, monitor, control and handle the risks which it 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 risks. This procedure has proven itself time and again in the past. The risk management system is assessed at various times including annually by the auditor.

As part of the risk identification and control procedure, existing instruments such as the risk management manual and the reporting tools are continuously updated, whilst the daily implementation of the risk management system is documented. Risk management discussions of all types are always recorded in minutes. As in previous years, in the 2005 financial year existing and potential risks were reviewed and the efficiency of reporting with respect to the management of risks was checked. Another important element in the early warning system and the regulated transaction of business processes is the quality management system according to DIN EN ISO 9001:2000, whose efficiency is checked annually by a neutral organisation as part of the control audit. The corporate governance model implemented by the LPKF Group is also relevant in this context, in particular because a high degree of risk limitation is provided by the close co-operation between the Supervisory Board and the Board of Managing Directors. Good corporate governance has always been an integral part of LPKF's business philosophy and traditionally has a high priority within the company. Therefore the related initiatives implemented in Germany and internationally are welcomed.

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 LPKF is currently unaware of, or which are currently considered to be negligible, could also have a positive or negative impact on the company respectively.

Business opportunities

LPKF's most important target market is the electronics industry, a strongly growing sector. The trends that favour the use of LPKF products are the ever shortening product life cycles, frequent product redesign, and increasing miniaturisation. The clients in the automotive subcontracting sector also move in a very dynamic environment. This is where the LPKF Group's product developments really bite. The opportunities lie in the successful marketing of these new developments. If it is possible to replace established technology with new LPKF methods, there can be quantum jumps in growth in the relevant sector. LPKF is the market and technology leader in its well established Rapid PCB Prototyping and StencilLaser sectors. The Group has a cutting edge over its competitors and plans to rigorously defend and extend this lead now and in the future. With respect to PCB production systems and laser plastic-welding, LPKF has established itself in markets, and considerably boosted awareness of its brand name. The strategy in the 3D-MID sector is also to grasp the opportunities which are now arising.

Business risks

The LPKF Group is internationally positioned and active in a business environment subject to continuous rapid change. The situation of its clients is characterised by considerable cost and competitive pressures as well as curtailed investment budgets. The electronics industry is subject to cyclic economic fluctuations. The past weakness of the overall economy forced the sector into even more efficient cost management and investment budget cuts. Of particular significance here is the shift of production sites overseas, as well as the complete closure of production sites. In markets outside Asia, the willingness to accept risks and invest further in the expansion of capacity, or to introduce new technologies, continues to be modest against this background. New investments are often only made when the future capacity utilisation of this equipment appears assured by concrete orders from customers. Happily, this situation is now changing very positively. The Laser segment is traditionally subject to stronger cyclic fluctuations than the primarily budget-driven Rapid PCB Prototyping segment. The Laser segment has therefore profited more in the 2005 financial year from the economic upswing. However, customers still usually react with a slight delay to any improvement in the order situation when considering investments.

The LPKF Group is also repeatedly exposed to rapid and far-reaching changes resulting from the introduction of new technologies.

The systematic development of new technologies and business segments, e.g. in laser plastic-welding, is in principle associated with the risk that the planned business model fails to meet its targets because of unforeseen circumstances. And last but not least, the global political situation is also associated with risks which could have a negative impact on the development of the LPKF Group's business. The EUR/US$ exchange rate should be mentioned in this context. A strong Euro also has an impact on currencies oriented to the US dollar. This can have negative effects, e.g. on sales in Asia, even if invoicing in these countries is carried out on a Euro basis. LPKF's main competitors mostly come from the "non-Euro area" and therefore have competitive advantages compared to LPKF when the Euro rises very strongly against these currencies. Moreover, a weaker dollar has a negative effect when converting US dollar-based turnover to Euros. And because a large number of expenses arise in Euros, this can put pressure on margins. For these reasons, the strengthening of the US$ in recent months has had a positive effect on LPKF.

Dependence on suppliers

The procurement of components and services from external suppliers is associated with basic risks involving long delivery times and changes in prices. LPKF does not directly depend on one or more suppliers. However, price changes in particular can have a special influence on business activities. During the reporting period, the delivery of components and modules did not cause any shortages. 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.

Dependence on customers
The regional spread of sales markets is balanced. This has been demonstrated over many years by the distribution of turnover according to regions so that there are no special risks associated with this factor. In general, there is no dependence on individual major customers. However, in the case of inspection systems, LPKF does supply a small circle of customers in only one country. Endeavours are currently being made to expand the customer base and to launch the products in other Asian countries.

Exchange rate fluctuations
The exchange rates between foreign currencies and the Euro sometimes undergo major fluctuations. For LPKF, the only fluctuation of any significance is that with respect to the US dollar. Fluctuations in exchange rates can have a positive as well as a negative effect on results. In the reporting period, the dollar first lost appreciably against the Euro. However, this trend completely reversed in the second quarter and the dollar ended up stronger at the end of 2005 than it had been at the end of the previous year. Measures to counteract this trend are permanently reviewed and implemented to the degree possible. During the reporting period, five cash-flow hedges or currency option transactions with a face value totalling KUS$ 1,450 and KGB£ 21 were concluded to minimise the risk associated with exchange rate fluctuations. Furthermore, a currency option transaction from the previous year totalling KGB£ 25 was settled. The positive effect on the results of these currency hedging measures totalled K€ 1. Lost profits from these transactions amount to K€ 99. No other exchange rate hedging instruments were used.

Research and development
LPKF's success significantly depends on the speed with which new products can be pushed through the development pipeline onto the market. Market acceptance, and the transition from the production of samples to series production are then important milestones on the way to turning product ideas into profit generators for LPKF. The competitive situation and the very rapid changes in technology are associated with risks. Permanent follow-up is carried out by the Supervisory Board and the Board of Managing Directors to keep these risks to a minimum. This follow-up is an integral part of the risk management system which aims to control the value of new developments and integrate them within the product strategies. In addition to achieving cost benefits by using LPKF technology, clients can also enjoy benefits from the technology itself and the associated market opportunities. In the markets, which in some cases can be extremely cyclic, this is precisely the aspect which is associated with additional risk when potential customers around the world implement investment stops and budget cuts, and when the willingness to invest in new technology diminishes, or companies stick to old processing technology for an unpredictable period of time. The Business Development Management department was set up and is being expanded with the aim of reducing such risks.

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

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

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

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

II Business report

The economic upswing within the LPKF Group which began in the second quarter 2004 gained strength in the 2005 financial year. This was attributable to the positive economic development of the electronics industry overall, and the many new LPKF products brought onto the market. Another feature of the 2005 financial year was the increasing relocation or building of new production and development capacities in Asia. LPKF therefore used the last financial year to boost its efficiency even further by internal restructuring. A typical example here is the continued establishment and expansion of Asian locations, winding down the Belgian subsidiary, and selling the North American stencil service business.

Analysis of the key business results
The company's earnings situation developed very positively in the 2005 financial year. The increase in sales by 38.6% to € 34.9 million (€ 25.2 million) boosted the operating performance by € 10.1 million. This includes a special

effect from the sale of the stencil service division in the USA of € 0.3 million. The material deployment ratio was reduced from 32.1% to 30.5%. Some new recruitment was required in the sales-oriented departments in particular to achieve this clear corporate growth. The good consolidated result also meant that bonuses had to be paid. These two effects in particular led to a rise in personnel costs of K€ 2,350, i.e. 24.0%. The personnel cost ratio which compares personnel costs to sales has however dropped year-on-year to 34.9% (previous year: 39.0%). The other operating costs rose by K€ 1,003 to K€ 7,340, mainly because of the rise of around K€ 655 in marketing costs and travel expenses. The overall EBIT is K€ 5,980 (K€ 1,697) with an EBIT ratio of 17.1% (6.7%). The improvement in financial performance by K€ 10 is primarily attributable to the lower interest expenditure as a result of the scheduled repayment of long-term bank liabilities. The tax ratio was 38.6% (previous year: 34.2%). After deducting these costs and interests of third parties, the Group result is € 3.0 million compared to € 0.9 million the previous year.

The company's financial situation was improved further. This is reflected in the increase in cash and cash equivalents to K€ 8,564 (previous year: K€ 7,125). The company's asset situation also continues to be extremely sound as reflected amongst other things in the high capital ratio relative to the rest of the sector of 74.0% (previous year: 76.0%). Share capital finances up to 320.4% (previous year: 284.2%) of the fixed assets. The share-capital to outside-capital ratio is 284.9% (previous year: 315.7%). Provisions for long-running low-yielding claims have been made by discounting, and setting up other provisions against specific debts.

III Outlook

Most forecasts for 2006 see the global economy, and the emerging countries in Asia in particular, continuing to grow at a high level, and a further strengthening in global trade compared to 2005. The LPKF Group is confident that this environment will enable it to maintain its expansion. The company has set a consolidated turnover target of € 41 million for the 2006 financial year. A further climb to € 50 million is considered possible for 2007. Discussions with clients, sales partners and reliable news circulating at trade fairs provide further evidence for the continuing strength of the sector.

Innovations aimed at achieving the greatest possible economic benefits for the users, and which can also meet their current and future needs, and have a cutting edge on the competition, form the solid basis for LPKF's growth strategy. 2006 will again see the launch of a whole series of new LPKF products. The profitable growth which was already achieved in 2005 is therefore set to continue in 2006. The foundations for this profitable expansion were laid with the enlargement of the marketing and service structure in Garbsen/Germany and particularly also in the Asian companies. Boosting the EBIT margin in 2006 by a comparable amount to 2005 is not, however, feasible. In a regional context, 2006 will most likely also be focused on the Asian area. However, it is thought likely that the new high-end products will also boost sales in Europe and North America. The largest growth potential on the product side is seen in PCB production systems, Rapid PCB Prototyping, inspection systems and 3D-MID systems. The management and the highly motivated employees and representatives around the world are all confident of achieving the targeted growth.

IV Events after the balance sheet date

The Group acquired two commercial properties in the immediate vicinity of company headquarters in Garbsen/Germany with effect from 1 February 2006 with the aim of expanding its capacities. ■

Garbsen, March 2006

Bernd Hackmann

Bernd Lange

StencilLasers

Trust reaps rewards

The Korean company TEP Corp. is a good example for LPKF Laser & Electronics AG of what can be achieved by many years of partnership and co-operation. Ten years have now gone by since TEP founder Sung-Kok Hong bought his first StencilLaser from LPKF. This was the first major investment by the young company which rapidly rose to technological leader in Korea with the commissioning of this system.

Sung-Kok Hong,
TEP President

Prof. Lee,
TEP Scientific Advisor

The StencilLaser acquired by TEP a decade ago is still doing valuable work – a sign for Sung-Kok Hong of the high quality of the machines made in Garbsen. Thoroughly convinced of the productivity and long-lasting value of the LPKF machines, the TEP President has always invested in the latest LPKF technologies, and ordered up to two new systems every year. At the end of 2005, LPKF Laser & Electronics' order books registered order numbers 13, 14 and 15. Two new machines will be installed at TEP this year alone. The order for three MicroCut systems confirms TEP Corp.'s position as LPKF's most important client for StencilLasers. The Korean company simultaneously further expanded its lead as the lead-

South Korea

ing stencil production service company in its domestic market.

Enormous boost in volume

"TEP largely has the reliable and high performance LPKF machines to thank for its rapid and impressive growth," says Sung-Kok Hong emphasising the significance of this long running business relationship. Within the last ten years, TEP Corp. has increased its production volume by thirty times according to its own figures. In addition to the technology itself, the TEP President also values the fast and competent servicing of the machines by LPKF: "For these good reasons, TEP will also continue its co-operation with LPKF in the future," promises the Korean businessman. TEP's focus in 2006 and 2007 continues to be the market in Korea where Sung-Kok Hong plans to expand the company's wafer stencil business. The services provided by TEP, which was founded in 1991, include the production of SMD stencils, stencils for solder paste printing on wafers, stencils for flip-chip technology as well as for LTCC technology. TEP currently employs a workforce of around 180 at its six factories. Its clients include global players such as Samsung and LG.

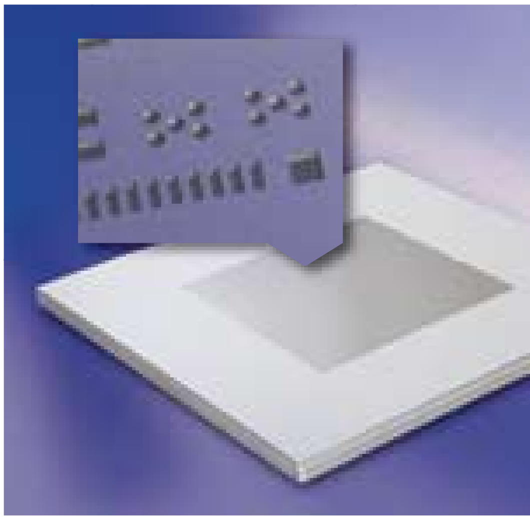
Continuous dialogue

TEP and LPKF both benefit from the close business relationship. TEP Corp. has been the market leader in Korea for more than ten years thanks to the outstanding LPKF technology. As a system supplier, LPKF benefits from the practical experience won by its client. TEP also maintains very close relations with Kangnam University in Korea. Prof. Dr.-Ing. Young-Hyun Lee, TEP Scientific Advisor, heads the university-affiliated Laser Machining Research Institute (LM^2). LM^2 stands for state-of-the-art research in materials processing using laser technology, and also uses an LPKF laser system. A fruitful exchange of experience takes place continuously between LPKF, TEP Corp. and LM^2. Research results from Kangnam are fed back into the development work by LPKF AG. The intense dialogue with the University of Kangnam, TEP, as well as other clients, is an integral part of LPKF's forward-looking product development philosophy.

In the near future, LPKF will launch more new systems based on the MicroCut, which will feature advanced technologies to underpin the success story in the stencils sector. The portfolio of machines will be expanded in the lower price segment as well as in the high-end market to even more precisely match the requirements of LPKF's customers. ■

Contact at LPKF

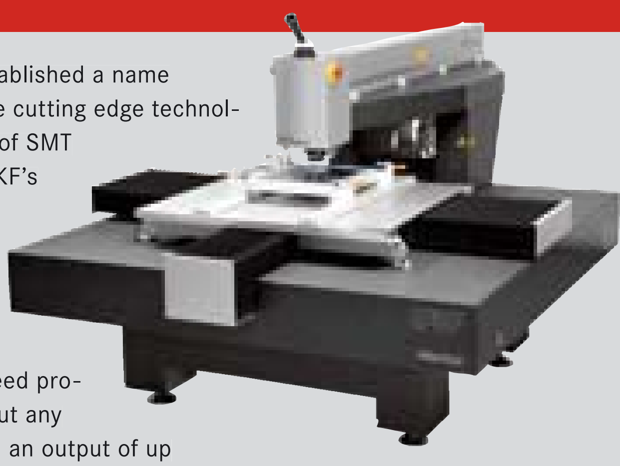
Torsten Nagel, Manager StencilLaser



Stencil for solder paste printing

StencilLaser

LPKF StencilLasers established a name around the world as the cutting edge technology for the production of SMT print stencils. All of LPKF's StencilLasers boast very high precision and reliability. The latest model, the LPKF MicroCut, cuts stencils with a high speed process: the system can cut any geometry required with an output of up to 50,000 holes per hour.



LPKF MicroCut

ASIA
BIGGER PRESENCE IN FAR EAST

The figures speak for themselves: the Asian markets are booming. In 2004, the share of Asian business in LPKF's turnover was 35 per cent, one year later, the company generated 47.8 per cent of its turnover in Asia. LPKF AG has reacted accordingly.

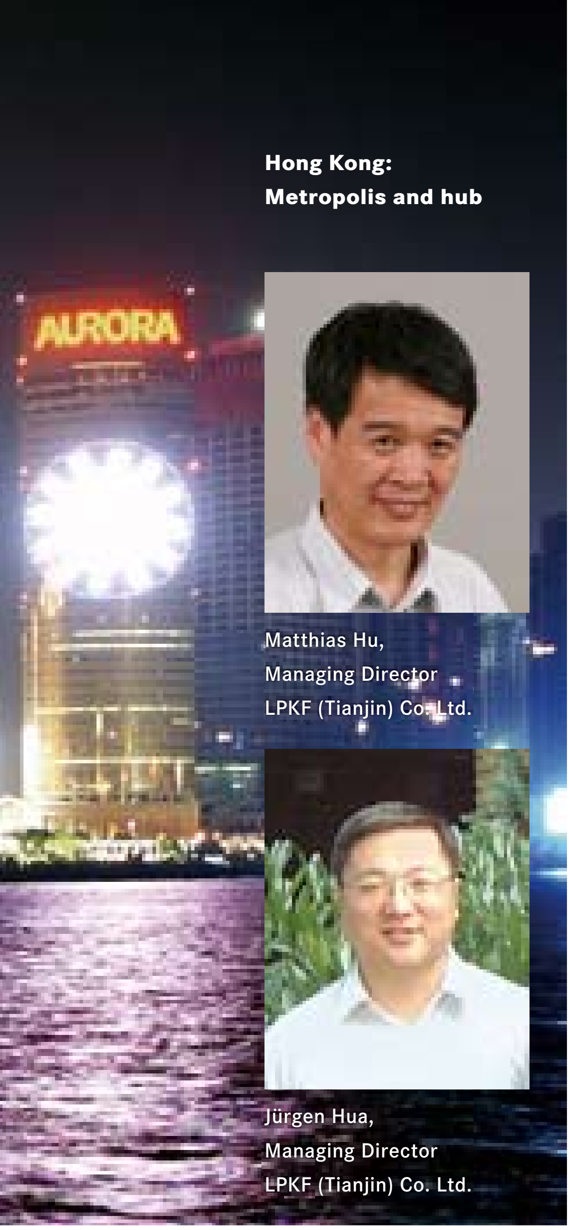
The regional distribution in turnover is clearly shifting, probably permanently, from American and European markets to the Far East. With three branches in Tianjin, Shenzhen and Suzhou, the LPKF Group has a strong marketing and distribution structure in the Chinese market. This marketing network is strengthened further from the beginning of 2006 with a branch in Hong Kong. LPKF will serve the whole of the Asian market from this service hub. The central position within Asia and the city's superb infrastructure were convincing arguments for selecting a location in Hong Kong.

Hong Kong hub

"We will continuously further expand sales and servicing in Asia," announces Bernd Hackmann, Chairman of the LPKF Board of Managing Directors. Establishing the branch office is a response to the market as well as a reaction to a change in customer requirements, says Hackmann. Potential customers are increasingly interested in complete customer care which is fast and local. "Customers want us to be nearby," emphasises Hackmann. Hong Kong will be LPKF's centre in Asia. By the end of 2006, five to six LPKF employees are scheduled to look after the Asian business from Hong Kong. Marketing, servicing and spare parts supplies will be co-ordinated from Hong Kong in future. The branch in Hong Kong will also support the representatives in China, Japan, Korea, Taiwan, Singapore, Malaysia and the Philippines. The Service division will be expanded with this additional staff. "This is a major effort for a medium-sized company like LPKF," underlines Bernd Hackmann.

Close proximity to clients

Asia will not only be of crucial importance in the future for distribution and services. LPKF's marketing measures will also be modified to the changing market conditions. LPKF Laser & Electronics sees a great deal of promise in substantively expanding its marketing activities in Asia. Strengthening its presence in these dynamic markets is aimed at consolidating existing customer relations even further and setting up new



Hong Kong: Metropolis and hub

Matthias Hu,
Managing Director
LPKF (Tianjin) Co. Ltd.

Jürgen Hua,
Managing Director
LPKF (Tianjin) Co. Ltd.

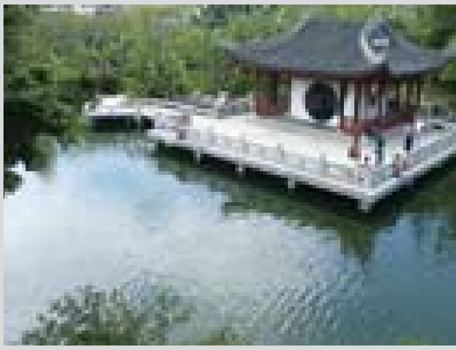
"We will rigorously further expand sales and servicing in Asia."
Bernd Hackmann

Suzhou – Venice of the East

Suzhou is home to the youngest of three LPKF branch offices in China. The city lies only 80 kilometres from Shanghai and is one of the largest business centres in China.

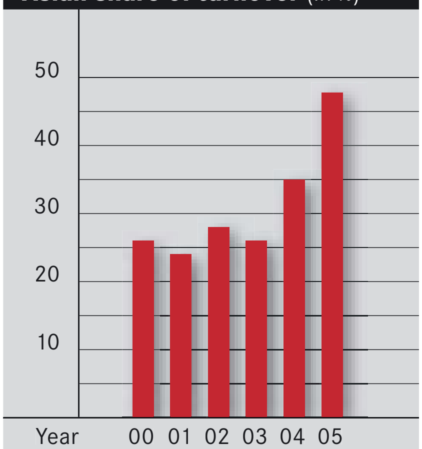
Suzhou has around 5.7 million inhabitants. Because of its mixture of old houses, canals and bridges, Suzhou is also known as the "Venice of the East". LPKF's branch in Suzhou has its own application centre for the production of samples to assist marketing, and also has its own support. Business in the city is characterised by a high percentage of foreign companies. The production of electronics is gaining increasingly in importance in addition to automotive engineering. Foreign firms include major players such as Logitech, Nokia and Motorola.

LPKF branch in the NEP Building, Suzhou



Suzhou: Venice of the East

Asian share of turnover (in %)



networks. Closer integration within the main markets is essential to identify market trends early on and thus crucially shorten the reaction time in the production development processes. ■

Da Won Electronics Corp.

To the top with lasers

Jae-Moung Lee,
President Da Won Electronics Corp.

With all modesty, Mr Jae-Moung Lee has never been satisfied with a position in the lower orders. Mr Lee is the sole partner of the Korean company Da Won Electronics Corp., which puts him in a position to modestly but resolutely define his company's corporate objectives – market leadership in Korea for laser cutting of flexible circuit carriers.

Mr Lee and his company have been in the PCB business since 1993. With its headquarters in Ansan, around 50 kilometres southwest of the South Korean capital Seoul, the company is one of the top addresses for PCB production services in Korea. Mr Lee was the first provider in Korea to offer automatic guidehole punching as a service for his clients. Da Won today is a firmly established company in the flexible PCB production chain – for mobile telephones for instance.

However, Jae-Moung Lee is always ambitious to achieve more. The self-made man recognised the change in market requirements very early on: PCBs for mobile telephones need to be tailored even more precisely than before, and hundreds of flexible PCBs are required for development and testing in a very short period of time. He quickly realised that this challenge was a real opportunity. All he needed to succeed was a very precise and flexible cutting machine for thin foils. The only possible solution for Jae-Moung Lee was a laser. “Although the laser cutting of flexible PCBs was a new business activity for our company, the commercial opportunities were so interesting that we had to get the new technology on board as quickly as possible,” says Jae-Moung Lee recalling the situation.

The LPKF MicroLine series

The systems of the LPKF MicroLine series have a reputation throughout the world for being amongst the most efficient and productive machines for the laser cutting of flexible PCBs.

The benefits:

- Any shape of PCB possible even in small batches
- PCBs are cut with hardly any mechanical damage to the material
- Very tight cutting position tolerances
- Dustless machining
- Toolless processing
- Modular concept adaptable to a whole range of requirements
- Extremely high productivity and flexibility

Fast and flexible

Mr Lee had thoroughly analysed the market. Before investing in the laser business he already knew in detail what his clients – major players such as Interflex and Young-Poong Electronics – demanded of their subcontractors. With product lifecycles reducing rapidly, the major producers need partners capable of responding very quickly and efficiently to the changing conditions and able to guarantee short delivery times. For Da Won, this means lasers, also because of smaller inventories, no tool costs and extremely high flexibility. Jae-Moung Lee made his move: his first contact with LPKF was at a trade fair in Seoul – things then moved very quickly. In May 2005, Da Won purchased an ML 350D, followed by an ML 600D in July and another ML 600D in August. If you want to beat the competition in Korea, and stay at the cutting edge, you have to move very quickly and precisely – just like LPKF lasers.

"To beat the competition in Korea, and stay at the cutting edge, you have to move very quickly and precisely."

The right choice

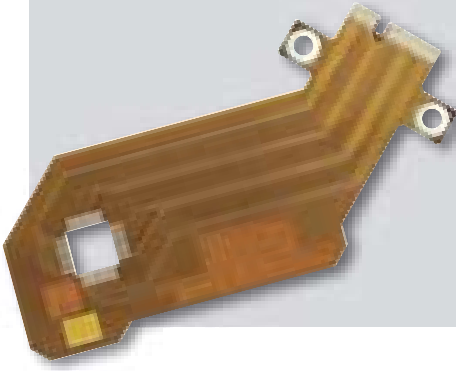
The market for flexible PCBs is expanding rapidly, not only in Korea. Da Won believes in large production capacities to enable it to provide the leading electronics producers in Korea with the necessary volumes. Less than a year after making its initial investment, Da Won is thoroughly convinced that the MicroLine series was the right choice. In Jae-Moung Lee's opinion there is currently no better machine on the market for "body cutting" – depanelling flexible PCBs. Mr Lee also swears by his three MicroLine machines for the production of cover layers, which are thin films covering the circuit layout. The success has proven that this shrewd businessman is charting the right course. He intends to expand further, and all the signs are that he will again be relying on quality products from LPKF. In his own words, Mr Lee is already "very close" after less than a year to achieving his original objective of becoming market leader. ■

Contact at LPKF

Nils Heininger
Manager PCB/MID division

Flexible PCBs

Electronic components in mobile telephones are increasingly being assembled on flexible PCBs . These thin films replace the traditional rigid PCBs. They can be folded or rolled and are therefore perfect for flexible connections (folding mobile phones). They also save space and weight.



LPKF MicroLine 350D

Laser-cut coverlayer

LPKF Motion & Control

From component producer to system supplier

LPKF Motion & Control's factory in the Friedberg Industrial Estate in Suhl/Germany lies exactly 600.0 metres above sea level. The fact that Motion & Control knows the exact height of the factory it moved into in 2000 to the nearest decimal place speaks volumes about the company and its workforce: they are fascinated and dedicated to accuracy, movement and control. The aim is to combine the fastest possible drive with the highest possible control accuracy. Managing Director Dr. Gunter Blank explains what they mean by accuracy: "Our precision tables can drive repeatedly to any specified position with an accuracy of 100 nanometres – a thousandth of the thickness of a human hair."

Fast and precise

LPKF Motion & Control has been controlling motion with precision far smaller than the thickness of a human hair ever since the company was founded 15 years ago. Preceded by the Institute for Precision Engineering and Automation at the Technical University of Ilmenau, LPKF Motion & Control has been in Suhl since 7 August 1991 – another precisely documented date – building freely moveable, air-cushioned tables on which chips and PCBs can be moved very quickly and highly precisely.

There has also been a great deal of motion within the company in recent years. Sales have risen, the product range has been expanded, and the number of staff has increased. Suhl's speciality is “very high output with extreme precision” explains Bank. “People ordering from us know that they get systems which guarantee 100 per cent accuracy.” These systems include control units for Rapid PCB Prototyping, table systems for LPKF laser systems, or special machines for measuring flat screens or chip sets.

Total sales doubled

For a long time, LPKF Motion & Control was mainly busy supplying drive systems to the parent company LPKF Laser & Electronics in Garbsen. Their turnover, however, was boosted in 2005 by an impressive external sales volume. “The total sales in 2005 were around Euro 6 million, of which more than 50 per cent was generated externally,” sums up Blank. Compared to 2004, LPKF Motion & Control has doubled its turnover and successfully made the final move from subcontractor to system supplier. This was mainly due to the inspection systems developed in Suhl.

The demand for 3D-Flip-Chip inspection systems has developed particularly rapidly in Taiwan. LPKF Motion & Control has been co-operating with a Taiwanese partner for five years. “Entering the Taiwanese market was an important step for us,” explains Gunter Blank. LPKF Motion & Control is now already the market leader in high speed 3D measuring machines for controlling flip-chip interposers. And it intends to strengthen this position further in 2006. Future plans in Suhl involve increasing the range of applications of the systems with the aim of opening up new markets. This involves setting up a local service organisation in Asia in 2006.

In parallel to the systems business, LPKF Motion & Control also separately markets control electronics such as the digital axle controller DAC 1005 which was launched at the end of 2005. This component business is planned for further expansion in future.

LPKF Motion & Control delivered an extremely accurate table system for the mechanical processing of ultra-fine objects to a university in Saxony/Germany a few months ago. “We see a whole number of application opportunities here, such as in optical communications technology,” says Gunter Blank looking ahead to the future. The positioning accuracy of the system is 0.1 micrometres. Even for LPKF in Suhl, at exactly 600.0 metres above sea level, they have to admit that this – for the present time at least – marks the sensible practical limits of the accuracy of such systems. ■

Dr. Gunter Blank, Managing Director

Flip-Chip Interposer

Large computer chips with numerous connections are joined to the PCB via an interposer. The job of the interposer is to adapt the tight connection grid of the chips to the larger connections on the PCB. The interposer has small solder bumps on its upper surface to which the chip and its connections are soldered.

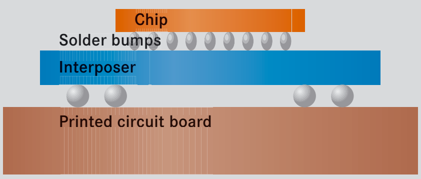
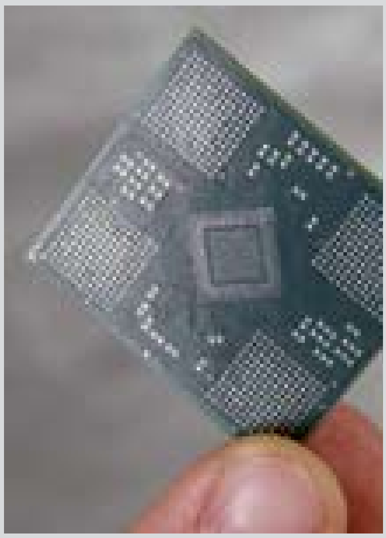


Diagram of a Flip-Chip Interposer



Rapid PCB Prototyping

The S-series: from idea to product

Rapid PCB Prototyping and LPKF have been synonymous for decades. With a market share of around 70 per cent, LPKF Laser & Electronics AG is the undisputed world leader in this sector. All of the steps involved in turning a CAD file into a completely assembled and soldered PCB can be realised in electronics laboratories with LPKF machines.

LPKF staff with three S-series models

Contact at LPKF

Britta Schulz, Manager Rapid PCB Prototyping

In response to customers' wishes for even easier and simpler to operate Protomats, LPKF posed itself the question at the end of 2003: What should a modern circuit board plotter look like today? LPKF's marketing team and distributor network played a decisive role in defining the product in 2004. As a result, a strategy was elaborated to develop an innovative series of Protomats which set new standards and significantly increased customer benefits. In addition to its many technical advantages, the series should also have an attractive price/performance ratio. The planning also specified that the new series should replace most of the previous LPKF models as quickly as possible.

The technical development of the first machine of this series took less than a year. Important features such as automatic tool changing were planned as standard for the first time in this price range. State-of-the-art control electronics was used which enabled the use of more cost-effective mechanical solutions. The testing of sub-assemblies was a major priority during the development process because of the large number of new components.

Global launch

1 February 2005 finally saw the global launch of the ProtoMat® S62. LPKF sales partners had already become familiar with the new equipment in January 2005 at three locations in Europe, Asia and America. During the course of 2005, two more Protomats of the new series were completed and launched on the market. The major acceptance of these products by customers around the world today highlights that LPKF's Protomat S-series and the concept behind it was precisely what the market needed. The honest analysis of customer requirements and its consequent technical implementation paid off handsomely. The S62 innovation story is a classic example of the product development process at LPKF. ■

LPKF ProConduct®

LPKF ProConduct® is a new system for through-plating double-sided PCBs, i.e. joining the various layers together. The process has been registered for patenting. It functions without liquid chemicals, is fast, simple to use, and very reliable. All holes are through-plated in a parallel processing step. ProConduct® metallises through-plating holes with diameters from 0.4 mm and an aspect ratio of 1:4. Complete prototype PCBs can be produced in only one day by combining an LPKF circuit board plotter with ProConduct®.

3D-MID

The third dimension

2006 could be the year when LPKF Laser & Electronics conquers space: the promising future business with three-dimensional moulded interconnect devices, 3D-MIDs.

The LDS method developed by LPKF for the production of 3D-MIDs won a great deal of positive international attention in 2005. All the signs indicate that the idea of merging electronics and mechanics in a flexible and inexpensive way on a three-dimensional PCB has a promising future in batch production. As one of the key techniques for miniaturising electronic devices, 3D-MID is profiting from the global trend towards increasingly compact designs. One of LPKF's first success stories comes from the USA where Tyco Electronics has been using the LDS method to produce mechatronic components since 2005. Stephan Schmidt, President of LPKF Laser & Electronics Inc., USA, is particularly enthusiastic about the very high flexibility of the method: "I am convinced that we have only just begun to scratch the surface of the potential of MID technology."

Stephan Schmidt, President LPKF Laser & Electronics Inc., USA

3D-MID for aerials

The internationalisation of this segment is currently being pushed ahead rigorously. The first successes of this strategy are orders from Switzerland and Korea. Micro-packages for measuring air pressure in precision watches and weather stations are one of many possible areas of application, in addition to aerials and sensor units in consumer products.

The advantages of 3D-MIDs become overwhelmingly apparent where the miniaturisation of sub-assemblies has to go hand-in-hand with cost cutting and shorter development times. 3D-MIDs have already proved their practical advantages in end products for some time now in special components, e.g. in Siemens' hearing aids. In the very near future, customers plan to go into batch production for the first time using the 3D-MID method to manufacture aerials for mobile phones. The LDS method is the ideal means of expediting frequent model changes and short delivery times.

The in-depth standardisation of the LPKF systems also makes the price/performance ratio of the technology even more attractive. The concept is also simultaneously designed to enable the fast and simple conversion of laser systems to meet a whole range of customer-specific applications.

Pressure sensor packages to scale, produced by the LPKF LDS method

LPKF MicroLine 3D

3D-MID and the LDS method

Moulded interconnect devices (MIDs) merge electronics and mechanics. As integrated PCBs, MIDs shorten the processing chain at the same time as opening up considerable design flexibility. And by reducing the number of components, 3D-MIDs also boost the further miniaturisation of electronic sub-assemblies. The laser direct structuring method (LDS) developed by LPKF enables fine circuit layouts to be realised on complex three-dimensional carriers – functionally integrating the previously separate housings and PCBs. The method works on the basis of doped thermoplastics onto which structures are written via a laser and then metallised in chemical baths to create the gaps and tracks. The LDS method was developed by LPKF Laser & Electronics AG. Major plastic manufacturers produce materials for this method under licence.

Laser plastic-welding

A clean solution

The Laser Plastic-Welding division arose in 2005 from the merger of LPKF Laser & Electronics AG and its subsidiary Laserquipment AG. With a new management, the 20 staff in Erlangen can now look back on a commercially successful financial year. The Divisional Manager Frank Brunnecker is justifiably satisfied.

The Plastic-Welding division was able to double its turnover year-on-year to almost Euro 2 million in 2005. It also generated a small profit for the first time in its history. Machines and services played an equal part in the year's sales. The manager of the division, Frank Brunnecker, is now also registering that industry is becoming a lot more comfortable with the new technology: "Our process expertise is just as much accepted as our focus on customer benefits." There are already numerous interesting inquiries for 2006, and the graduate production engineer

Frank Brunnecker, Divisional Manager

is optimistic that "this will also turn into actual sales". After only five years, the division of LPKF Laser & Electronics AG is one of the technological leaders in the laser plastic-welding sector. Brunnecker's target for 2006 is a rise in turnover of 30 per cent.

Word is getting round of the advantages of this innovative welding technique. "Laser plastic-welding is a cheaper alternative to ultrasonic welding and glueing, as well as being much gentler on the materials," says Brunnecker,

LQ-Power-RT welding machine

Electric razor housing

summarising the benefits of the method. Welding with lasers is clean, and because the energy input can be very precisely controlled, the mechanical effects on the components are kept to an absolute minimum, which is good news for sensitive components.

Second platform

80 per cent of the division's customers come from the automotive industry. Because the automotive sector is affected by product and development cycles in a completely different way to the

Hybrid welding

Hybrid welding is a combination of laser light plus infrared radiation from halogen lamps for the welding of plastics. The simultaneous heating of both welding partners means that larger tolerances can be accepted in the components. Large three-dimensional components in particular such as car lights can be cheaply and reliably welded in this way. LPKF has applied for a patent for this method.

Car rear light

electronics sector, it makes LPKF less dependent in the medium term on the economic fluctuations of the electronics industry. The division is currently working flat out supplying automotive subcontractors with samples of hybrid-welded 3D components. Hybrid welding opens up a completely new market segment as well as opportunities on international markets, according to Frank Brunnecker.

Focus on medical technology

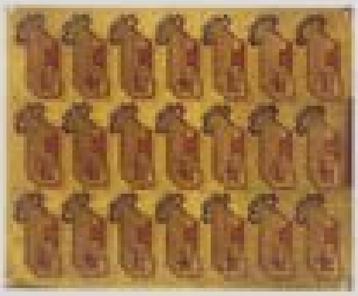
Because the economic efficiency of laser plastic-welding systems increases with the output volume, LPKF is keenly following the promising medical technology market which looks to have a bright future. Disposable hygiene articles are normally produced in extremely high numbers under clean-room conditions – ideal parameters for laser welding systems. Frank Brunnecker: "We already have good contacts in this sector and the first tests as well as a small batch are already running. This sector undoubtedly has enormous growth potential!"

The business segments and subsidiaries of

Business segments

In-house Rapid PCB Prototyping
LPKF supplies everything needed by electronics laboratories for the in-house prototyping and assembly of PCBs of all kinds.

PCB production technology
LPKF produces specialised flexible laser systems for cutting, drilling, depanelling and structuring PCBs and flexible PCBs.



Stencil technology
LPKF is the market and technology leader for laser systems for cutting all kinds of stencils, e.g. for solder printing on PCBs, chip housings and silicon chips.

Technology for 3D-MIDs
The LPKF LDS method is a flexible and economical way of producing 3D electronical carriers (MIDs). LPKF builds special laser systems for the production of MIDs using this method.

Laser plastic-welding
Production of modular production equipment for laser plastic-welding. The product range is rounded off by production services and the development of customer-specific processes in LPKF's own applications laboratory.

LPKF Laser & Electronics Inc.

Sales and service company for North America, based in Wilsonville, Oregon.

LPKF Properties LLC

Provides real estate for LPKF Laser & Electronics Inc.

LPKF Laser & Electronics AG

LPKF France S.A.R.L.

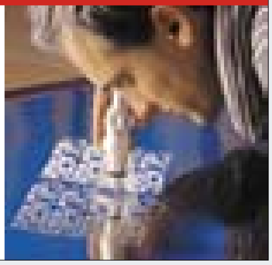
Sales and service company for France, based in Lisses near Paris.

LPKF (Tianjin) Co. Ltd.

Sales and service company for China, with offices in Tianjin, Shenzhen and Suzhou.

LaserMicronics GmbH

LaserMicronics GmbH in Garbsen/Germany provides laser micro-machining services, e.g. ceramic drilling, PCB repair, and laser structuring using the LPKF LDS method.



LPKF Motion & Control GmbH

LPKF Motion & Control GmbH in Suhl/Germany, is a specialist in precise movement systems and 3D production measuring systems for micro-electronics.

LPKF Laser & Elektronika d.o.o.

LPKF Laser & Elektronika d.o.o. in Kranj/Slovenia specialises in Rapid PCB Prototyping products as well as laser sources and laser fiducial systems.

LPKF Laser & Electronics (Asia) Ltd.

Sales and service support for Asia based in Hong Kong.

Corporate Governance Code

Declaration of compliance according to Section 161 German Stock Corporation Act

The Supervisory Board of LPKF Laser & Electronics AG passed the following declaration of compliance according to Section 161 German Stock Corporation Act at its meeting on 23 November 2005. The declaration of compliance is published in the internet at www.lpkf.com and thus made permanently accessible to all shareholders and potential investors.

The Board of Managing Directors and the Supervisory Board of LPKF Laser & Electronics AG accept the recommendations of the Government Commission on the German Corporate Governance Code dated 2 June 2005, and declare that it did and also will in future comply with the recommendations of the code with the following exceptions:

- In view of the current age structure of the Board of Managing Directors, no age limit has been defined for the Board of Managing Directors (Article 5.1.2., Para. 2, Section 3 GCGC).
- The Supervisory Board of LPKF Laser & Electronics AG does not currently form any committees (Article 5.1.3. GCGC).

  The Supervisory Board currently consists of three people: Mr Bernd Hildebrand and Mr Klaus Sülter, the founders of the company, as well as Dr. Heino Büsching who is also associated with the Group as a legal advisor. This means that even without forming committees, LPKF Laser & Electronics AG can effectively, quickly and competently involve the members of the Supervisory Board in the company affairs, and guarantee intense supervision of the Board of Managing Directors based on a well informed understanding of the facts. For LPKF Laser & Electronics AG to form committees would also contravene best practice because the committees also need to consist of at least three members. With this justification, the recommendations of Article 5.2., Section 2 as well as Article 5.3.2. GCGC are not applicable to LPKF Laser & Electronics AG.

- The quarterly reports are published 60 days after the reporting period at the latest due to the extensive Group interdependence. 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).

- The remuneration of the Supervisory Board members is not disclosed on an individual basis but as a total amount (Article 5.4.7., Para 3, Section 1 GCGC).

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

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

Garbsen, March 2006
LPKF Laser & Electronics AG

Bernd Hackmann
Chairman of the Board of
Managing Directors

Bernd Hildebrandt
Chairman of the Supervisory Board

Group annual financial statements

Group annual financial statements for the 2005 financial year based on the International Financial Reporting Standards (IFRS)

Statement of income in K€	Notes	2005	2004
Sales	1	34,871	25,167
Changes in inventories of finished goods and work-in-process		779	376
Other work capitalised	2	543	862
Other operating income	3	1,669	1,387
		37,862	**27,792**
Cost of materials	4	10,878	8,204
Personnel expenses	5	12,157	9,807
Depreciation and amortisation costs	6	1,507	1,723
Other operating expenses	7	7,340	6,337
		5,980	**1,721**
Financial income	8	203	203
Financial expenditure	8	178	211
Result from ordinary activites		**6,005**	**1,713**
Income tax	9	2,317	586
Net income		**3,688**	**1,127**
Net income thereof:			
– shareholders of parent company		3,021	899
– minority interest		667	228
		3,688	**1,127**
Net income per share (basic, in €)	24	0.28	0.08
Net income per share (diluted, in €)	24	0.28	0.08

Consolidated statement of changes in shareholders' equity

Consolidated statement of the changes in shareholders' equity for the financial year ended 31 December 2005 (previous year in brackets)

in K€

	Share capital	Additional paid-in capital	Other earnings reserves	Market value of hedging transactions	Market value of securities	Reserves for share based payments	Retained earnings	Foreign currency translation adjustment	Minority interest	Total
As at 1.1.2005 before setting-off own stock and market value of securities	10,648	3,769	4,000	-1	-	42	5,519	-961	1,908	24,924
As as 1.1.2004 before setting-off own stock	(10,648)	(3,769)	(-)	(-)	(-)	(11)	(9,238)	(-918)	(1,557)	(24,305)
Setting-off own stock	-50	-98	-	-	-	-	-	-	-	-148
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Additions from market valuation of securities	-	-	-	-	-29	-	29	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
As at 1.1.2005 after setting-off own stock and market valuation of securities	10,598	3,671	4,000	-1	-29	42	5,548	-961	1,908	24,776
As at 1.1.2004 after setting-off own stock and market valuation of securities	(10,648)	(3,769)	(-)	(-)	(-)	(11)	(9,238)	(-918)	(1,557)	(24,305)
Costs of capital increase	-	-18	-	-	-	-	-	-	-	-18
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Proceeds from capital increase	190	30	-	-	-	-	-	-	-	220
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Buying back own stock	-	-	-	-	-	-	-	-	-	-
	(-50)	(-98)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-148)
Issue of own stock	50	98	-	-	-	-	-	-	-	148
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Additions from valuation of cash flow hedge	-	-	-	-3	-	-	-	-	-	-3
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Reductions from valuation of cash flow hedge	-	-	-	1	-	-	-	-	-	1
	(-)	(-)	(-)	(-1)	(-)	(-)	(-)	(-)	(-)	(-1)
Additions from market valuation from securities	-	-	-	-	-	-	-	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Allocations to reserves	-	-	1,000	-	-	-	-1,000	-	-	-
	(-)	(-)	(4,000)	(-)	(-)	(-)	(-4,000)	(-)	(-)	(-)
Transfer of earnings reserves	-	-	-300	-	-	-	300	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Divident payment to shareholders	-	-	-	-	-	-	-424	-	-98	-522
	(-)	(-)	(-)	(-)	(-)	(-)	(-319)	(-)	(-)	(-319)
Net result	-	-	-	-	-	-	3,021	-	667	3,688
	(-)	(-)	(-)	(-)	(-)	(-)	(899)	(-)	(228)	(1,127)
Expenditure for granted option rights	-	-	-	-	-	51	-	-	-	51
	(-)	(-)	(-)	(-)	(-)	(31)	(-)	(-)	(-)	(31)
Settlement of difference from acquisition of minority shares	-	120	-	-	-	-	-	-	-515	-395
	(-)	(-)	(-)	(-)	(-)	(-)	(-299)	(-)	(-)	(-299)
Foreign currency translation adjustment	-	-	-	-	-	-	-	397	211	608
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-43)	(123)	(80)
As at 31.12.2005	10,838	3,901	4,700	-3	-29	93	7,445	-564	2,173	28,554
As at 31.12.2004	(10,598)	(3,671)	(4,000)	(-1)	(-)	(42)	(5,519)	(-961)	(1,908)	(24,776)

Balance sheet: Assets in K€	Notes	31.12.2005	31.12.2004
Non-current assets			
Intangible assets	10		
Software		168	128
Goodwill		74	74
Development costs		582	609
Rights to use		11	18
		835	**829**
Tangible assets	10		
Land and buildings		5,289	5,238
Technical equipment and machinery		1,462	1,786
Other equipment, factory and office equipment		1,070	756
Prepayments and construction in process		253	103
		8,074	**7,883**
Financial assets	10		
Participations		0	2
Other loans		3	5
		3	**7**
Accounts receivable and other assets			
Trade accounts receivable	12	153	203
Other assets	14	204	185
		357	**388**
Deferred taxes	16	**426**	**1,264**
		9,695	**10,371**
Current assets			
Inventories	11		
(System-) components		6,002	3,466
Work-in-process		2,679	2,550
Finished goods and merchandise		4,171	3,715
Prepayments		158	161
		13,010	**9,892**
Accounts receivable and other assets			
Trade accounts receivable	12	6,313	4,359
Tax refund claims	13	115	35
Other assets	14	821	721
		7,249	**5,115**
Securities		**3,049**	**1,616**
Cash on hand, bank balances	15	**5,572**	**5,629**
Non-current assets held for sale		**2**	**0**
		28,882	**22,252**
		38,577	**32,623**

Balance sheet: Liabilities and shareholders' equity			
in K€	Notes	31.12.2005	31.12.2004
Shareholders' equity			
Share capital	17	10,838	10,598
Additional paid-in capital		3,901	3,671
Other earnings reserves		4,700	4,000
Market value of hedging transactions		-3	-1
Market value of securities		-29	0
Reserves for share based payments		93	42
Net income for the year			
Retained earnings		4,424	4,620
Net income		3,021	899
		7,445	**5,519**
Foreign currency translation adjustments		-564	-961
Minority interest	18	2,173	1,908
		28,554	**24,776**
Non-current liabilities			
Provisions for pensions	19	284	266
Convertible bond	22	113	113
Liabilities due to banks	21	1,736	2,084
Deferred grants	3	316	275
Deferred taxes	16	549	605
		2,998	**3,343**
Current liabilities			
Tax provisions	20	964	529
Other provisions	20	1,756	364
Short-term liabilities due to banks	21	404	505
Trade accounts payable		1,683	1,429
Other liabilities		2,218	1,677
		7,025	**4,504**
		38,577	**32,623**

Cash flow statement in K€	Notes	2005	2004
Operating activities			
Net income of the year		3,688	1,127
Depreciation and amortisation of fixed assets		1,507	1,723
Profit/loss from sale of assets incl. reclassification into current assets		-401	-16
Cashless currency differences in fixed assets		-189	121
Other non-payment income/expenses		-80	125
Changes in inventories, accounts receivable and other assets		-4,383	-408
Changes in provisions and accrued liabilities		1,845	425
Changes in liabilities and deferred income		1,443	71
Cash flow from operating income	23	**3,430**	**3,168**
Investing activities			
Fixed asset investments intangible assets		-413	-336
Fixed asset investments tangible assets		-1,451	-614
Purchase of minority interests		-162	-126
Receipts on sale of equipment		748	54
Cash flows from investing activities		**-1,278**	**-1,022**
Financing activities			
Dividends paid		-424	-320
Dividends paid to minority shareholders		-98	0
Deposits from shareholders		45	0
Payments to acquire own shares		0	-147
Costs of equity procurement		18	0
Repayments convertible bond		0	-62
Change in long-term bank loans		0	0
Repayments long-term bank loans		-385	-398
Cash flow from financing activities		**-844**	**-927**
Changes in cash and cash equivalents			
Changes in cash and cash equivalents due to exchange rates		131	-93
Changes in cash and cash equivalents		1,308	1,219
Cash and cash equivalents as at 1.1.2005		7,125	5,999
Cash and cash equivalents as at 31.12.2005		**8,564**	**7,125**
Composition cash and cash equivalents			
Cash		5,572	5,629
Securities		3,049	1,616
Bank overdraft		-57	-120
Cash and cash equivalents		**8,564**	**7,125**

Notes to the 2005 consolidated statements

Basis of preparation

The consolidated financial statements of LPKF Laser & Electronics AG, Garbsen, for the year ended 31 December 2005, have been prepared using uniform accounting 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 structure of the balance sheets from 2005 onwards reflects the maturities. The balance sheets for the previous years were changed accordingly.

The following supplements to the issued standards, or revised or new issued standards adopted prior to the balance sheet reporting date were not applied in the 2005 financial year: IAS 39 Finance Instruments: recognition and measurement (changes concerning the hedging of expected cross-group transactions), IAS 39 Finance Instruments: recognition and measurement (changes concerning fair-value options), IAS 39 Finance Instruments: recognition and measurement (changes to financial guarantee contracts); IFRS 7 Finance Instruments: details, IAS 19: Employee Benefits (changes to actuarial profits and losses). These all concern regulations that only become obligatory from the 2006 or 2007 financial year. The effects of these standards on the consolidated financial statements of LPKF Laser & Electronics AG have not yet been finally determined.

The financial year corresponds to the calendar year.

Consolidated group

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

Consolidated group			
Name	Domicile	Holding %	Acquisition/founding
Full consolidation			
LaserMicronics GmbH	Garbsen/Germany	100.0	1989
LPKF Laser & Elektronika d.o.o.	Kranj/Slovenia	75.0	1995
LPKF Laser & Electronics Inc.	Wilsonville/USA	85.0 (previous year: 60.0)	1994/1999/2005
Laser Services Inc. (formerly: A-Laser Inc.)	Beaverton/USA	100.0	1995/1999
LPKF Motion & Control GmbH	Suhl/Germany	50.9	1991/1999
LPKF Properties LLC	Wilsonville/USA	60.0	1999
LPKF France S.A.R.L.	Lisses/France	94.0	1999
LPKF Laser Components GmbH	Garbsen/Germany	100.0 (previous year: 80.0)	1999/2005
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0	2000
LPKF Laser & Electronics (Asia) Ltd.	Hong Kong/China	100.0	2005

Laserquipment AG was merged with LPKF Laser & Electronics AG with effect from 1 January 2005.

LPKF Benelux N.V. was wound up in the 2005 financial year. The assets and debts were taken over by LPKF Laser & Electronics AG.

LPKF Laser & Electronics AG acquired from another shareholder of LPKF Laser & Electronics Inc. a further 25.0% of the shares in this American distribution subsidiary, and spent in the process its own shares and new shares created as part of a capital increase through non-cash contributions. As part of the preparations for the merger of LPKF Laser Components GmbH with LaserMicronics GmbH, all of the shares were acquired which were held by a minority shareholder.

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 2006. The shares are therefore reported under “Long term assets held for sale”.

Consolidation principles

The consolidated financial statements are based on the financial statements prepared according to standard accounting and valuation rules as at 31 December 2005 of those companies included in the consolidated financial statements.

For the purposes of capital consolidation, the acquisition costs of investments are offset against the proportionate share of the share values of the equity at the date of acquisition.

Any differences which arise are assigned to the assets and liabilities to the extent to which the fair value differs from the book value. Any remaining positive balance is shown as goodwill. No more current write-downs will be undertaken from 1 January 2005. In the event that there was a difference between the purchase price of the participation and the identified assets and debts, this would be credited to the appropriate income account in the year of acquisition.

Inter-company profits and losses, expenses and income, accounts receivable and accounts payable between the Group companies have been eliminated.

Foreign currency translation

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

Foreign currency translation				
in €	Reporting date rate		Average rate	
(1 € = x currency)	31.12.05	31.12.04	2005	2004
Slovenian Tolar	239.5000	239.7600	239.5704	239.0669
US-Dollar	1.1797	1.3640	1.2448	1.2433
Chinese Renminbi Yuan	9.52040	11.2891	10.20325	10.28776
Hong Kong Dollar	9.14740	-	9.68248	-

Segment reporting

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

The following divisions form the basis for the primary segment reporting:
- Rapid PCB Prototyping involves the further development, production and marketing of circuit board plotters for the world market.
- Laser Systems includes all systems such as the StencilLaser, PCB production systems and other new laser technologies.
- The Production Services division includes the activities carried out by LaserMicronics GmbH and LPKF Services Inc. and the services provided by the Laser Plastic-Welding division.
- The business with 3D inspection systems is reported in the Special Systems segment together with some other inspection systems.
- The Others segment involves all of the minor activities not assignable to the other segments.

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

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

Product segments in K€		Laser Systems	Rapid PCB Prototyping	Special Systems	Production Services	Others	Not distributed	Total
External sales	2005	18,101	10,449	4,441	1,422	458	0	34,871
	2004	12,693	9,834	1,380	955	305	0	25,167
Operating income	2005	4,473	1,142	746	319	186	-886	5,980
	2004	1,089	1,392	204	52	183	-1,199	1,721
Assets	2005	17,247	10,781	2,222	1,053	91	7,183	38,577
	2004	14,287	9,085	592	965	936	6,758	32,623
Liabilities	2005	2,505	1,814	1,033	38	11	4,622	10,023
	2004	1,526	852	210	20	307	4,932	7,847
Investments	2005	955	639	118	132	7	65	1,916
	2004	925	424	12	1	19	18	1,399
Depreciation	2005	822	424	98	116	8	39	1,507
	2004	1,069	447	25	93	48	41	1,723
Non-cash expenses	2005	619	643	12	34	4	1,526	2,838
	2004	540	301	0	23	34	657	1,555

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

Geographical segments in K€		Germany	Rest of Europe	North America	Asia	Others	Total
External sales	2005	6,520	5,195	6,009	16,657	490	34,871
	2004	5,063	5,550	4,803	8,840	911	25,167
Assets	2005	29,564	4,641	3,873	499	0	38,577
	2004	24,775	3,696	3,781	371	0	32,623
Investments	2005	1,481	295	58	82	0	1,916
	2004	817	205	281	96	0	1,399

Consolidated statement of income

1. Sales

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

In accordance with IAS 11, the sales for 2004 include a total of K€ 72 for pro rata profits related to three unfinished goods. The revenues were calculated using the cost-plus method, whilst the degree of completion of the goods was determined using the cost-to-cost method. The associated costs are K€ 75. The trend towards more batch production meant that no pro rata profits were realised in the 2005 financial year.

2. Own work capitalised

The own work capitalised reported in the financial statements totals K€ 543. This comprises technical equipment and machinery used by Group companies for production, prototype development projects activated during 2004, and machinery produced in-house to be used throughout their lifetimes for Group production operations. The depreciation of ongoing projects valued at material and personnel costs takes place over 5 years.

3. Other operating income

The "Grants for research and development" exclusively concern government grants – in some cases with the involvement of project executing agencies with a private sector structure – granted for specific confirmed costs incurred during the financial year (expenditure grant). Payments are made in line with project progress. The "Reversal of deferred item for grants" is based on the useful life of the associated capitalised development costs and other assets. The same accounting procedure applies to a grant for building costs in Suhl/Germany totalling K€ 413.

Other operating income in K€	2005	2004
Grants for research and development	660	813
Gains from sale of plant and machinery	375	26
Exchange gains	229	137
Gains from reversal of provisions	68	73
Gains from reversal of value adjustments	40	123
Reversal of deferred item for grants	23	10
Others	274	205
	1,669	**1,387**

4. Cost of materials

Cost of materials in K€	2005	2004
Cost of (system) components		
and purchased merchandise	10,471	7,837
Cost of purchased services	407	367
	10,878	**8,204**

5. Personnel expenses and employees

Personnel expenses and employees in K€	2005	2004
Wages and salaries		
Wages and salaries	10,149	7,946
Share-based remuneration recorded		
as a charge to the income statement	51	31
Other	246	206
	10,446	**8,183**
Social security costs and		
pension costs		
Employer's contribution to		
social security	1,492	1,354
Pension costs	143	223
Workman's compensation board	76	47
	1,711	**1,624**
	12,157	**9,807**

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

Number of employees	2005	2004
Administration	70	65
Production	61	55
Marketing and Distribution	57	45
Research and Development	53	47
	241	**212**

In addition, there were also 6 part-time employees and 15 trainees as at 31 December 2005.

6. Depreciation and amortisation

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

7. Other operating expenses

The total expenses for Research and Development in 2005 were K€ 3,444 made up of the cost of materials and others totalling K€ 521 plus other costs including personnel costs and depreciation totalling K€ 2,923.

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 as described in detail in Note 28 “Other disclosures”.

Other operating expenses in K€	2005	2004
Advertising and distribution expenditure	1,288	849
Entertainment expenses, travel	916	716
Legal and consultancy costs	583	445
Rent, incidental costs, leasing, real estate and building costs	449	652
Sales commissions	440	465
Repairs/Maintenance/Operating materials	418	365
Trade fair costs	346	305
Consumables for development	294	139
Postage, telephone, facsimile	285	246
Insurance, contributions, levies	262	231
Investor Relations	245	226
Additions to guarantee provisions	241	0
Services	196	118
Voluntary social expenses/training	191	171
Financial statements, publicity and auditing costs	155	148
Supervisory board expenses	142	146
Vehicle costs	141	151
Exchange losses	116	330
Bank charges	96	69
Allocation to bad debts	79	189
Office materials, books, software	64	87
Others	393	289
	7,340	**6,337**

8. Financial results

Financial results in K€	2005	2004
Financial income		
Other interest and similar income	203	203
Finance expenditure		
Write-downs on marketable securities	0	-24
Interest and similar expenses	-172	-181
Interest on convertible bond		
Changes in present value	0	0
Payment to subscribers	-6	-6
	-178	**-211**
	25	**-8**

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.

Income taxes in K€	2005	2004
Corporate tax and solidarity surcharge	1,014	398
Trade tax	526	251
Deferred taxes	777	-63
	2,317	**586**

In the balance sheet, tax claims of K€ 19 were formed for the tax losses of subsidiaries unused so far. The amount of so far unused tax losses from subsidiaries for which no deferred tax claim was calculated is K€ 19, 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 in K€	2005	2004
Consolidated net income before income taxes	6,005	1,713
Anticipated tax expense 38.0% (previous year 38.0%)	2,282	651
Non-activated deferred taxes in a loss situation	7	0
Tax rate variances amongst subsidiaries	-180	-204
Other tax payments unrelated to the reporting period	0	16
No allowance made for deferred taxes on reported exchange rate differences with a neutral effect on results	27	38
No allowance made for deferred taxes on goodwill amortisation	0	23
No allowance made for deferred taxes on share-based remuneration transactions credited to the appropriate income account	19	12
Liquidation of deferred tax assets	85	0
Tax effects of non-deductable operating expenses	50	38
Other variances	27	12
Effective tax expense 38.6% (previous year 34.2%)	**2,317**	**586**

Consolidated balance sheet: Assets

10. Fixed assets

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

Consolidated fixed assets schedule in K€	Acquisition/manufacturing costs					
	Balance 01.01.05	Currency differences	Additions	Reclassification	Disposals	as at 31.12.05
Fixed Assets						
Intangible assets						
Software	722	0	112	2	29	807
Goodwill	74	0	0	0	0	74
Development costs	3,795	0	292	0	0	4,087
Rights to use	859	1	4	0	0	864
	5,450	**1**	**408**	**2**	**29**	**5,832**
Tangible assets						
Land and Buildings	6,879	113	206	-2	6	7,190
Technical equipment and machinery	4,698	193	501	-34	1,329	4,029
Other equipment, factory and office equipment	3,720	28	651	34	362	4,071
Prepayments and constructions in process	103	0	150	0	0	253
	15,400	**334**	**1,508**	**-2**	**1,697**	**15,543**
Financial assets						
Participations	2	0	0	0	2	0
Other loans	5	0	0	0	2	3
	7	**0**	**0**	**0**	**4**	**3**
	20,857	**335**	**1,916**	**0**	**1,730**	**21,378**

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

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

Consolidated fixed assets schedule in K€	Acquisition/manufacturing costs					
	Balance 01.01.04	Currency differences	Additions	Reclassification	Disposals	as at 31.12.04
Fixed Assets						
Intangible assets						
Software	617	0	105	0	0	722
Goodwill	1,030	0	0	0	0	1,030
Development costs	3,576	-4	223	0	0	3,795
Rights to use	862	-11	8	0	0	859
	6,085	**-15**	**336**	**0**	**0**	**6,406**
Tangible assets						
Land and Buildings	6,898	-64	45	0	0	6,879
Technical equipment and machinery	4,347	-150	630	143	272	4,698
Other equipment, factory and office equipment	3,664	-13	275	0	206	3,720
Prepayments and constructions in process	133	0	113	-143	0	103
	15,042	**-227**	**1,063**	**0**	**478**	**15,400**
Financial assets						
Participations	2	0	0	0	0	2
Other loans	9	0	0	0	4	5
	11	**0**	**0**	**0**	**4**	**7**
	21,138	**-242**	**1,399**	**0**	**482**	**21,813**

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

Accumulated depreciation						Net book value	
as at 01.01.04	Currency differences	Additions	Reclassi-fication	Disposals	as at 31.12.04	as at 31.12.04	Previous year
528	0	66	0	0	594	128	89
895	0	61	0	0	956	74	135
2,683	-3	506	0	0	3,186	609	893
845	-11	7	0	0	841	18	17
4,951	**-14**	**640**	**0**	**0**	**5,577**	**829**	**1,134**
1,382	-9	268	0	0	1,641	5,238	5,516
2,790	-88	473	0	263	2,912	1,786	1,557
2,825	-10	342	0	193	2,964	756	839
0	0	0	0	0	0	103	133
6,997	**-107**	**1,083**	**0**	**456**	**7,517**	**7,883**	**8,045**
0	0	0	0	0	0	2	2
0	0	0	0	0	0	5	9
0	**0**	**0**	**0**	**0**	**0**	**7**	**11**
11,948	**-121**	**1,723**	**0**	**456**	**13,094**	**8,719**	**9,190**

The goodwill arising from company acquisitions (capitalised differences arising from capital consolidation) were reduced by scheduled straight-line amortisation over the useful life in each case up to 31 December 2004. No more scheduled amortisation takes place starting from the 2005 financial year because an unlimited lifetime is assumed. During the 2005 financial year, the remaining 25.0% stake in LPKF Laser & Electronics Inc. still held by a minority shareholder was acquired. The purchasing price was 50,000 own shares and 175,000 new shares created as part of a capital increase through non-cash contributions. This transaction was based on a share price of € 4.05 at the time of the acquisition on 17 May 2005. The difference in amount of K€ 120 arising from the purchase of the minority shareholding was offset directly with the Group equity. In addition, 20% of the shares in LPKF Laser Components GmbH were acquired from an external shareholder. The acquisition was based on the book value of the pro rata equity.

On every balance sheet date, an assessment is made to determine whether there is justification for a decrease in value. If affirmative, the book value of the goodwill is compared with the achievable price. Depreciation is carried out if the book value exceeds the recoverable amount. For the purposes of testing the soundness of an investment, the goodwill is assigned to a cash generation unit. In this case, it is assigned to the Laser Systems segment based on a detail planning period of 3 years and an appropriate capitalisation interest rate.

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

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 shared by the segments as follows:

Development costs shared by segments

in K€	2005	2004
Laser Systems	180	350
Rapid PCB Prototyping	402	259
	582	**609**

The rights of use are valued on the basis of the cost of acquisition and depreciated linearly.

The residual book value and the useful lives of the intangible assets are reviewed at least at the end of each financial year.

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 recoverable amount of the asset has dropped below the book value. The recoverable amount is the higher figure of the utility value and the assignable fair value minus sale costs. Associated depreciation is carried out if the reasons for an earlier special write-off no longer exist.

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

The following useful lives are assumed:

Assumed useful lives

	Years
Software	3
Development costs	5
Rights of use	5
Buildings	25
Outside facilities	10
Technical equipment and machinery	3–10
Other equipment, factory and office	3–10

Bank loans totalling K€ 1,815 (previous year: K€ 2,065) 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 leasee 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 applicable fair value compared to the cash value of the leasing rates at the time of acquisition. The associated liabilities with respect to the leasor are reported in the balance sheet as finance leasing obligations. The financial result of the difference between the total leasing obligations and the applicable 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.

The transfer of the sale-and-lease-back investment as part of a finance leasing arrangement in the 2003 financial year gives rise to a liability of K€ 56 at the balance sheet date. This is balanced by a net book value totalling K€ 42 (acquisition costs K€ 125, cumulative depreciation K€ 83). The term of the contract is 36 months in total (non-terminable basic leasing period) and extends by one month at a time for max. 36 months if the leasee fails to return the leased item before the scheduled end of the leasing term and the start of the lease extension period.

There is another finance leasing arrangement which on the balance sheet date is reported with a net book value of K€ 10 (acquisition costs K€ 25, cumulative depreciation K€ 15), and on the liabilities-side with a value of K€ 15.

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

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

Leasing rates in K€	Face value	Interest portion	Cash value
Leasing rates, reported in the 2005 financial year	43	-	-
Up to 1 year	64	3	61
Longer than 1 year, and up to 5 years	11	1	10

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 K€ 498 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:

Inventories in K€	2005	2004
Laser Systems	8,399	6,572
Rapid PCB Prototyping	4,163	2,877
Special Systems	406	158
Services	18	42
Others	24	243
	13,010	**9,892**

12. Trade accounts receivable

Trade accounts receivable in K€	2005	2004
Nominal amount of accounts receivable	6,628	4,704
Provision for doubtful accounts including exchange losses	-119	-115
Lump-sum provisions including discounting	-43	-27
Accounts receivable after provisions, discounting and exchange losses	**6,466**	**4,562**

The valuation of the trade accounts receivables is based for the first time on the assignable fair value and thus on the continued procurement costs by applying the effective interest rate method and discounting impairments in value. The impairment in the value 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 in value is measured by the estimated future cash flow from this receivable discounted by the effective interest rate. The impairment in value is credited to the appropriate income account.

The residual book value of the receivables totals K€ 153 (previous year: K€ 203) and concerns receivables with a remaining term of more than one year.

13. Income tax refunds

Refund claims for corporation tax and trade tax are reported.

14. Other assets

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

Other assets in K€	2005	2004
Input VAT refunds	320	274
Reinsurance	204	185
Deferred insurance premiums	135	108
Outstanding investment grants	129	37
Others	237	302
	1,025	**906**

Other assets totalling K€ 204 (previous year: K€ 185) have a remaining term of more than one year.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand of K€ 8 (previous year: K€ 9) as well as cash in other banking accounts of K€ 5,564 (previous year: K€ 5,620).

16. Deferred tax

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

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

Deferred tax assets in K€	2005	2004
Tax loss carry forwards	19	844
Inter-company profit elimination and other deductible temporary differences	407	420
	426	**1,264**

Deferred tax liabilities in K€	2005	2004
Capitalised development costs and other deductible temporary differences	549	605
	549	**605**

Consolidated balance sheet: Liabilities and shareholders' equity

17. Share capital

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

The authorisation of the Board of Managing Directors in accordance with Article 4 Para. 6 of the Memorandum and Articles of Association to increase the share capital of the company (authorised capital) with the approval of the Supervisory Board in the period up to 14 June 2005 was annulled. Instead, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 5,300,000 (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.

In the 2002 financial year, 75,014 options were issued to the aforementioned beneficiaries in the first tranche. The subscription price was set at € 6.84. A second tranche of 76,706 options was issued in the 2003 financial year at a subscription price of € 2.92. A third tranche of 73,700 options was issued in the 2004 financial year at a subscription price of € 4.10. Another tranche of 74,600 options was issued in the 2005 financial year at a subscription price of € 4.21.

Option conditions in €	Average exercise price per option	Number of options
As at 1 January 2005	4.71	176,376
Granted	4.21	74,600
Forfeited	4.68	4,250
Exercised	2.92	15,452
As at 31 December 2005	**4.67**	**231,274**
(of which exercisable	2.92	35,910)

During the 2005 financial year, 15,452 options were exercised at a weighted average share price of € 5.19.

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 valuation is calculated by a Monte-Carlo simulation. The following factors were taken into consideration to calculate the reported fair value:
- the exercise price of the option right,
- the term of the option right,
- the expected volatility of the share price,
- the expected share dividend,
- the risk-free interest over the term of the option right.

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

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

Assumptions in %	2nd tranche 2003	3rd tranche 2004	4th tranche 2005
Volatility	72.59	50.08	48.80
Risk-free interest rate	2.75	3.41	2.36
Dividends	1.07	0.98	2.38

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 the conversion is € 10,838,347.00 and is divided up into 10,838,347 ordinary shares belonging to the shareholders with a theoretical value of € 1.00 per share.

On last year's balance sheet date, LPKF Laser & Electronics AG held 50,000 of its own shares. These were completely used for the acquistion of a shareholding. This means that the company held none of its own shares on 31 December 2005.

18. Minority interest

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

Minority interest in K€	2005	2004
As at 1.1.	1,908	1,557
Additions/disposals	265	351
As at 31.12.	**2,173**	**1,908**

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

The minority interests are now reported directly in shareholder's equity. The figures for the previous year have been amended accordingly.

19. Provisions for pensions

Germany has a statutory contribution-based basic 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. Moreover, some Group employees have taken out policies in the 2002 financial year with a private insurer on the basis of a plant 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 valuation by an independent financial mathematician.

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

Reported amounts in the balance sheet in K€	2005	2004
Cash value of the non-externally financed obligations	388	294
Unreported time-adjusted losses	-104	-28
Net debt reported in the balance sheet	**284**	**266**

The following amounts were reported in the statement of income:

Reported amounts in the statement of income in K€	2005	2004
Ongoing office hours expenditure	3	14
Amortised actuarial losses	0	1
Interest expenditure from obligations	15	17
Total expenses reported in the statement of income	**18**	**32**

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

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

Changes of net debt reported in K€	2005	2004
Provisions for pensions as at 1.1.	266	234
Net expenditure reported in the statement of income	18	32
Pensions paid out of company assets	0	0
Others	0	0
Net debt reported in the balance sheet as at 31.12.	**284**	**266**

The provisions for pensions were calculated using the following assumptions:

Calculating assumptions in %	2005	2004
Discounting rate as at 31.12.	4.25	5.00
Future increase in remunerations	0.00	0.00
Future increase in pensions	1.50	1.50
Fluctuation rate	0.00	0.00

20. Tax provisions and other provisions

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

Tax provisions in K€	2005	2004
Corporation tax and solidarity surcharge	606	205
Trade tax	286	217
Other taxes on the basis of auditing	72	107
	964	**529**

Provisions schedule in K€	As at 01.01.2005	Utilisation	Releases	Additions	As at 31.12.2005
Provisions for pensions	266	0	0	18	284
Accrued taxes	529	422	35	892	964
Bonuses	87	87	0	1,253	1,253
Guarantees	187	3	4	243	423
Others	90	2	29	21	80
Total	**1,159**	**514**	**68**	**2,427**	**3,004**

Other provisions in the previous year's annual financial statements also included undertakings for the annual financial statement costs, legal and consulting costs, workman's compensation board, holidays and overtime totalling K€ 567. The corresponding undertakings as at 31 December 2005 totalling K€ 870 are now reported under other liabilities. The previous year's figures were amended accordingly.

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

21. Liabilities

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

The assignable 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 in K€	Total amount	with a remaining term of Up to 1 year	1 to 5 years	More than 5 years	Secured amount	Type of security
Convertible bond	113	113	-	-	-	-
	(113)	(113)	(-)	(-)	(-)	(-)
Liabilities due to banks	2,140	404	1,056	680	1,815	*,**
	(2,589)	(505)	(1,297)	(787)	(2,065)	(*,**)
Trade accounts payable	1,683	1,683	-	-	-	-
	(1,429)	(1,429)	(-)	(-)	(-)	(-)
Other liabilities	2,218	2,218	-	-	37	**
	(1,677)	(1,677)	(-)	(-)	(37)	(**)
	6,154	**4,418**	**1,056**	**680**	**1,852**	
	(5,808)	**(3,724)**	**(1,297)**	**(787)**	**(2,102)**	

* Land charge   ** Security assignments

The amount due to banks includes fixed interest loans totalling K€ 2,084 (previous year: K€ 2,469) which are subject to interest at rates of 3.75% p.a. to 5.85% p.a.

Conditions of loans in K€ Amount of loan paid out	Interest rate p.a.	Term
658	3.75%	09/99–09/09
1,150	5.85%	09/99–09/09
1,585	5.41%	01/00–09/09
672	5.50%	01/03–12/07

The assignable fair value of the fixed interest loan is K€ 2,077. With the exception of the loan taken out in the 2003 financial year, the loans are specified for the financing of new construction measures.

The other liabilities include an unsecured short-term loan totalling the equivalent of K€ 37 taken out by LPKF Laser & Elektronika d.o.o. subject to interest at the Slovenian interbank interest rate +2.0% points, which was granted by a related company.

The other liabilities carry no interest.

22. Convertible bond

Convertible bonds are combined finance instruments consisting of an equity component and a debt component. On the issue date, the assignable 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 2005 corresponds to the assignable fair value.

Other information

23. Cash flow statement
The cash flow from operating activities includes tax payments of K€ 761 (previous year: K€ 491), interest paid totalling K€ 160 (previous year: K€ 187) and interest received of K€ 203 (previous year: K€ 203). The short term financial assets refers exclusively to the shares in a money market or bond fund or bonds reported in the balance sheet under Securities. The amounts reported in the balance sheet under Liabilities due to banks includes K€ 57 (previous year: K€ 120) current account liabilities as well as loan liabilities totalling K€ 2,083 (previous year: K€ 2,469).

24. Earnings per share
The undiluted earnings per share is 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.

Profit per share	2005	2004
Number of shares undiluted	10,735,487	10,633,365
Effect of the issue of potential shares from convertible bond and option scheme	149,894	0
Number of shares diluted	10,885,381	10,633,365
Consolidated earnings (in K€)	3,021	899
Adjusted consolidated earnings (in K€)	3,021	899
Net income per share, basic (in €)	0.28	0.08
Net income per share, diluted (in €)	0.28	0.08

25. Dividend per share
The Supervisory Board and the Board of Managing Directors will propose at the Annual General Meeting on 8 June 2006 to pay from the net income of LPKF Laser & Electronics AG for the 2005 financial year of € 1,101,695.48 a divided of € 0.10 per share: this represents a total dividend pay out of € 1,083,834.70 based on the share capital with dividend entitlement of € 10,838,347.00, and to carry forward the remaining amount of € 17,860.78.

26. Related parties transactions

Zeltra Naklo d.o.o., Slovenia
A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 100% of the shares in Zeltra Naklo d.o.o. Materials and equipment, merchandise and services totalling K€ 40 were purchased from this related party in 2005. In addition, the related party granted the Slovenian subsidiary a short-term loan with a nominal value of KSIT 8,869 subject to interest at standard market rates.

PMV d.o.o., Slovenia
50% of the shares in PMV d.o.o. are held by a shareholder of the subsidiary LPKF Laser & Elektronika d.o.o., and 50% by other related parties. In 2005, business relations with this company covered development and production services and rentals and/or licence agreements totalling K€ 621. In addition, Group companies carried out orders totalling K€ 25 for PMV d.o.o.

Related Board members and other closely associated natural persons
25% of the shares of LPKF Laser & Electronics Inc.have been acquired from its Managing Director who obtained 225,000 shares of LPKF Laser & Electronics AG, Garbsen, in exchange. For further details see note 10.

The Managing Director of LPKF Properties LLC granted the company a loan totalling K€ 108.

In addition, secretarial services totalling K€ 20. were provided by an employee of a company in which the managing director of LPKF France S.A.R.L. has a share.

An external shareholder of the Slovenian subsidiary provided this company with services totalling K€ 27.

On the balance sheet date, LPKF Laser & Electronics AG had liabilities due to members of the Supervisory Board of K€ 157. CMS, the law firm in which Dr. Büsching is a partner, provided the Group with consultancy services totalling K€ 44.

In addition, one close relative of a former manager in the parent company and one close relative of a member of the Supervisory Board of the parent company were also employed as salaried members of staff.

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

27. German Corporate Governance Code

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

28. Other disclosures

Other financial commitments

Long-term real estate and building lease contracts exist for the offices of LPKF Laser & Elektronika d.o.o., LPKF France S.A.R.L., and at the Erlangen office, as well as car leasing contracts involving LPKF Motion & Control GmbH and the parent company.

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

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

Total future rent leasing payments classified according to terms are:

– Leasing rates contained in the results for the year	K€ 63
– Up to 1 year	K€ 71
– Longer than 1 year and up to 5 years	K€ 90

See note 10 for the finance leasing commitments.

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

– Up to 1 year	K€ 127
– Longer than 1 year and up to 5 years	K€ 38

With the notarised purchasing agreements dated 15 December 2005, the company acquired two warehouses in the immediate vicinity of its current office and production site in Garbsen for € 1,700,000.00. The usage and charges come into effect on 1 February 2006.

There are no other significant financial obligations.

Financial Instruments IAS 39

LPKF Laser & Electronics AG incorporated IAS 39 in its consolidated financial statements from the 2001 financial year onwards.

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

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

2. Derivative financial instruments

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

The anticipated foreign currency payments are hedged up to 50% maximum for a period of up to 6 months. During the course of the year, one currency hedging contract in the form of a cash flow hedge with a nominal volume of KGB£ 21 were entered into to hedge against the currency risks associated with planned sales and the procurement of materials. This transaction remained unsettled at the balance sheet date. Said transaction which still had 3 months to run on the balance sheet date was reported at a negative fair value of K€ 3. In addition, to hedge against an existing dollar trade receivable totalling KUS$ 1,450, four currency option transactions (fair-value hedges) were taken out. These options were reported for a period of less than 12 months at the fair value. Their fair values were assessed 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 K€ 1. The loss of prospective profits from these transactions totalled K€ 99. No other derivative or hedging transactions were in place on 31 December 2005.

3. Hedging policy and risk management

81% of the Group turnover was generated with customers outside of Germany. Because of its activities, the company is exposed to various risks. In general, the Group risk management system is designed to cover uncertainties from future developments in the financial markets, and has the aim of minimising negative effects on the financial strength of the Group. Risk management is handled by the Board of Managing Directors which sets the general principles for risk management and lays down the procedures involved. Implementation is carried out by the technical departments through compliance with the authorised business principles, and is coordinated by the Group Risk Manager.

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

Liquidity risk

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

Currency translation risk

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

Change in interest risks

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

29. Others

Under Section 315a HGB (German Commercial Code), LPKF Laser & Electronics AG is obliged to prepare its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). 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**
  - Supervisory Board Chairman of Laserquipment AG, Erlangen (to 1 January 2005)
- **Dipl.-Ing. Bernd Lange**
  - Supervisory Board member of Laserquipment AG, Erlangen (to 1 January 2005)

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

The total remuneration of the Board of Managing Directors was K€ 1,203.

This involved a fixed remuneration component of K€ 312 (K€ 406).

The fixed remunerations were as follows:

Bernd Hackmann	K€ 162
Bernd Lange	K€ 150

The performance-based component was related in the 2005 financial year to the Group EBT and only comes into effect when a minimum net profit for the year of € 1.0 million has been generated. No subsequent changes to the performance targets are permitted.

Because of the size of the net profit in the previous year, no performance-based component was paid in the 2005 financial year. The performance-based component for 2005 will not be paid until the 2006 financial year. Reserves were set aside for this purpose for Bernd Hackmann totalling K€ 430, and for Bernd Lange totalling K€ 430.

The reserves for pensions reported in the balance sheet exclusively refer to active and former members of the Board of Managing Directors.

In addition, 10,000 options were issued to Bernd Hackmann and 7,000 options to Bernd Lange during the 2005 financial year at an exercise price of € 4.21. The intrinsic value as at 31 December 2005 of the options held by Bernd Hackmann totalled K€ 18, and for Bernd Lange totalled K€ 13.

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

Options held by each member of the Board of Managing Directors	31.03.05	30.06.05	30.09.05	31.12.05
Bernd Hackmann	24,800	34,800	31,600	31,600
Bernd Lange	1,156	8,156	8,156	8,156

The intrinsic value as at 31 December 2005 of the total number of options granted is K€ 51 for Bernd Hackmann, and K€ 14 for Bernd Lange.

For the first time since setting up the Stock Option Programme, share options were also exercised in the 3rd quarter 2005. This involved the subscription of 3,200 new shares by Bernd Hackmann at an average price of € 5.01.

The remuneration of the Supervisory Board of LPKF Laser & Electronics AG from 1 January 2004 was fixed at K€ 135 p.a. plus a variable component oriented to the dividend paid in the preceding financial year. No variable remuneration was paid for the 2004 financial year.

As at 31 December 2005, the members of the Board of Managing Directors held 193,700 (190,500) shares, broken down amongst the Board members as follows:

Number of shares held by Board members	31.03.05	30.06.05	30.09.05	31.12.05
Board of Managing Directors				
Bernd Hackmann	190,000	190,000	193,200	193,200
Bernd Lange	500	500	500	500
Supervisory Board				
Bernd Hildebrandt	874,250	874,250	874,250	871,746
Klaus Sülter	808,800	808,800	658,800	658,800

The members of the Supervisory Board are:

- **Bernd Hildebrandt, Chairman**
  - Businessman
  - Supervisory Board Chairman of LPKF Laser & Elektronika d.o.o., Kranj/Slovenia
  - Member of the Supervisory Board of Laserquipment AG, Erlangen (to 1 January 2005)
- **Klaus Sülter, Deputy Chairman**
  - Power of attorney for Cura Consult GmbH
  - Supervisory Board member of LPKF Laser & Elektronika d.o.o., Kranj/Slovenia
  - Supervisory Board member of Bankverein Werther AG, Werther (to 3 August 2005)
- **Dr. Heino Büsching**
  - Lawyer/tax adviser
  - Member of the Supervisory Board of Solara AG, Hamburg

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

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

Fees for auditing the annual financial statements reported as expenditure in K€	
Annual financial statement auditing	61
Tax consulting services	21
Other services	3
Total	85

31. Events after balance sheet date

With effect from 1 February 2006, the Group acquired two commercial properties in the immediate vicinity of its headquarters to expand its capacity.

Garbsen, 10 March 2006
LPKF Laser & Electronics AG

Sgn. Bernd Hackmann | Sgn. Bernd Lange

Auditor's Report

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

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

Our audit has not led to any reservations.

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

Hannover, 17 March 2006
PricewaterhouseCoopers AG
Wirtschaftsprüfungsgesellschaft

G. Benz
Certified public accountant

O. Goldmann
Certified public accountant

Annual financial statement of LPKF Laser & Electronics AG

Statement of income in K€	2005	2004
Sales	27,890	19,726
Changes in inventories of finished goods and work-in-process	863	-97
Other work capitalised	150	85
Other operating income	664	1,037
	29,567	**20,751**
Cost of materials		
Cost of raw materials and supplies	11,985	8,075
Personnel expenses		
Wages and salaries	6,884	4,567
Social security and pension costs	1,035	847
thereof pension costs: K€ 60 (previous year K€ 59)		
Depreciation and amortisation costs	789	651
Other operating expenses	7,839	5,159
	28,532	**19,299**
Income from profit and loss transfer agreements	1,165	138
Municipal trade tax participation passed on to a subsidiary	45	34
Other interest and similar income	120	197
thereof from affiliated companies: K€ 17 (previous year: K€ 44)		
Depreciation of financial assets	858	652
Other interest and similar expenses		
thereof from affiliated companies: K€ 1 (previous year: K€ 1)	120	142
Profit from ordinary operations	**1,387**	**1,027**
Taxes on income	626	688
Other taxes	-18	14
Net income	**779**	**325**
Retained earnings brought forward from the previous year	1,023	5,122
Transfers from other earnings reserves	145	145
Allocation to earnings reserves		
in the reserves for own shares	0	145
in other earnings reserves	1,145	4,000
Transfer from earnings reserves	300	0
Net income for the year	**1,102**	**1,447**

Balance sheet: Assets in K€	31.12.2005	31.12.2004
Fixed assets		
Intangible assets		
Software	108	84
Rights to use	0	0
	108	**84**
Tangible assets		
Land and buildings	3,211	3,376
Technical equipment and machinery	738	660
Other equipment, factory and office equipment	812	596
Prepayments and construction in process	253	0
	5,014	**4,632**
Financial assets		
Shares in affiliated companies	1,459	3,441
Loans to affiliated companies	320	972
Participations	2	2
	1,781	**4,415**
	6,903	**9,131**
Current assets		
Inventories		
Raw materials and supplies	6,156	4,402
Finished goods and merchandise	3,757	2,544
Prepayments	316	663
	10,229	**7,609**
Accounts receivables and other assets		
Trade accounts receivable	3,197	2,755
Accounts due from affiliated companies	1,834	1,217
Other assets	543	340
of which with a residual maturity of more than one year: K€ 204 (previous year: K€ 185)		
	5,574	**4,312**
Securities		
Own shares	0	145
Other securities	2,344	1,402
	2,344	**1,547**
Cash on hand, bank balances and cheques	3,294	3,090
	21,441	**16,558**
Deferred charges and prepaid expenses (including disagio: K€ 0 [previous year: K€ 0])	51	34
Total assets	**28,395**	**25,723**

Balance sheet: Liabilities and shareholders' equity in K€	31.12.2005	31.12.2004
Shareholders' equity		
Subscribed capital (conditional capital K€ 937 [previous year: K€ 952])	10,838	10,648
Capital reserve	4,598	4,568
Earnings reserves		
Reserves for own shares	0	145
Other earnings reserves	4,700	3,855
	4,700	**4,000**
Net income for the year		
Retained earnings	323	1,122
Net income	779	325
	1,102	**1,447**
	21,238	**20,663**
Deferred grants	64	0
Provisions		
Provisions for pensions	241	229
Tax provisions	136	399
Other provisions	2,187	763
	2,564	**1,391**
Liabilities		
Bonds of which convertible: K€ 113 (previous year: K€ 113)	113	113
Liabilities due to banks	1,717	1,999
Payments received	489	208
Trade accounts payable	614	378
Accounts due to affiliated companies	1,055	557
Other liabilities	504	414
including taxes: K€ 103 (previous year: K€ 92)		
including social costs: K€ 159 (previous year: K€ 128)		
	4,492	**3,669**
Deferred income	37	0
	28,395	**25,723**

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Our website gives you the latest information on the company and the LPKF share.

Glossary of technical terms

3D-MID
Three-dimensional injection-moulded circuit carrier with an applied circuit structure (MID: Moulded Interconnect Device).

Doping
Plastic treated with a special active substance.

Flip-Chip technology
A cost saving installation method where an unhoused chip is flipped over and assembled face down directly on a PCB or an interposer. The two are connected via bumps (see wafer bumping). The PCB and the chip are then connected by soldering.

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

LDP-method
A thin metal layer is ablated from a plastic substrate using a laser beam to create ultra-fine circuits.

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

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

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

Rapid PCB 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 (StencilLaser). Used for solder printing.

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

Wafer bumping
Wafer bumping is a method used to apply special bumps (solder blobs) to a wafer (silicon disc with integrated circuits).

Wafer Level Packaging (WLP)
In wafer level packaging, the size of the circuit housing (package) is similar to the size of the chip. This enables such a housing to be reduced in size, which in turn leads to the further miniaturisation of electronic devices.

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