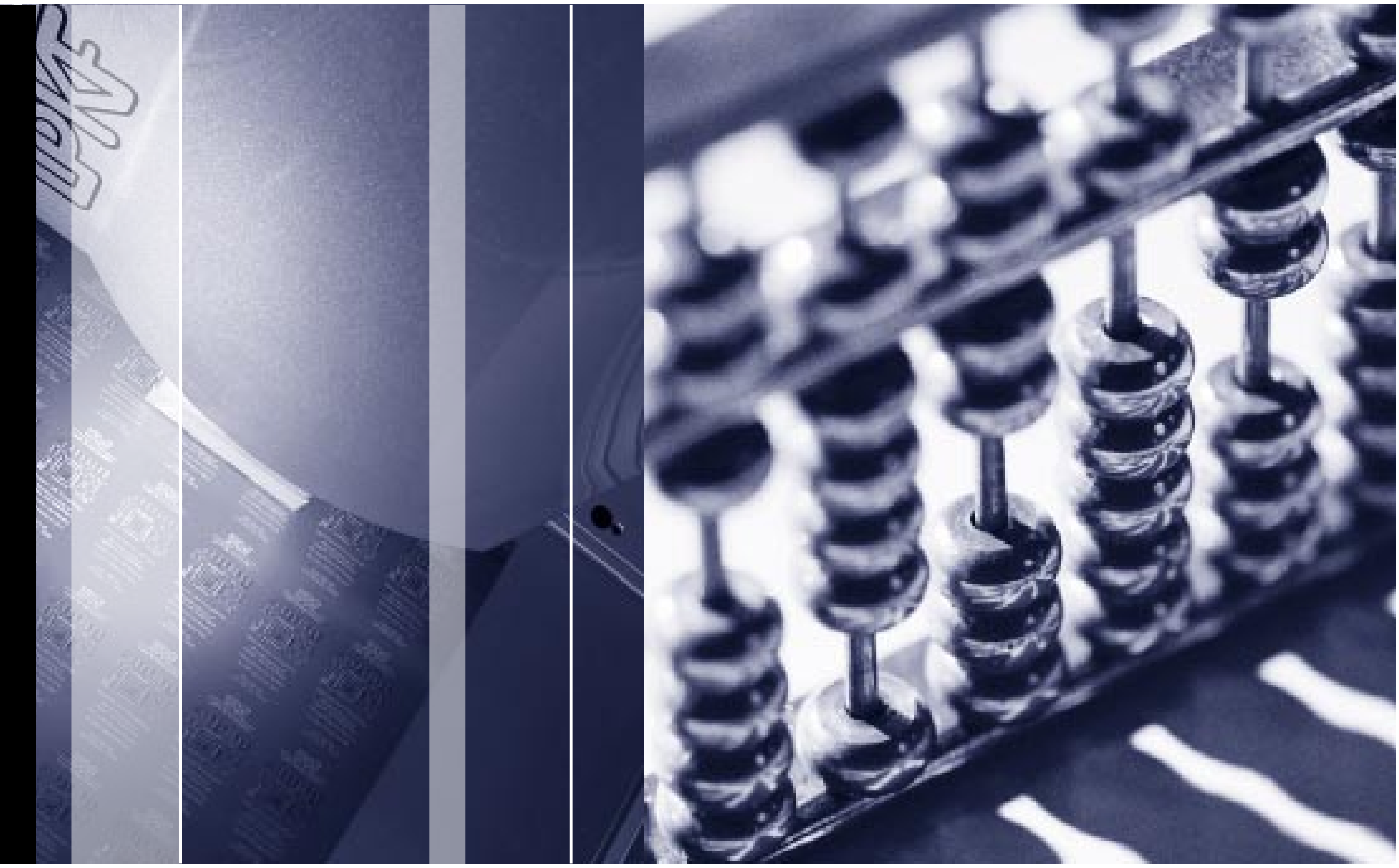


Annual Report 2003

LPKF Laser & Electronics

Facts and figures at-a-glance

LPKF Laser & Electronics AG, Garbsen near Hanover, is developing systems and process solutions for demanding tasks in printed circuit board technology and microelectronics. The company is one of the international market leaders in the fields of StencilLaser and Rapid Prototyping of printed circuit boards.

In the course of its 28 year history, LPKF has built up a first class reputation worldwide guaranteeing a future-oriented product policy and a maximum of quality.

1976 Foundation of LPKF and introduction of the first prototyping systems

1980 Establishment of branch in USA

1984 Launch of a complete prototyping system (including CAD program)

1989 Entry into laser technology with the aim of developing economically-efficient laser technology products for the microelectronics sector

1991 Construction and move to new company headquarters in Garbsen

1993 Development of the StencilLaser

1996 Development projects: 3D-MID and Chip Size Packaging

1997 First MicroLine Laser prototype

1998 Conversion to stock corporation and IPO

1999 Cooperation agreements with Atotech Deutschland GmbH and Mania Technologie AG in December

2000 Development of MicroLine Drill laser system for drilling and structuring printed circuit boards

2001 25 years LPKF

2002 Establishment of the LPKF Laser Center

2003 Know-how and licence agreements for the LPKF LDS process

Key Group figures at-a-glance	2003	2002	2001
Turnover (in € million)	22.7	25.3	23.0
EBIT	1.30	1.44	1.63
Cash-flow	3.1	3.2	3.7
Investments in tangible and intangible assets	1.1	2.0	1.8
Earnings per share (in €), diluted	0.07	0.06	0.08
Turnover according to regions (in € million)			
Domestic	5.6	6.2	4.8
Rest of Europe	4.1	4.9	4.3
North America	6.8	6.8	7.7
Asia	5.9	7.1	5.6
Others	0.3	0.3	0.6
Turnover according to products (in € million)			
Laser Systems	12.3	13.7	8.2
Rapid PCB Prototyping	9.1	9.4	12.0
Services	1.0	1.6	2.4
Others	0.3	0.6	0.4
Staff	200	219	210

Contents

Message of the Chief Executive Officer

Dear Shareholders,

The second half of the 2003 financial year, and the third quarter in particular, have shown us that the electronics industry has obviously come out of the downturn. Our clients are again in a more favourable position to invest. However, as forecast by the major sector associations such as the VDMA (Verband Deutscher Maschinen- und Anlagenbauer e.V.) or the ZVEI (Zentralverband Elektrotechnik- und Elektronikindustrie e.V.), 2003 was still a difficult financial year for the electronics industry. As a result of the only hesitant strengthening of the economy, the willingness of potential technology users to invest was not as good as could have been. This situation also had an impact on the LPKF Group. In the first two quarters in particular, turnover lagged well behind the predictions. Moreover, the already difficult situation was exacerbated further by the unforeseeable SARS outbreak. As a consequence, there was a shortfall in turnover in the product lines important for this market.

Overall though, the Rapid PCB Prototyping and StencilLaser segments largely managed to match last year's level – although with some restrictions. Business in the Laser Cutting and Drilling segment for PCB production was unsatisfactory. This was also attributable to a steady change in requirements by the users of this technology: there was a clear shift in priorities from laser drilling towards laser cutting applications. LPKF quickly reacted to this development in a market-oriented way and satisfied the demands of its clients with an appropriate new development. The reward soon followed: in the last quarter of 2003 we already succeeded in selling two of the new machines. Our response to the changing conditions in 2003 included our main objective of broadening the successful product lines even further in response to the increasingly more differentiated requirements of our clients. By expanding into the low-end market, we ensured that even where reduced budgets exclude the possibility of making major investments, users still have an opportunity of entering into the LPKF technology. On the other hand, further strengthening of the high-end segment matched the rise in sophistication of our clients' demands in this sector as well and enabled us to also exploit larger budgets more effectively. We will continue to pursue this twin strategy rigorously in 2004. The objective here is to use newly developed machines to acquire those clients in particular who we have previously failed to reach, e.g. in the Laser segment for new types of stencils for the display technology.

In parallel, we also pressed ahead intensely with the development of additional accessories to round off and complement the product lines. Pursuing the "single source" philosophy, electronics designers for instance can use LPKF products to rapidly and reliably realise each step in the development of a product in-house – from initial design on a PC to the fully assembled circuit board. This turnkey-solution philosophy has proved to be a valuable door opener for new markets as well as a means of protecting existing markets.

The increasing significance of the Asian market became even clearer in the past financial year in the light of the activities of many European and North American companies who shifted their electronics production to this region. China in particular is therefore a key area for LPKF. By opening up another office in Shenzen near Hong Kong, we will be able to serve this rapidly developing market even more effectively.

A great deal was done technically and economically in the 3D-MID sector in 2003. Crucial steps to establish 3D-MID technology in the market have been taken through the closing of licences with major material producers such as Degussa, Bayer and Ticona, the closing of a technical co-operation agreement with the Harting technology group, the successful launch of sample production and the start of series production. The positive response at the relevant trade fairs confirms the enormous interest of the industry in this innovative product. We will therefore give a high priority in 2004 and subsequent years to the marketing of 3D-MID technology. The existing synergies with our subsidiary Laserquipment in the automation technology and in marketing will be expanded in 2004.

Despite the difficult economic conditions which LPKF also had to face in the reported financial year, the implementation of effective cost-cutting measures enabled the company to generate a positive operating performance and even to expand its cash positions year-on-year. All of this is largely thanks to our employees who have shouldered all of the changes with undiminished commitment. Achieving this result would not have been possible without their dedication. And even though workforce adjustments proved unavoidable as part of the cost-cutting exercise, it is important to highlight that our R&D department was deliberately spared from these measures. This is because, in addition to a superb spectrum of products, it is primarily the technical excellence and creativity of our staff which guarantees that LPKF can continue to present itself as a dynamic company at the beginning of 2004 with a clear strategy of growth and development.

In the ongoing financial year, we will boost our activities in the field of 3D-MID technology in particular. We see an opportunity here of generating good growth for LPKF in the coming years.

I look forward to your continued support.

Garbsen, March 2004

Bernd Hackmann


HOLLANDI
DANIA

Report of the Supervisory Board

As part of the traditionally very close collaboration between the Supervisory Board and the Board of Managing Directors at LPKF, the eight formal meetings were complemented by numerous informal discussions of an advisory nature, which also involved the senior managers. The Supervisory Board was particularly concerned here to reverse the downward trend in turnover and yield which has now continued for a period of three years.

The Board of Managing Directors was encouraged to firstly increase the attraction in the marketplace of the existing Rapid PCB Prototyping and Cutting Laser product lines by making crucial technical improvements.

Potential clients today need very strong incentives to buy if they are to start investing again. This strategy was pursued by the management in the second half in particular and promisingly implemented in both segments.

However, the strongest potential for growth in the next few years is considered to be the 3D-MID LDS technology, where we have observed a strong demand of a kind not seen for many years. Even though there are still some inherent risks – as is usual when establishing a new process – the Supervisory Board approved a near-term global investment in the market launch of this technology given the promising opportunities. Good opportunities are also seen for the 3D laser plastic welding process developed by Laserquipment AG in Erlangen.

The sensor market as well as the stencil market for new monitor technologies also open up good opportunities for the future. Despite the decline in business in 2003 attributable to the overall economic conditions, the Supervisory Board considers the situation for a positive development of the company within the next three to five years to be promising.

The updated German Corporate Governance Code was discussed against the background of risk management, and largely put into practice. The Supervisory Board and the Board of Managing Directors consider the control processes to provide a firm foundation for effectively checking and protecting business procedures.

And it is worth emphasising here that good corporate governance has always been an integral part of the company's philosophy and was put into practice by LPKF Laser & Electronics AG well before the principles were enshrined in legislation in 2002 and 2003. The Declaration of Compliance under Art. 161 German Stock Corporation Act was published on our website and is continually updated. LPKF Laser & Electronics AG has adopted the German Corporate Governance Code and complies with it with the exception of those aspects disclosed on our website.

Effective risk management is regularly practised in the co-operation between the Supervisory Board and the Board of Managing Directors and has the overall objective of identifying risks early on, localising them, and implementing suitable countermeasures when needed. LPKF has a tried-and-tested risk management system in place which creates a broad base for the early identification and minimisation of risks with the assistance of important instruments such as the risk management manual, the risk inventory, and the risk officer. A part of this process is the quality management system which was established according to DIN EN ISO 9001:2000 and tested by a neutral agency in accordance with the regulations. This year's control audit was again passed very successfully.

The Supervisory Board engaged PwC Deutsche Revision Aktiengesellschaft to audit the 2003 annual financial statements according to the decision of the annual general meeting. Individual and Group financial statements were audited and given unconditional approval by the auditor.

The auditor participated at the meeting of the Supervisory Board, reported on its audit of the annual financial statements, and provided additional information. The Supervisory Board in turn reviewed the annual financial statements, the management report and the profit appropriation proposal and approved the annual financial statements. The Board of Managing Directors and the Supervisory Board propose on the Annual General Meeting on 3 June 2004 using part of the net income reported by LPKF Laser & Electronics AG for the 2003 financial year of € 5,441,149.69 to pay to the shareholders a dividend of € 0.03 per share, with a total amount of € 319,436.85 based on the share capital with dividend entitlement of 10,674,895.00. Also to transfer € 4,000,000.00 of the remaining net income to earnings reserves (other earnings reserves according to Art. 266 Par. 3 A. III. No. 4 HGB) and to carry forward the remaining amount of € 1,121,712.84.

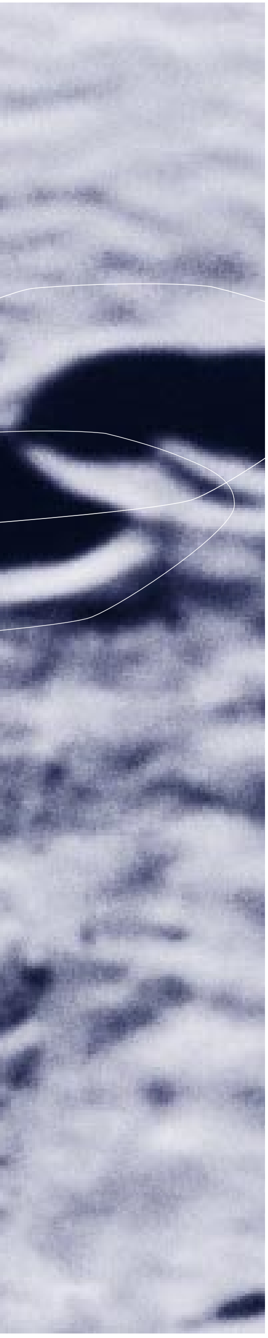
The consolidated financial statements, the management board report on the state of the company and the auditors' report were available for reference during discussions with the Board of Managing Directors and the auditors. The consolidated financial statements and the management board report on the state 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, the works council, all of the employees, and the management staff of subsidiaries and global agencies, for their commitment to the company and the work they have carried out in the reporting period.

Despite continuing difficult conditions in 2003, the company has again generated a profit even though it did not prove possible to achieve the targets. Our thanks also goes to our clients and suppliers, as well as staff in co-operating companies and universities, who in many cases have worked together with our company for many years.

Garbsen, March 2004

Bernd Hildebrandt



German Corporate Governance Code

The Board of Managing Directors and the Supervisory Board of LPKF Laser & Electronics AG approve the German Corporate Governance Code because it is an expression of the globally recognised standards of good and responsible company management.

LPKF has therefore always placed a very high priority on good corporate governance and always seen it as a duty to uphold responsible and transparent management and control. The third version of the German Corporate Governance Code published in the electronic Bundesanzeiger on 4 July 2003 has been evaluated by the Board of Managing Directors and the Supervisory Board. This revealed that management throughout the LPKF Group largely complies with the principles laid down in the new version of the German Corporate Governance Code.

The deviations according to the “Comply or Explain” principle are set out below:

- The Supervisory Board of LPKF Laser & Electronics AG is comprised of only three individuals due to the size of the company. This ensures efficient working. For this reason, no committees or review boards will be established within the Supervisory Board.

- There is no performance-related component in the compensation for members of the Supervisory Board in 2003. From 2004 there will be a performance-related component in the compensation.

- The quarterly reports are published 60 days after the reporting period at the latest due to the extensive Group interdependence. It is intended to re-examine this period yearly and to possibly shorten it.

- The compensation for members of the Board of Managing Directors will not be shown individualized, but as a total amount divided into a fixed salary, a performance-related component and components with a long-term incentive effect.

- The compensation for members of the Supervisory Board will not be shown individualized, but as a total amount.

The declaration of compliance according to Art. 161 German Stock Corporation Act is published in the internet at www.lpkf.de and permanently made accessible to all shareholders and potential investors.

Garbsen, March 2004
LPKF Laser & Electronics AG

The Board of Managing Directors

Bernd Hildebrandt
The Supervisory Board

The LPKF Group Management Report 2003

"Stability in hard times is the basis for growth in good times."

Company bodies

The Annual General Meeting

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

The Board of Managing Directors
Bernd Hackmann, Chairman
Dr. Jörg Kickelhain*
Christoph Wiese

* resigned from the Board of Managing Directors on 29 February 2004 after balance sheet date

I. Development of business

1. Development of the electronics industry and the overall economy

In the reporting year, the electronics market suffered the third year in succession from the recessionary tendencies of the global economy. The first half was particularly weak and resulted in losses which were only compensated by the very good results of the third quarter. At the end of the third quarter and the beginning of the fourth quarter, a general revival in the electronics market was observed, which was also felt at the world's largest electronics trade fair – Productronica in Munich – as well as in the increase in concrete inquiries.

The German and European market in particular suffered downturns during the reporting period. The situation led to a decline in turnover in laser systems in particular compared to the previous year. This was the result of an enormous market correction process which took place in the electronics sector and in the PCB production sector in particular. It led to the liquidation or insolvency of some companies as well as a shift in production from Europe and North America to Asia, and to China in particular. Against this background, and considerably tightened budgets, the reporting period was characterised by a clear cut-back in investment. The delivery of two MicroLine Lasers had a positive effect in the third quarter.

Against the background of the lengthy recessionary market conditions, the LPKF Group downsized its workforce by approx. 10 % in the reporting period. The planned volume of investment was also reduced, and other costs were adjusted. The effectiveness of these measures was already demonstrated in the second half and made a contribution to the improvement in results.

R&D on new product lines was pursued in a targeted way to ensure that there was no slowdown in the innovation dynamism, and to be able to present new products which meet the requirements of the clients under changed market conditions. It was therefore possible to successfully present numerous new products towards the end of the reporting period at the Productronica trade fair in November.

The know-how and licence agreements closed with Degussa AG, Bayer AG and Ticona GmbH in the 3D-MID sector are worthy of attention. These companies make specially designed plastics available on the global market to considerably boost the potential and sales opportunities for 3D-MID laser systems produced by the LPKF Group. A cooperation agreement with the Harting technology group for the first 3D-MID laser in this product line was another major step in implementing LPKF's marketing strategy.

Cash management during the reporting period was also an important factor. The stabilisation of the liquidity situation was very important for the Group-wide risk management, particularly against the background of the difficult market conditions described above. Implementing these measures gave rise to a satisfactory level of cash and cash equivalents.

Given the first signs of an upswing in the market, and the launch of many new customer-oriented products, 2004 again offers the LPKF Group opportunities to grow if the revival of the market proves to be lasting and there is an increase in the associated willingness to invest – particularly in new technologies. The forecast issued by ZVEI for 2004 confirms the positive trend in the global electronics market.

2. Turnover and sales development

Overall turnover has dropped by 10.4 % to € 22.667 million. In the Rapid PCB Prototyping segment, turnover in the reporting year shrank by 3.5 % to € 9.095 million. This segment particularly highlighted the weakness of the European market. In the first half, the shortfall compared to the previous year was a great deal higher because in addition to a reduction in demand, sales primarily involved low-cost machines. Business only started to catch up in the second half thanks to stronger demand overall and orders for more expensive high-end machines.

However, turnover in the Laser Systems segment was not able to match the previous year's level and shrank by around 10.1 % to € 12.305 million. The successful third-quarter sale of two MicroLine Lasers for biosensory applications in the pharmaceutical industry compensated for some of the shortfall. In the Laser Cutting and Drilling Systems segment, and with the MicroLine Drill in particular, LPKF felt the impact of the cutback in investment in the PCB sector which led to a decline in turnover. Despite the general weakness of the electronics market, all of the LPKF Group's new products which were presented to potential clients in the reporting period, successfully established themselves in the market. This is important because the market acceptance of new products is a major indicator of future growth potential when the electronics sector recovers and grows again world-wide.

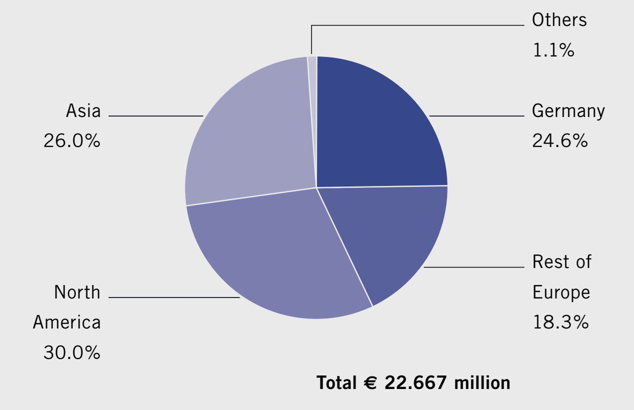
The 3D-MID segment benefited from several major steps which underpinned the LPKF Group's long-term marketing strategy for these products. Although turnover for 3D-MID technology in the reporting period was not yet very large, several pre-series orders were carried out which establish the foundations for series production and the sale of laser systems. This confirms the potential of the developed material and the sales opportunities for 3D-MID laser systems. LPKF considers that the 2004 financial year will bring about good marketing opportunities for this segment, and that these opportunities will also make themselves increasingly felt in future. The cooperation agreement with the Harting technology group has established the first user of such a laser system and is therefore an important element in establishing additional systems in the market.

The turnover distribution according to regions during the reporting year continues to be well balanced but also highlights the particularly weak economy in Europe. There are no major dependencies on countries or single large companies as major customers in the Laser Cutting and Drilling Systems and Rapid PCB Prototyping segments. This does not apply to the MicroLine Laser segment where, during the course of the reporting period, no new customers could be acquired to join the one in medical sensorics and the cooperation project with Atotech Deutschland GmbH.

The decline in the value of the Dollar against the Euro has had an impact on the Group's turnover and performance because 30 % of turnover was in Dollars.

Sales are primarily handled in Euros or US Dollars. LPKF Laser & Electronics AG's orders in hand as at 31.12.2003 of approx. € 1.9 million were around 56 % lower year-on-year. Orders received in the first half of the reporting period developed at a slow pace in line with the economic situation in the electronics market. A boost in orders received and a rise in inquiries from customers did not come about until the second half. These are the first positive indicators of an upswing in the electronics sector and the potential for growth in turnover in 2004. However, there is not yet enough evidence to determine whether this is a lasting trend.

Total turnover according to regions



3. Production and procurement

LPKF Motion & Control GmbH/Suhl is the main supplier in the Laser Systems segment for positioning tables and the associated controls. The machine controls for the circuit board plotters are also developed and produced there. In addition, harnessing Group synergies means that LPKF Motion & Control is involved in the development of new products in the Rapid PCB Prototyping segment. Circuit board plotters and additional system equipment for Rapid PCB Prototyping, as well as all in-house manufactured laser sources are supplied by the subsidiary LPKF d.o.o. (Kranj/Slovenia). In addition to Group companies, components and services were also provided by a number of subcontractors, although approx. 90 % of the purchased volumes are supplied by less than 10 % of the overall number of suppliers. The capital bound up in inventories has remained virtually unchanged year-on-year. The inventories encompass order-related articles, as well as new products, where holding them in stock guarantees relatively short delivery times when clients have finally made their investment decision. LPKF sees the ability to supply "off the shelf" in the Rapid PCB Prototyping segment as a strategic advantage. As always, the secret is to find the optimum balance between availability and the tying up of capital in stocks. LPKF benefits from a sophisticated PPC system (production planning and control system) and a rolling primary materials planning system.

The second control audit of the DIN EN ISO 9001:2000 quality management system was passed very successfully at the Garbsen, Suhl and Slovenian production sites. 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 passed it accordingly.

4. Investments

The planned investments were not implemented completely because changes in priorities meant that there was no need to use the budgeted amount in full. The total investment in tangible and intangible assets was K€ 1,075.

The investment mainly focused on research and development. This involved product investment to expand the range of LPKF products, as well as investment in laser technology. In addition, the service sector was enlarged during the reporting period. This expansion will also continue rigorously around the world in the ongoing financial year. Additional steps will be realised in the marketing strategy specially aimed at the internationalisation of application centers for 3D-MID technology. This strategy aims to underpin the forward-looking orientation of the products, and is also an important milestone in the short and medium term product range policy pursued by the company. Investments are planned in the new financial year in the Laser Cutting and Drilling Systems segment, 3D-MID Laser Systems, Laser Plastic Welding, and in the Service Sector.

LPKF Laser & Electronics AG increased its stake in Laserquipment AG step-by-step during the reporting period to 78.95 % of the share capital with the aim of boosting the growth of this company. Another aim is to harness synergies on the technology side, and particularly in the merging of 3D-MID applications with the laser plastic welding technology. Benefits are also to be realised on the administration side and in the shared use of distribution channels.

5. Financing measures

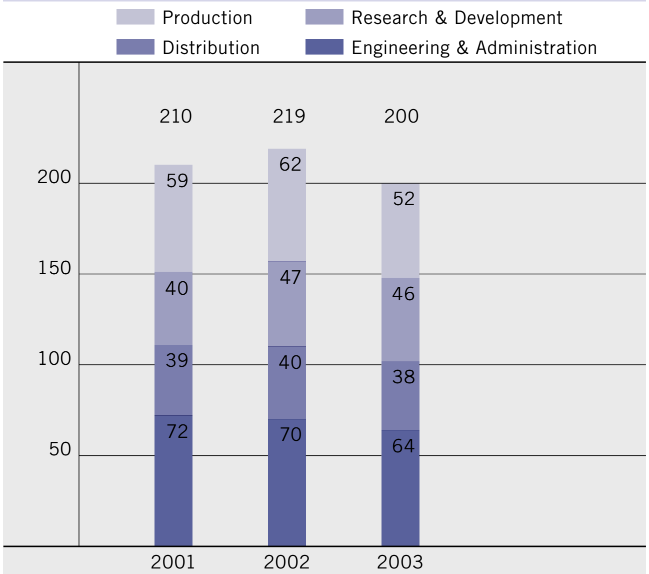
The cash flow situation during the reporting period was improved. Credit account limits were only exploited in the short-term with respect to operative payment transactions. The operative business generated an inflow of funds in the second half of the reporting period in particular. Three currency hedging contracts with a face value of KUSD 1,200 were taken out to hedge a Dollar transaction.

The asset and financial situation is currently considered very sound. Value adjustments have been carried out with respect to long-term low-yielding claims associated with discounting and other provisions against specific debts. The profit situation is assessed as stable with an operative profit margin of 5.7 % (previous year 5.7 %).

6. Human resources

During the 2003 reporting year, the number of permanently employed staff shrank from 219 at the beginning of the year to 200. The reduction in staff primarily affected the production, technology and administration departments with the aim of adjusting the workforce to the development in turnover and to boost corporate profitability. For the same reason, the fixed remuneration for the members of the Board of Managing Directors was reduced by around 36 % to K€ 445 during the reporting period. Training measures were continuously carried out in all departments to keep the staff completely up-to-date, and to ensure that the methods and tools used in the company are always state-of-the-art. A typical example of this strategy is the continuous updating and expansion of the materials management information system with integrated financial software. The users of this tool need regular training to continuously boost the process transaction potential. In the ongoing financial year, staffing levels will reflect the development in sales and will be slightly increased in some areas in line with planned growth.

Personnel as per 31 December 2003



7. Report on affiliated companies

LaserMicronics GmbH

During the reporting period, Elaser GmbH changed its name to LaserMicronics GmbH. At the same time, it relocated from Suhl/Thüringen to LPKF Laser & Electronics AG head office in Garbsen/Lower Saxony. Turnover in the Stencils segment declined considerably during 2003 because the stencil production in Garbsen was sold for K€ 165 on 3 June 2003.

This measure reflects the change in strategic orientation of the company which now focuses on other markets and applications. The reduced stencil production turnover has not yet been balanced out by the growth of services outside of the stencils sector. LaserMicronics' basic strategy is to profitably expand the service sector and speed up the establishment of new LPKF technologies in the electronics market by demonstrating the economic efficiency of the applications. However, the Group's main aim is still to assist potential clients by providing services until they are in a position to acquire their own LPKF laser system.

A-Laser Inc. in the USA

A-Laser Inc. failed to meet its turnover and profit targets. The main reason for this was the weakness in the economy during the reporting period. In addition, success was again achieved in the 2003 financial year in selling some stencil lasers in the American market, which means that A-Laser now faces more competition for the service side of its business. There will again be opportunities in 2004 to boost turnover when the North American electronics market enjoys a sustainable upturn.

Group structure

LPKF Laser & Electronics AG, Garbsen
10,647,895 EUR

LPKF d.o.o. Kranj, Slovenia	**1,500,000 SIT** **75.0%**	**LPKF Laser & Electronics Inc.** Wilsonville, USA	**100 US$** **60.0%**
LPKF Motion & Control GmbH Suhl, Germany	**98,168 EUR** **50.9%**	**LPKF Benelux N.V.** Brussels, Belgium	**247,398 EUR** **100.0%**
LaserMicronics GmbH Garbsen, Germany	**25,565 EUR** **100.0%**	**LPKF Laser & Electronics France** Lisses, France	**50,000 EUR** **94.0%**
A-LASER Beaverton, USA	**250,000 US$** **100.0%**	**LPKF Tianjin Co. Ltd.** Tianjin, China	**4,430,146 CNY** **100.0%**
LPKF Laser Components GmbH Garbsen, Germany	**25,000 EUR** **80.0%**	**LPKF Properties LLC** Wilsonville, USA	**100 US$** **60.0%**
Laserquipment AG Erlangen, Germany	**121,678 EUR** **78.9%**	**PhotonicNet GmbH** Hanover, Germany	**27,500 EUR** **9.1%**

LPKF Motion & Control GmbH
The turnover at LPKF Motion & Control GmbH was sustained at the same level as the previous year. Turnover with the parent company was increased slightly, although this was counteracted by a decline in external turnover with companies in the measuring technology sector as a result of overall economic weakness. The development of new control systems for the Rapid PCB Prototyping segment was completed during the reporting period. In addition, the new product developments in the Laser Cutting and Drilling Systems segment in accordance with the product range strategy are now in the realisation phase. The sales and marketing activities to increase external turnover in the measuring and control technology sector are being intensified to exploit the potential with external companies even further. During the reporting period, the company successfully passed the second control audit of the DIN EN ISO 9001:2000 quality management system. We consider there to be growth opportunities again in 2004 in internal turnover as well as turnover with external companies. The potential is there, particularly if the global economic situation improves.

LPKF d.o.o. in Slovenia
The company's turnover was declining because of the economy-based weakness in the electronics market, and failed to meet its targets. However, it was still possible to generate an operative profit. But the products outside of the LPKF product range developed and manufactured by LPKF d.o.o. were not able to expand their turnover because of the overall economic framework. An expansion in turnover is planned in 2004, particularly on the strength of new product developments which complement the LPKF range.

The company very successfully passed the second DIN EN ISO 9001:2000 control audit. When selecting the site of this company in 1994, the company chose a location with a favourable tax status. The subsequent cancellation of this favourable tax status led to the demand for a high tax repayment 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 highest authority. Consideration will be given in the ongoing financial year on bringing the company's so far three locations together at one site in the vicinity of Kranj.

LPKF Laser Components GmbH
This company was founded in 1999 in cooperation with a partner in Russia to support the transfer of laser technology expertise. The company will continue to focus on laser technology expertise in 2004 with the aim of making a contribution to the expansion of this technology within the company.

LPKF Laser & Electronics Inc. in the USA
LPKF Laser & Electronics Inc. is the Group's sales and service partner in the North American region. The lengthy recession in North America has also had a serious impact on LPKF USA although there have been successes in the Laser Systems segment in particular. Several machines were sold here although conversion of the earnings into EUR underestimates the achievement because of the weakness of the Dollar. However, targets were not completely fulfilled in the Rapid PCB Prototyping segment even though the number of systems sold remained relatively stable. The company generated a profit during the reporting period. There was a clear trend observable in the North American market of a shift of major electronics production capacities (particularly in PCB production) to Asia, and primarily to China. Nevertheless, a large number of inquiries is still received for LPKF products. This is where the opportunities for the ongoing financial year lie although they are also dependent in North America on the sustainability of the positive economic trend in the electronics market. The USD/EUR exchange rate will also be an important criterion. The weakness of the Dollar depresses the consolidated results and can only be partially compensated for by the implementation of countermeasures.

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 changes during the reporting period.

LPKF France S.A.R.L.
LPKF France suffered from the weak electronics market during the reporting period. Major PCB producers in France have stopped production in the country. This situation depressed the market and was exacerbated by the cheap auctioning off of the equipment owned by these companies. It was therefore not possible to achieve the targets in the reporting year. However, it was still possible to generate an almost balanced result. Good opportunities are seen of improving the results again in 2004 if the economy recovers and particularly if the marketing of laser systems is again rewarded with success. The market potential exists.

LPKF Benelux N.V.
The company again failed to achieve turnaround in the 2003 financial year. The focus on the sale of laser systems was strengthened during the reporting period by engaging a sales specialist. The company retains the exclusive distribution rights for the Benelux market and considers there to be good opportunities again in the ongoing financial year for the sale of laser systems in this market. Currently, major electronics manufacturers also in this region are shifting production to Asia, and particularly to China.

LPKF Tianjin Co. Ltd. in China
LPKF Tianjin Co. Ltd. is responsible in China for sales, the sample production of prototype PCBs, and MicroLine Drill services. LPKF Tianjin also offers services including maintenance and repair work. Developments during the reporting period emphasise that the investment in China was a very prudent long-term decision. Turnover in the Chinese market was boosted considerably despite the set-back associated with the SARS outbreak in the first quarter of the reporting period. Turnover is also favoured by the special economic situation in the Chinese market. The growth strategy is to be continued in 2004 and underpinned by expanding the number of sales offices in China. Another representative office in Shenzen near Hong Kong has been established for this purpose. Other decisions on the expansion of the distribution network are currently in the pipeline and reflect the locations chosen by the electronics industry.

Laserquipment AG
LPKF Laser & Electronics AG increased its holding in Laserquipment AG step-by-step to 78.95 % of the share capital during the reporting period. The company markets two and three-dimensional system solutions for laser plastic welding. The company's strategy is to provide services to introduce potential clients to the technology and then to assist them until they are able to purchase their own system. Even Laserquipment AG was not able to shrug off the weakness in the economy. Despite an improvement on the previous year's levels, turnover failed to meet its target and the company generated an operating loss. A considerable boost in turnover is planned in the ongoing financial year although this is not expected to generate a profit yet. The move into profit is planned for 2005 ff. when the synergies between 3D-MID and laser plastic welding have been further exploited.

PhotonicNet GmbH
LPKF continues to hold a 9.09 % stake in PhotonicNet GmbH. This is a competence center 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. The strategy has proven successful again in the reporting period and good cooperation has been established in the field of optical technology.

8. Research and development

Research and development activities were pursued undiminished during the reporting period. The main focus was on the Laser Cutting and Drilling Systems, 3D-MID Laser Systems and Rapid PCB Prototyping. In addition to these new developments, the systems for the production of medical sensors were delivered to the satisfaction of the client in a form ready for series production. In addition, significant steps were made in the development and marketing of 3D-MID technologies. These resulted in the aforementioned know-how and licence agreements with Degussa AG, Bayer AG and Ticona GmbH. As a result of these cooperation agreements, specially designed plastics are now already available on the world market capable of considerably boosting the potential and sales opportunities for 3D-MID laser systems. The first pre-series are now in the testing and approval stage with many potential clients from a wide range of sectors. Major interest from a broad spectrum of industry demonstrates the enormous marketing potential of this new 3D-MID technology.

New products and additions to the ranges in the Rapid PCB Prototyping segment were also presented at important national and international trade fairs. The world's largest electronics exhibition – Productronica in Munich – which took place towards the end of the year, was typical, with a great deal of interest again being shown in LPKF's new product developments.

There was no stopping the trend towards further miniaturisation of electronic circuits and the associated use of high precision laser systems during the 2003 financial year despite the recessionary environment. But old production technologies managed to keep pace with the rate of miniaturisation and compete with the new laser technologies produced by the LPKF Group. Therein lies a risk: despite the full market acceptance of these new laser technologies, delays in investment decisions can have a negative impact on the development in LPKF's turnover. The economic situation is again an important factor here. It should be noticed that the additive technology developed by LPKF has not yet made any breakthrough in the HDI market. This is why no further R&D investment has been made here. In general, this means that the time at which all of the innovative technologies presented breakthrough into the market is very difficult to determine and that their acceptance always involves a certain amount of risk.

9. Risk management system

The LPKF Group is exposed to numerous risks as it pursues its global business activities in the electronics market. Risk management is therefore always a fundamental element in the planning and implementation of our business strategy. During a very lengthy recession, risk management, involving the risk early warning system in particular, is an important activity for the management and the management committees in an internationally active group. Generally, although risks can be limited by implementing 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 assessed in the context of the time the risk evaluation is carried out. Risk management in this context should be understood as the formulation and implementation of measures suitable for the identification of existing risks, followed by the implementation of measures to either scale down the damage, reduce the chances of their happening, or avoid them, or alternatively, to deliberately accept them.

We therefore make use of a number of highly developed management and control systems to measure, monitor, control and handle the risks which we are exposed to. A particularly important aspect here is our Group-wide strategic corporate planning and the associated reporting. The Board of Managing Directors of LPKF Laser & Electronics AG is responsible for the risk policy and the internal control and risk management system. These functions are taken over by the decentralised management of each segment in each organisational unit in accordance with the Group structure. A risk manager coordinates and authorises the various measures implemented to control the risk. This approved risk management system is assessed annually by our 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. The risk manager naturally also carried out a risk inventory for the 2003 financial year. 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 as part of the control audit by an impartial organisation. 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 cooperation 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 has traditionally had a high priority. We therefore welcome the initiatives implemented in Germany and internationally.

In the following, we describe the main risks which could have a significant influence on LPKF's business, assets, financial and earnings position. These are not the only risks which we have to face. Risks which we are currently unaware of or risks which we currently consider to be negligible could also have a negative impact on our company.

Business risks

LPKF is active in international, highly competitive markets which have already undergone major changes as a result of the lengthy global recession, and are still likely to undergo further changes. This refers in particular to the fact that the electronics and PCB industry is subject to cycles and that the current economic situation is forcing the sector to enter a phase of even more efficient cost management and the further cutting of investment budgets. Of particular significance here is the shift of production sites overseas, as well as the complete closure of production sites. The willingness to accept risks, invest further in the expansion of capacity, or to introduce new technologies has again reduced considerably against this background. The LPKF Group is also repeatedly exposed to rapid and far-reaching changes resulting from the introduction of new technologies.

These relationships are particularly highlighted by the Rapid PCB Prototyping segment where development budget cuts by potential clients have had a particularly serious impact on the development of turnover and profitability. The Laser Systems segment is also dependent on the economic prospects of our clients and their willingness to invest. This segment was therefore also strongly depressed by the current economic and political situation.

The shareholding in Laserquipment AG is also a means of boosting our innovation and competitive strength against this background. However, investments of this kind are always associated with risks that the planned business model fails to meet its targets because of unforeseen events. 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. In addition, the epidemics during the reporting period highlight another form of unforeseeable risk. The EUR/USD exchange rate should also be mentioned in this context. A strong Euro also has an impact on currencies oriented to the US Dollar. This can have negative effects such as on sales in Asia and the United Kingdom, even if invoicing in these countries is carried out on a Euro basis. Our main competitors mostly come from the "non-Euro area" and therefore have competitive advantages compared to us when the Euro rises very strongly against these currencies.

Dependence on suppliers

The procurement of components and services from external suppliers is associated with basic risks involving longer delivery times and changes in prices. LPKF does not directly depend on one or more supplier. However, price changes in particular can have a special influence on business activities. During the reporting period, the delivery time of components and modules did not cause any bottlenecks because of the general economic situation in the procurement market. However, this could change in 2004 if the trend towards economic revival continues and the reduced production capacities are unable to react quickly enough to the increase in demand. This could have an effect on suppliers' pricing policies with associated risks for material costs.

Dependence on customers

The regional spread of our sales markets is balanced. This has been demonstrated for several years by the distribution of our turnover according to region so that there are no special risks associated with this factor. In the MicroLine Laser segment, however, sales have only been realised with two customers during the reporting period. An expansion of the client potential is planned for the ongoing financial year which is expected to limit the level of risk. In the other product segments, there are no dependencies on major clients. New clients are checked before going into business to determine their creditworthiness. If necessary, suitable measures are implemented to ensure that any potential risks are limited. During the current difficult economic conditions in particular, collaboration was carried out with reliable institutes with adequate experience in this sector to safeguard the collection of payments.

Exchange rate fluctuations

The exchange rates of foreign currencies to the Euro are sometimes subject to 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. The strong depreciation of the Dollar against the Euro has had a significant effect on our results as discussed previously. Measures to counteract this trend are permanently investigated and introduced to the degree possible. During the reporting period, three cash-flow hedges or currency option transactions with a face value totalling KUSD 1,200 were concluded to minimise the risks associated with exchange rate fluctuations. The positive results of these currency hedging measures totalled K€ 46. No other exchange rate hedging instruments were used.

Research & development

LPKF's success significantly depends on the speed with which new products can be pushed through the development pipeline and launched on the market. Market acceptance, and the transition from the production of samples to series production are important milestones on the way to turning product ideas into profit generators for LPKF Laser & Electronics AG. 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 strategy. The successful sample testing of a new development on the specific products of potential clients is always a positive indicator for the ultimate success of this process, but is no guarantee for subsequent orders. The crucial aspect here is to elaborate complete concepts for potential clients which harness all of the benefits of the available technology. This way, it is not only possible for clients to achieve cost benefits by using LPKF technology, but also to enjoy benefits from the technology itself and the associated market opportunities. During the continuing global recession, this is precisely the aspect which is associated with additional risk when global investments stop, budget cuts are implemented by potential customers, and when the willingness to invest in new technology diminishes, or companies stick to old processing technology for an unpredictable period of time.

Protecting cutting-edge technology is carried out where feasible, and is accompanied by patent application.

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

Patent risks

The LPKF Group aims to achieve technological leadership in all product segments. It is therefore logical to protect this expertise internationally through protection rights and patents. Patents are considered as an instrument of corporate policy. LPKF is already the owner of a large number of patents and is continually applying for new patents thanks to its intense research activities. Currently, several 3D-MID process patents are in the application phase. 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 possible for patent searches to reveal the existence of patents and protection rights held by other institutions which can have an effect on the economic success of the company.

Human resource risks

Demand for highly qualified staff is still high even in a period of economic difficulty. Thanks to its close contacts with universities, and the growing level of awareness of the company 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. The second tranche of the stock option plan was issued during the reporting period.

II. Business report

The development in turnover during the reporting period is below target. The reduction in staff by around 10 % in the first half of the financial year was therefore introduced as the correct response to this development with the aim of proportionalising the cost and earnings positions on the one hand, and boosting company profitability on the other hand. The lengthy global recession has continued to affect the LPKF Group's results and depresses growth. There was no clear growth observable in the electronics sector. On the contrary, there is still a high degree of reluctance on the part of consumers to spend. In response, companies have considerably reduced their production capacities. In addition, a major shift of production sites to low-wage countries has taken place. The Chinese market alone has been able to shake off this trend and grow over-proportionally. Against this background, the reporting period was marked by a reduction in willingness to invest and associated budget cut-backs. Because of this situation, LPKF has pulled out all the stops to boost its distribution and marketing activities. Additional measures were also introduced to strengthen the company's liquidity and reduce expenditure. The overall corporate objective in this environment is to generate a positive corporate result and strengthen the company's earnings power.

A slight economic upswing in the electronics market was observable towards the end of the third quarter and the beginning of the fourth quarter. It is not currently possible to determine whether this is the start of the long awaited upturn.

The financial situation of the company was improved further. This is reflected in the increase in cash and cash equivalents to K€ 5,999 (previous year: K€ 5,365). The company's asset situation continues to be extremely sound as reflected by various factors including the high capital ratio of 71.1 % (previous year: 68.0 %). Share capital finances up to 247.5 % (previous year: 210.5 %) of the fixed assets. The share capital:outside-capital ratio is 246.0 % (previous year: 212.5 %). On the investment side, the main item is the investment in equipment for R&D projects.

The company's earnings situation is still considered positive with respect to the sector as a whole given the economic background.

III. Outlook

The company's innovation dynamism and commitment to rapidly pushing customer-oriented products through the development pipeline is a fundamental business principle of the LPKF Group and thus the platform for its commercial success in the future. LPKF continues to strive for profitable growth. But it has been clearly demonstrated that in addition to innovation dynamism, one of the main factors is the growth profile of the global electronics market. The wide-ranging spectrum of products and the future-oriented features of our products provide the company with a solid basis for success. On this essential foundation, it will be possible in future to boost turnover and increase profitability – assuming the electronics sector grows again – if we succeed in beating the competition with new products in the series production business in each segment. The research and development projects already realised and implemented in the reporting year, and those still in the process of realisation, are an important factor in helping the company succeed, as is the commitment to proportionalise expenditures during these difficult economic times. This strategy has a strong influence on corporate policy. All of the distribution and marketing activities which have been launched are not only aimed at nurturing existing clients, but also at generating new clients and growth for the LPKF Group. An example here is the display technology. The expansion of the sales network is also worth mentioning in this context. The strong Chinese market in particular has been targeted more intensely with the establishment of a new branch office in Shenzen near Hong Kong. In addition, intensified marketing activities in Eastern Europe have been initiated to participate in the development of these new markets. Local distributors are supported by trade fair presentations and training courses. And in 2004 in particular, internet activities are being pushed because more and more customers use this distribution channel. The LPKF Group will permanently optimise its website and create an e-commerce platform to enable clients to purchase directly via this distribution channel. The second successfully passed control audit of the DIN EN ISO 9001:2000 quality management system impressively demonstrates the high quality standards of the company and confirms the management's commitment to a rigorous and systematic risk early warning strategy and its successful dedication to continuous improvement. Despite the aforementioned good starting position, it goes without saying that after several years of recession, the success and growth of the LPKF Group depends on global economic developments and the international political environment. This has been clearly highlighted in the development of turnover during the last two financial years. The development of the Dollar exchange rate is also an important factor influencing the turnover realised in US Dollar currency areas. Major banks have predicted a strengthening of the Dollar against the Euro in the second half of 2004 – which would have a positive impact on LPKF.

Against this background, it is essential to pool the resources of the company, concentrate on its core skills, and to be in a position on the basis of a stable cost structure to respond when the global upswing comes and the electronics sector is again marked by a boost in investment.

The sales successes in the 3D-MID and laser plastic welding sectors, as well as the market acceptance of the innovative products in the Rapid PCB Prototyping, MicroLine Laser and Laser Cutting and Drilling Systems segments, indicate major sales opportunities. In addition to the risks described earlier, this is also where the LPKF Group's opportunities lie: primary objectives are the development of market-oriented systems, pursuing the technological trend towards further miniaturisation, providing our clients with functional advantages at improving cost structures. And with the Laser Cutting and Drilling Systems, the MicroLine Laser family, 3D-MID technology and laser plastic welding, we are strategically on the right course to fulfil these objectives. The outstanding position of the 3D-MID and laser plastic welding technology in particular open up major growth potential for the LPKF Group which will have a positive impact on the development of turnover in the coming years. This is also confirmed by the forecasts issued by the VDMA and ZVEI which again see good growth opportunities for the electronics market. A crucial aspect in this context is the market and client focus of the company. This is precisely where the LPKF Group concentrates all of its technological activities, at the same time as never losing sight of the need to generate profitable growth.

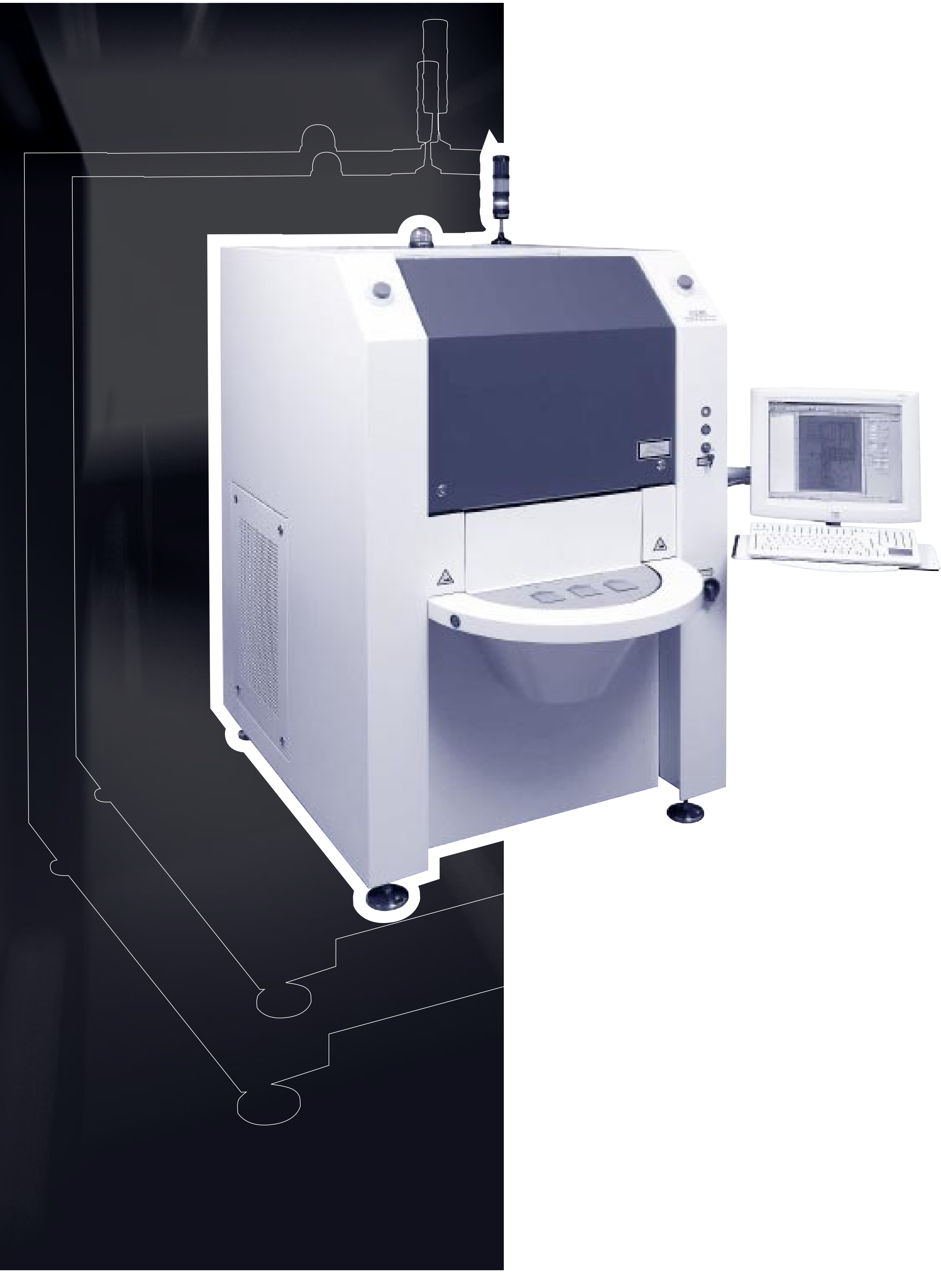
IV. Events after the balance sheet date

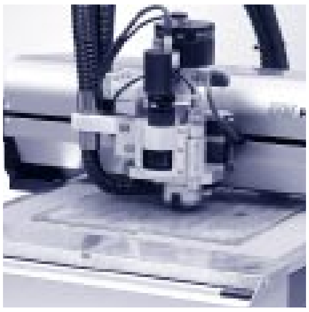
With effect from 29 February 2004, the member of the Board of Managing Directors responsible for R&D, Dr. Jörg Kickelhain, left the company in mutual agreement.

Garbsen, March 2004

Bernd Hackmann

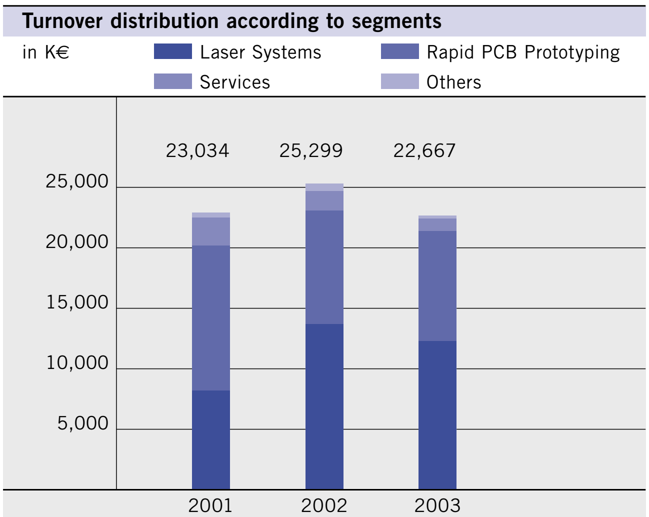
Christoph Wiese





LPKF – an overview

Innovation in difficult times guarantees a good basis for successful business



Business Philosophy



Safeguarding innovation potential through know-how and creativity

In 2003, LPKF AG had to implement wide-ranging and forward-looking measures in response to the difficult global economic conditions. To ensure that it generated a profit, LPKF was forced to introduce wide-ranging cost-cutting measures in the first half which affected the company's staffing levels for the first time. However, in line with its business philosophy, it was clear right from the start that the innovation potential, which is the engine of the Group's success, should remain unaffected by measures of this kind. At LPKF, more than a tenth of turnover flows back into research: 20 % of the staff are involved in research and development. The decision to spare this department from all cost-cutting measures was of strategic importance since it was aimed at protecting the position of the company as a provider of innovative complete solutions for production and development processes. This was the only way to drive forward the ongoing research projects without delays and reductions in quality. And the only way to keep the major expertise within the company which is responsible for the excellent reputation LPKF has acquired around the world – in some cases as market and technology leader. The main focus of R&D activities in 2003 included the further development of 3D-MID technology, new stencil cutting technologies, and the integration of new software to broaden the range of applications for our clients.

In-house answers to urgent technological problems

The image of the company is characterised by its ability to always find solutions to urgent technological problems. In some cases, this involves already providing solutions today for the problems of tomorrow – and creating new markets as a result. Important example: LPKF's pioneering role in the miniaturisation of electronic components. Such a proactive research and development policy can, however, be risky. If markets establish themselves later than expected or if necessary investments are repeatedly postponed by companies because of the lengthy period of global economic weakness, then LPKF as a classic supplier of capital goods can also lose a share of its turnover. It is often impossible to predict when the money spent on the development of new technologies flows back into the company in the form of real profits.

Risk management has therefore always been a major part of LPKF's overall strategy. Its orientation to international markets – right from the very start – can be seen as a part of this risk minimisation philosophy. Around the world, the research and development departments of major companies enjoy the benefits of LPKF technology. Subcontractors in Europe, North America and Asia produce their products with the help of LPKF laser technology. This broad regional market base has so far always helped to compensate for downturns in local markets. But this strategy can also hide risks, as demonstrated by the recent change in Dollar exchange rates: the slump in the value of the US Dollar means that competitors in Dollar zones were able to sell their products much cheaper in 2003 than in previous years.

Expanding the width and depth of the product range

Against this background, we again pulled out all the stops last year to bring our products even closer into line with the needs of our clients. Specifically, this meant expanding the depth and width of our product range. The low-end and high-end of numerous product families were considerably strengthened because, as a consequence of the difficult global economic climate, numerous companies and institutes had considerably cut back their investment budgets. By making "entry" models available at lower prices, we have now also made it possible for these clients to enter and enjoy the benefits of LPKF technology. At the same time, at the other end of the spectrum, more and more sophistication is demanded with more comfort and precision. To be able to supply this segment even more effectively, LPKF launched new high-end models for several product lines.

We have also observed a second major trend – particularly in the development sector – which involves the increasing ambition to be able to carry out all production steps without delay in-house. This objective raises a whole number of technical questions concerning the harmonisation of each component within such a process. As the market-leading supplier of a complete product line for Rapid PCB Prototyping, LPKF delivers optimal solutions for electronics developers world-wide. Further refining each part of this product line, which covers all aspects from initial designs right through to the production of fully-functioning assembled production-quality prototypes, and marrying the components even better to one another, was one of our most important objectives last year.

Another major plank of our business on which the success of our products rests, is our comprehensive after sales service. We are present in all of the most important sales markets with a network of agencies and subsidiaries. Regular maintenance and rapid repairs guarantee the smooth and economic operation of the technology supplied by LPKF – particularly in the mass production sector where reliable functioning of the production technology can make or break a company.

Strengthening the production services sector

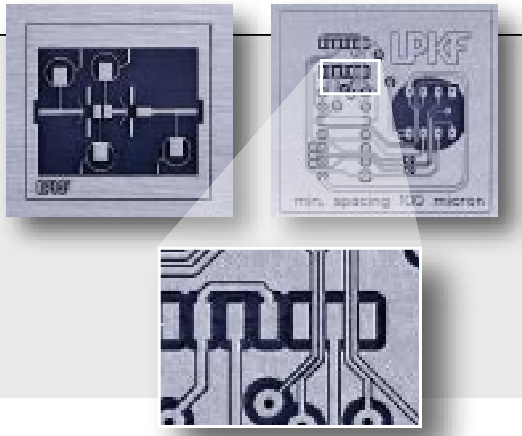
Traditionally, the production service sector provides clients with the means of testing the launch of new technologies within a market. Future users thus have an opportunity of using the service to profit from the advantages of innovative LPKF technology without having an investment risk. LPKF has realigned this business segment to reflect the current developments in the electronics market. In this context, the sale of the stencil production segment of our former subsidiary Elaser was a strategically prudent move because this technology had already successfully established itself on the market. On the other hand, we considerably expanded the range of services for laser micro-machining. The aim of this business policy includes the early bonding of subsequent users to the LPKF brand and thus also to its products and technological processes.

Many customer contacts and the positive feedback received at the most important trade fairs in this sector highlight the awareness of the LPKF brand amongst all of the key experts and decision makers. This has been achieved just as much by our courage to pursue continuous innovation, as well as our close orientation to the wishes of our clients. Both form the basis for the opportunities which experts are predicting for LPKF shares. In addition, in combination with a forward-looking business policy, we have succeeded in maintaining our profitability even under difficult circumstances. LPKF therefore enters 2004 as a company that continues to be oriented towards organic growth.

The business segments of LPKF Laser & Electronics AG

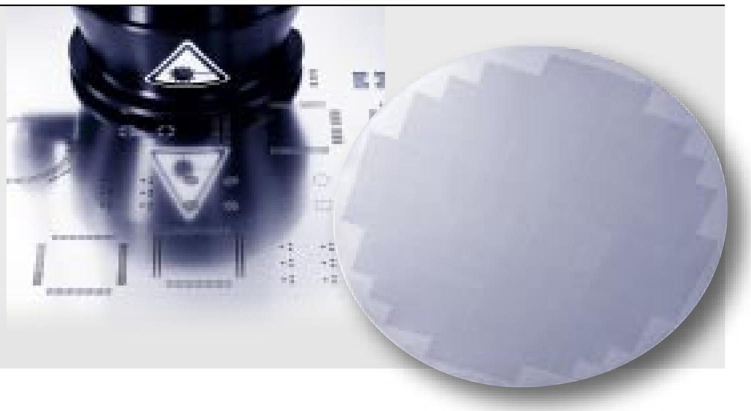
In-house PCB prototyping

Everything needed by electronics laboratories for the in-house development, production and assembly of PCBs of all kinds can be supplied.



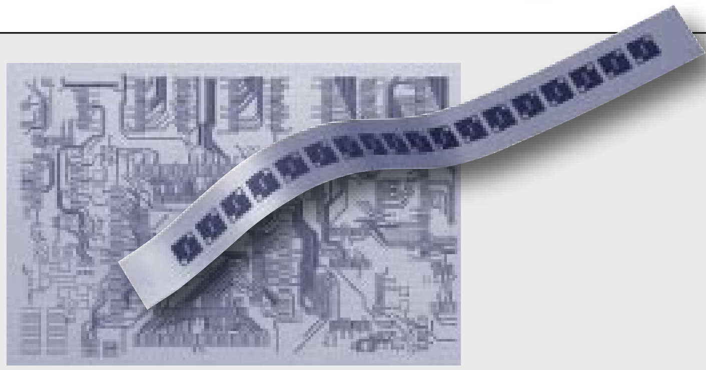
Stencil technology

As the market and technology leader, LPKF offers laser systems for cutting all kinds of stencils, e.g. for solder printing on PCBs, chip housings and wafers.



PCB production technology

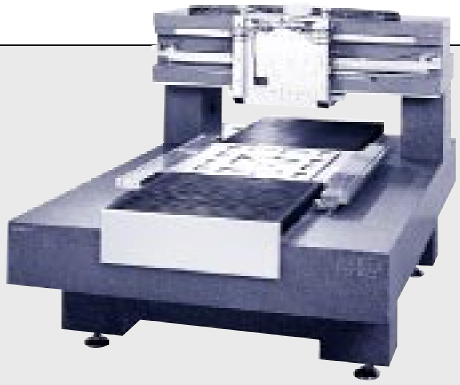
LPKF manufactures specialised variable laser systems for cutting, drilling, routing and structuring PCBs and flexible circuit carriers.



Technology for three-dimensional circuit carriers (3D-MIDs)

The new LPKF LDS method is a flexible and economical solution for the production of 3D-MIDs.

Production subsidiaries



LPKF Motion & Control GmbH

LPKF Motion & Control GmbH specialises in drive technology and movement systems, e.g. XY-positioning tables and controls.

Laserquipment AG

The company is focussed on technology for laser plastic welding and develops, produces and sells modular laser-supported production systems as complete system solutions. The range of activities is completed by customer-specific process developments in Laserquipment's own application laboratory and by offering mass production as a service.

LaserMicronics GmbH

LaserMicronics GmbH provides laser micro-machining as a production service, e.g. ceramic drilling or PCB repair.

LPKF d.o.o. (Slovenia)

LPKF d.o.o. in Slovenia is specialized on products for Rapid PCB Prototyping and accessories as well as our own laser sources.

3D-MID technology ready for market

Breakthrough for three-dimensional circuit carriers (3D-MIDs)

The name already indicates what this technology is all about: 3D-MID – this abbreviation stands for a quantum jump in PCB technology into a third dimension. 3D-MIDs (moulded interconnect devices) are three-dimensional circuit carriers produced using injection moulding methods. They can integrate mechanical and electronic functions, such as a housing with integrated tracks for a sensor circuit. The huge advantage of this method is that the whole component takes up much less weight and space than conventional alternatives, and combines this with lower production costs. It enables parts of simple classic circuit boards to be completely replaced.

With the development of the LDS method (laser direct structuring), LPKF has created a technology for the production of 3D-MIDs which is technically and economically superior to competing methods for a large number of applications. The principle: a specially pre-treated standard plastic is used for the production of the required circuit carrier using conventional injection moulding technology. A laser is then used to activate precise structures on the surface of this plastic which correspond with the tracks in the subsequent circuit. The structures activated in this way are subsequently metallised in a chemical or electroforming bath to create a fully functioning circuit on the injection-moulded component that can now be assembled and soldered.

Three-phase market launch

The major advantage, in addition to the high degree of flexibility, is that this method dispenses with several processing steps. This lowers the cost of MID production. The availability of different MID plastics for the first time now makes it possible to select a price-sensitive base material for each type of application. And the applications of this revolutionary method are themselves extremely wide-ranging and open up major opportunities. The application of 3D-MID technology becomes a serious option whenever there are advantages in saving space and weight in the realisation of complex functions: in mobile telecommunications, the aerospace industry, the automobile industry, sensory, safety and medical technology. In some cases, applications in these areas are already close to mass production.

LPKF is pursuing a three-phase strategy for the market launch of 3D-MID technology – a strategy which has already proven successful in the past, such as with the establishment of stencil technology. This involves giving potential users the opportunity of convincing themselves of the qualities of this technology either on site or by the provision of samples. The establishment of the Application Center in Bad Salzuflen was an important milestone in this context. In the second phase, LPKF then takes over the production of 3D-MIDs in a job shop in the form of concrete production services. The market launch of the technology is currently at this stage, which is also an integral part of the expansion of LPKF's service sector. The third and last phase is the marketing of the production systems themselves, i.e. laser and handling technology.

Cooperations create the right framework

Initially, the technology was technically matured over the last few years by the development of industrially usable plastics. The licence agreements with the material producers Degussa, Bayer and Ticona, and a cooperation agreement with the Harting Technology Group – a leading manufacturer of industrial connectors – has now created the economic framework for the global market launch of injection-moulded circuit carriers. Synergy effects also arise here with the laser plastic welding segment in cooperation with our subsidiary Laserquipment AG: many 3D-MID clients have to seal off their circuits to protect them from the environment. Laser plastic welding is a very good method of guaranteeing high quality air-tight connections between e.g. the housing and cover of an electronic circuit. It became clear that we are often dealing with the same clients when discussing 3D-MID technology and laser plastic welding. Stronger bundling of the marketing and sales activities of these two segments is therefore planned in future.

3D-MID technology is not only one of the most exciting development projects for LPKF, it also opens up the greatest opportunities for growth in the near future. In addition to a series application, we are also in the concrete sample production phase for numerous customers. Many new designs for components have already been created for 3D-MID technology. We are therefore confident that LPKF-LDS technology is now at the threshold of a broad market breakthrough. Together with our partners, we have now also created the right conditions for the organisational side of this success.

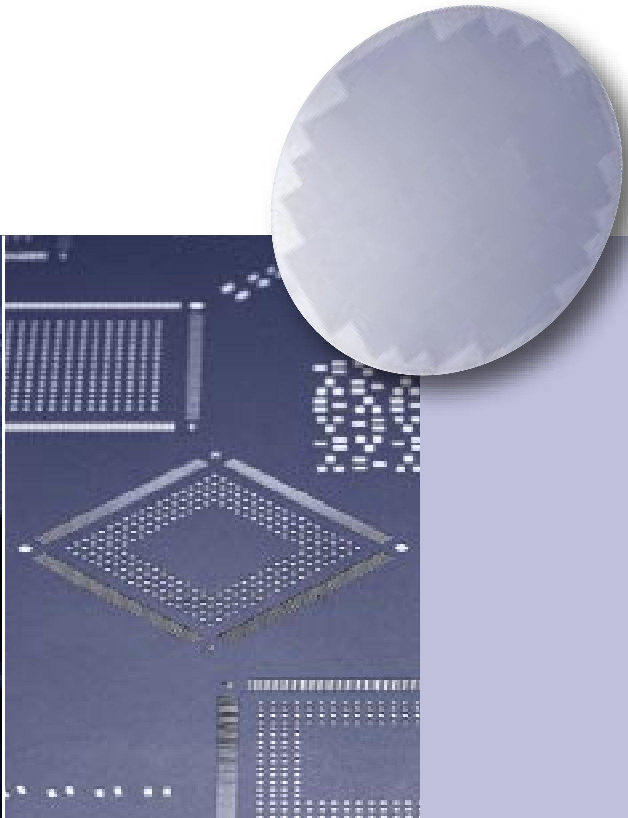
Stencil technology

Establishing trust through competence and a wealth of experience

LPKF established the global standard for industrial PCB production several years ago with the launch of the laser-cut SMD print stencils. Stencils are used in mass production to apply solder paste on a printed circuit board for the subsequent soldering of electronic components. Laser-manufactured stencils considerably reduce the reject rate in this production step. This technology is therefore now a vital part in the value chain of electronics manufacturers.

As the world market leader in StencilLaser technology, LPKF has always strived to systematically expand the areas of application of this technology. The main priority within this strategy is to combine high quality and high throughput rates with an acceptable price. The latest example: the use of stencil technology for wafer bumping. With the help of a new type of laser system developed by LPKF, it is now possible for the first time to achieve levels of fineness and precision suitable for the direct printing of microchips with the help of stencils. Stencil technology for a new type of display is another field of development. This is where we will be concentrating our activities in this segment in the near term.

Despite a difficult financial year in general, the Stencil Technology segment was again able to generate a stable profit in 2003. This is primarily attributable to good sales in the USA. The trend in recent years though has shown that the Asian market in particular will be of increasing importance in the long term for stencil technology. Thanks to its many years of experience, LPKF has established a great deal of goodwill in the application of this technology. The already very close cooperation with our Asian clients will become even more important in future for the development of new systems.



MicroLine Drill

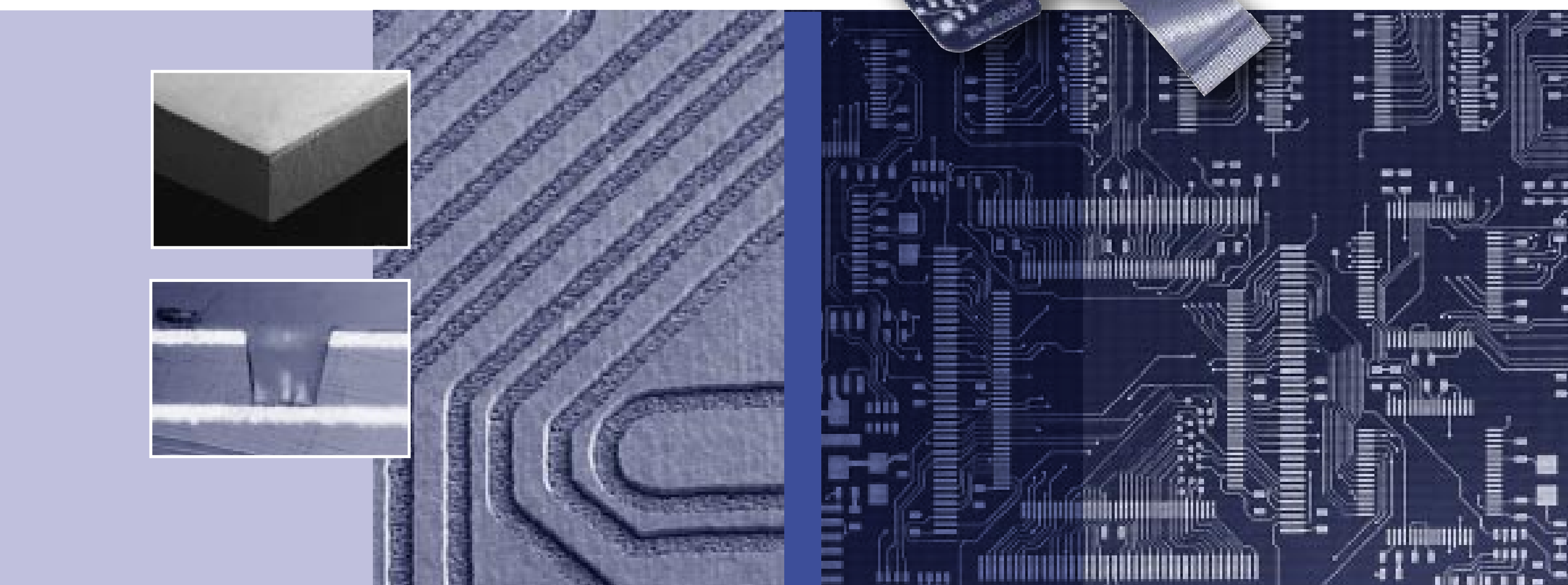
Technological potential creates future prospects

The year 2003 was definitely difficult for the market for Laser Drilling and Cutting Systems in the PCB production sector. Against the background of the general economic weakness, the PCB market in Europe and the USA has shrunk considerably. The willingness of companies to invest was therefore discouraging. The LPKF MicroLine Drill product family also suffered from these developments.

Developed specifically to meet customer demands, this device combines the technical options for the structuring of ultra-fine tracks and the micro-drilling with complex cutting applications. Instead of being used for conventional high volume mass production, our system tends to be used for sophisticated special applications and by clients entering the HDI technology market (high density interconnect) for high-end PCBs. It is therefore a technical alternative whenever conventional mechanical methods reach their limits.

It became clear in the past year that the demands of the users of this technology have undergone some considerable changes. Their interest has now mainly shifted towards high resolution cutting applications. LPKF responded to these requirements and launched a new laser system onto the market which fully complies with the changed needs of its customers in this sector. The signs of an increase in business in the sale of MicroLine Drills emphasise in the best possible way the success of this strategy.

And prospects in general for this product family can also be considered optimistic given its major technological potential. Our sights here are particularly set on the Asian market. LPKF has therefore considerably strengthened its marketing activities in this area, and in China in particular, by establishing a second branch.



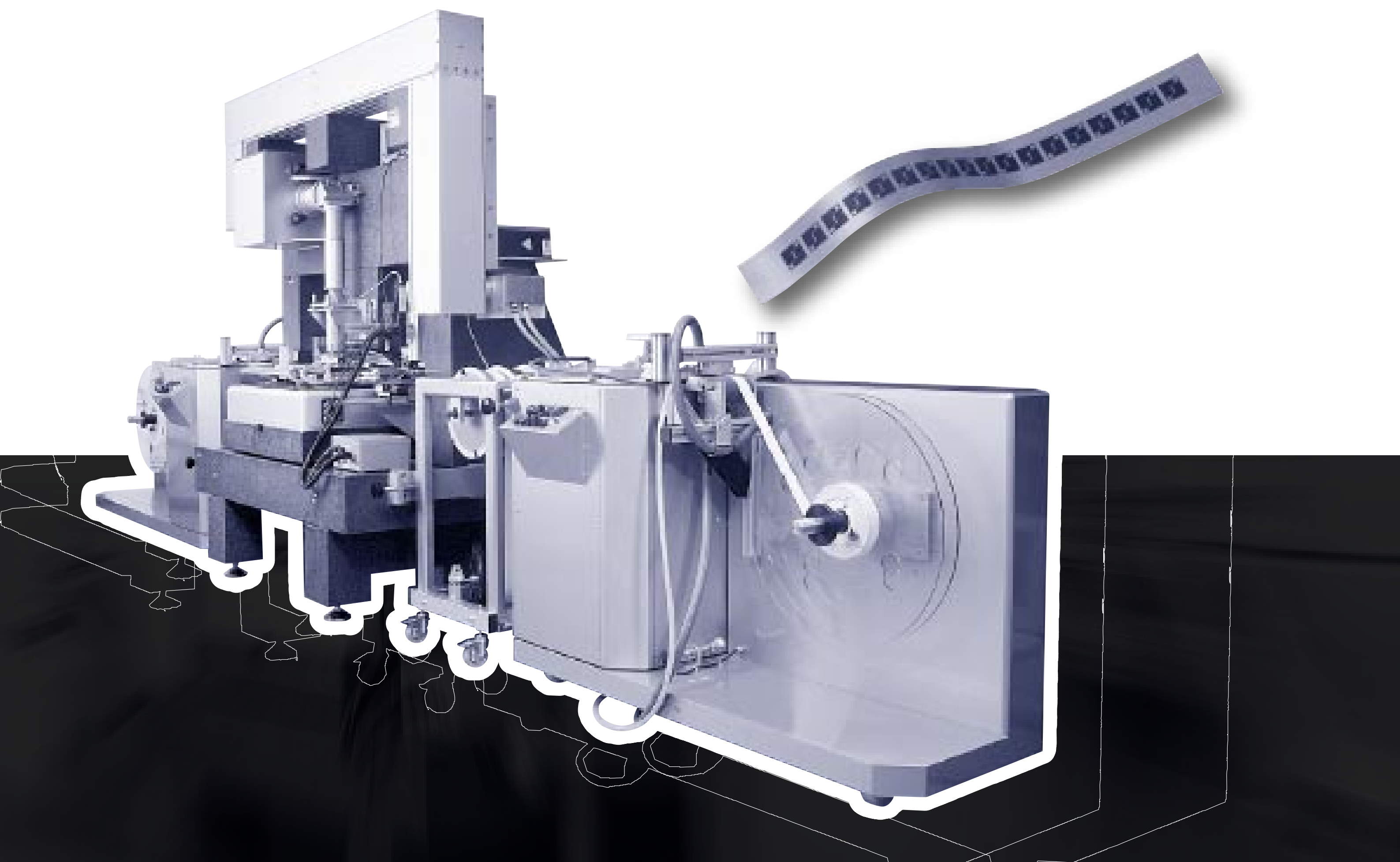
MicroLine Laser

Technical and economic standards for the ultra-fine line sector

The increasing miniaturisation of electronic components continuously sets new challenges for the electronics industry. The never ending pressure to create ever denser structures in tiny amounts of space forces the companies involved to invest continuously. With the MicroLine Laser, LPKF has developed a system that can be integrated within existing production lines and which fulfils the highest specifications for precision and miniaturization.

In cooperation with Atotech Deutschland GmbH, we succeeded in technically combining ultra-fine laser structuring with the conventional chemical etching technology. Unfortunately, this cooperation has not yet managed to fulfil its economic prospects. In addition, the further development of existing technologies has enabled the competing semi-additive technology to establish itself among some clients. The overall economic weakness also led to a slowdown in the PCB market last year. This depressed the investment climate although we are now seeing the first signs of an upswing.

On a positive note, the development of the other important application area for MicroLine technology, reel-to-reel production of flexible circuits, moved forward satisfactorily. This enables the reliable and cost-effective production of highly precise ultra-fine structures in a high volume process. The method is currently being used successfully in medical technology in the production of disposable bio-sensors for the measurement of blood sugar levels and for determining the percentage of the blood clotting factor. LPKF is expecting there to be a lucrative follow-up business in the medium term and is confident of increased demand in future for MicroLine technology within this area of application.



In-house PCB prototyping
Quality solutions for innovative designers

Manufacturing product-quality prototypes flexibly and fast in one's own laboratory, completely independent of external service companies, are the benefits opened up by the LPKF Rapid PCB Prototyping technology – as highlighted by its use for over 25 years by electronics designers around the world. As the world market leader in in-house PCB prototyping, LPKF provides its clients with complete solutions for all in-house development steps from circuit layout to completely assembled and soldered PCBs, as well as providing them with all of the necessary process know-how. The heart of this product line is the circuit board plotting technology developed by LPKF.

The major advantages of in-house prototyping become particularly clear during economically difficult times:

- **Confidentiality:** Handing over sensitive data is always a safety risk for customers. Such risks can only be successfully avoided when all steps are carried out directly in-house.
- **Speed:** Delegating the production of prototypes to production service companies unavoidably means having to accept delays – not good in times where the time-to-market factor plays a crucial part in the success of a product and where development speed is a definite competitive advantage.
- **Flexibility:** Frequent re-designs are an integral part of every development process. Such changes can be carried out fast, reliably and economically using LPKF prototyping technology.
- **Economic efficiency:** Engaging external service companies is also a financial liability. These costs can be reduced with in-house prototyping.

As in the past, Rapid PCB Prototyping is one of our core business activities even though turnover in the first quarters was down year-on-year. The rapid decline in turnover in the PCB industry – particularly in Europe and in the USA – has meant that PCB prototyping with very short delivery times were being offered by many companies as a service – putting enormous pressure on prices. This is our strongest competitor in times of economic recession.

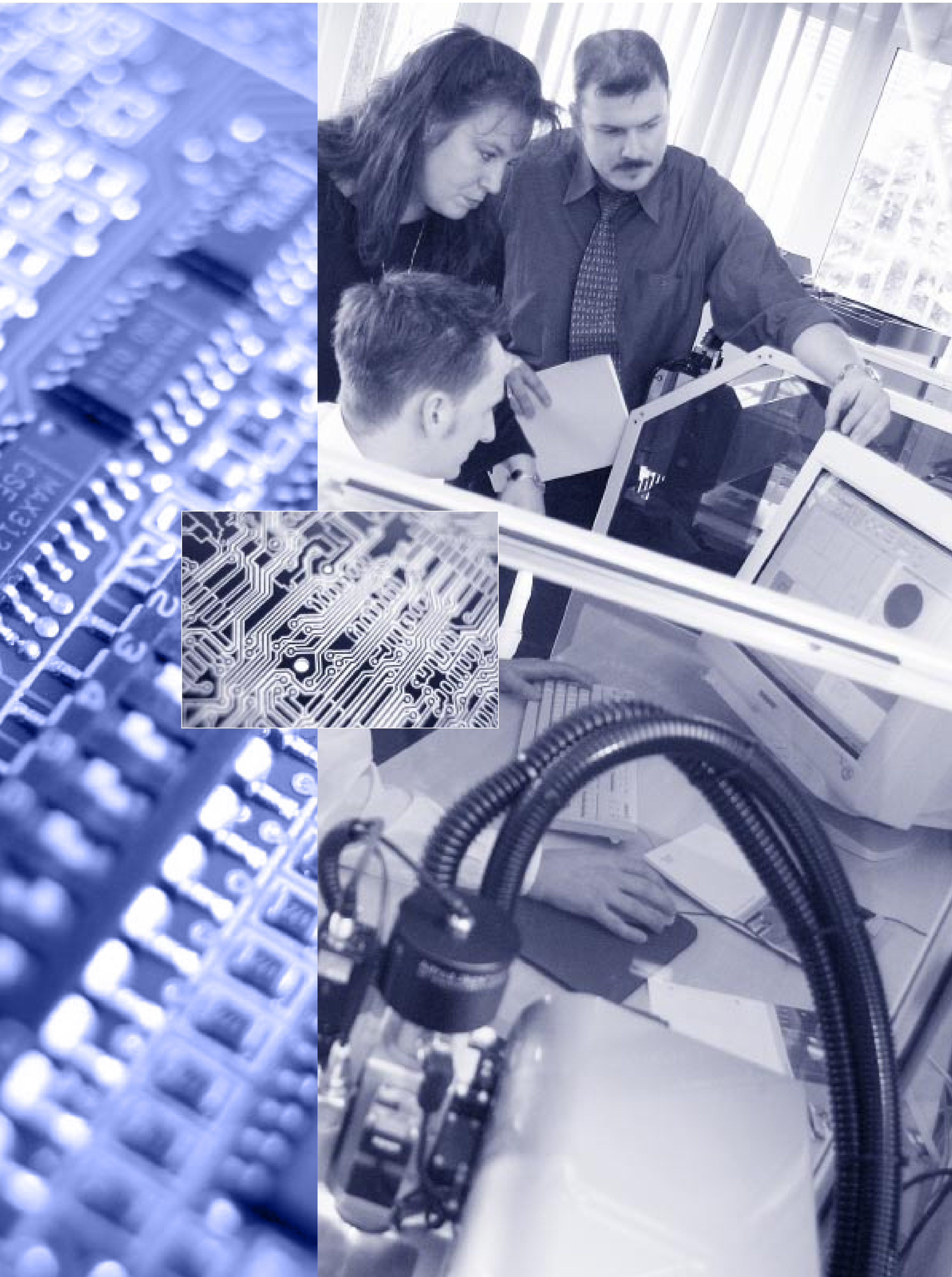
However, during the course of the year a clear recovery in in-house PCB prototyping was observed. This also revealed that customer wishes are becoming increasingly differentiated in the development sector as well. On the one hand, there is the need for easy operation and a higher level of automation – for which LPKF has again extended its circuit board plotter spectrum with another high-end model. And on the other hand, interested companies with less financial strength are more often demanding cheaper entry models. Our next goal is therefore to also make the low-end segment even more attractive for this group of customers.

Production services

Important element in the launch of new technologies

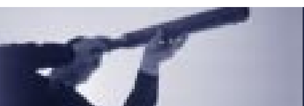
With the restructuring and expansion of its service sector, LPKF is responding proactively to the current developments in the electronics market. Production service has always been an important test bed for the introduction of new technologies. It provides future users with an opportunity of convincing themselves of the qualities of innovative products. At the same time, feedback from potential users is an important source of information to tailor the product range even better to the needs of our clients. This strategy proved invaluable in the stencil technology sector in particular, which has now established itself as the standard in PCB production and where LPKF today enjoys its status as world market leader. It was therefore a logical business strategy move to spin off the range of services in this sector, in Germany at least. In its place, we have now comprehensively strengthened the whole range of laser-based PCB production technology.

This repositioning is typified by the subsidiary LaserMicronics GmbH in Garbsen which is the successor of Elaser GmbH. The range of services provided by LaserMicronics GmbH was kicked off by the LPKF Laser Center founded in 2002, which has already gained a good level of acceptance in the market. Users in the micro-electronics, medical technology, telecommunications or automotive sectors have access to numerous applications in the laser micro-machining field: LaserMicronics' range of services includes PCB repair, ultra-fine structuring, micro-drilling, scribing, cutting and milling for the whole range of materials, right through to internal glass structuring. Its latest service is the production of 3D-MIDs on a job shop basis.



Annual group balance for the business year 2003 considering the International Financial Reporting Standards (IFRS).

Statement of income in K€	Notes	2003	2002
Sales	1	22,667	25,299
Changes in inventories of finished goods and work-in-process		390	-394
Own work capitalised	2	739	856
Other operating income	3	1,324	1,466
		25,120	**27,227**
Cost of materials	4	6,633	7,503
Personnel expenses	5	9,567	10,262
Depreciation and amortisation	6	2,211	2,269
Other operating expenses	7	5,409	5,751
Operating profit		1,300	1,442
Other interest and similar income	8	100	156
Depreciation of current asset securities		6	0
Interest and similar expenses	8	228	263
Result from ordinary activities		1,166	1,335
Income tax	9	358	645
Group result before minority interest		**808**	**690**
Minority interest		40	56
Net income		**768**	**634**
Net income per share (basic, in €)	24	0.07	0.06
Net income per share (diluted, in €)	24	0.07	0.06

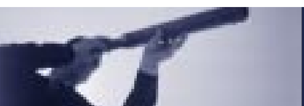


Consolidated statement of changes in shareholders' equity

Consolidated statement of the changes in shareholders' equity for the financial year ended 31 December 2003 (previos year in brackets).

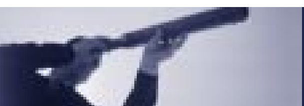
in K€	Subscribed capital	Capital reserve	Market value of hedging transactions	Retained earnings	Foreign currency translation adjustment	Total
As at 01.01.2003	10,648	3,768	-	8,481	-238	22,659
As at 01.01.2002	(10,638)	(3,730)	(-)	(7,847)	(472)	(22,687)
Payments resulting from capital increase	-	-	-	-	-	-
	(10)	(38)	(-)	(-)	(-)	(48)
Additions from valuation of cashflow-hedge	-	-	26	-	-	26
	(-)	(-)	(-)	(-)	(-)	(-)
Reduction from valuation of cashflow-hedge	-	-	-26	-	-	-26
	(-)	(-)	(-)	(-)	(-)	(-)
Net income	-	-	-	768	-	768
	(-)	(-)	(-)	(634)	(-)	(634)
Foreign currency translation adjustment of net investments in economically independent foreign subunits	-	-	-	-	-226	-226
	(-)	(-)	(-)	(-)	(-149)	(-149)
Other foreign currency translation adjustments	-	-	-	-	-454	-454
	(-)	(-)	(-)	(-)	(-561)	(-561)
As at 31.12.2003	10,648	3,768	-	9,249	-918	22,747
As at 31.12.2002	(10,648)	(3,768)	(-)	(8,481)	(-238)	(22,659)

Balance Sheet: Assets in K€	Notes	31.12.2003	31.12.2002
Fixed assets			
Intangible Assets	10		
Software		89	115
Goodwill		135	348
Development costs		893	1,581
Rights to use		17	118
		1,134	**2,162**
Tangible assets	10		
Land and buildings		5,516	5,927
Technical equipment and machinery		1,557	1,305
Other equipment, factory and office equipment		839	1,124
Prepayments and construction in process		133	232
		8,045	**8,588**
Financial assets	10		
Participations		2	2
Other loans		9	13
		11	**15**
		9,190	**10,765**
Current assets			
Inventories	11		
(System-) components		3,470	3,830
Work-in-process		1,955	2,393
Finished goods and merchandise		3,929	3,364
Prepayments		159	113
		9,513	**9,700**
Accounts receivable and other assets			
Trade accounts receivable	12	5,027	4,924
Other assets	13	880	1,683
		5,907	**6,607**
Securities		1,271	198
Cash on hand, bank balances	14	4,820	5,188
		21,511	**21,693**
Deferred charges and pre-paid expenses	15	107	93
Deferred tax assets	16	1,184	772
Total assets		**31,992**	**33,323**



Balance Sheet: Liabilities and shareholders' equity in K€	Notes	31.12.2003	31.12.2002
Shareholders' equity			
Share capital	17	10,648	10,648
Capital reserve	17	3,768	3,768
Net income for the year			
Retained earnings		8,481	7,847
Net income		768	634
Foreign currency translation adjustment		-918	-238
		22,747	**22,659**
Minority interests	18	1,557	1,705
Provisions			
Provisions for pensions	19	234	203
Tax provisions	20	176	324
Other provisions	20	769	1,229
		1,179	**1,756**
Liabilities			
Bond	22	175	175
Medium-term and long-term liabilities due to banks	21	2,468	2,328
Short-term liabilities due to banks	21	490	364
Payment received on account of orders		337	1,284
Trade accounts payable		995	1,017
Other liabilities		835	1,005
		5,300	**6,173**
Deferred income		49	15
Deferred grants	3	277	339
Deferred tax liabilities	16	883	676
Total liabilities		**31,992**	**33,323**

Cash flow statement in K€	Notes	2003	2002
Operating activities			
Net income for the year		808	690
Depreciation and amortisation of fixed assets		2,211	2,269
Profit/loss from sale of assets incl. reclassification into current assets		14	-138
Cashless currency differences in fixed assets		242	361
Other non-payment income/expenses		299	231
Changes in inventories and accounts receivable and other assets		462	2,677
Changes in provisions and accrued liabilities		-577	250
Changes in liabilities and deferred income		-1,828	-313
Cash flow from operating activities	23	**1,631**	**6,027**
Investing activities			
Fixed asset investments intangible assets		-106	-334
Fixed asset investments tangible assets		-969	-1,520
Investment in subsidiaries		0	-240
Investment in other affiliated companies		0	-13
Receipts on sale of equipment		126	334
Cash flows from investing activities		**-949**	**-1,773**
Financing activities			
Dividends paid		0	0
Repayments to minority interest		0	-8
Payments of parties		0	43
Payments of minority interest		0	148
Repayments convertible bond		-3	0
Change in long-term bank borrowings		672	83
Repayments long-term bank borrowings		-478	-258
Cash flow from financing activities		**191**	**8**
Changes in cash and cash equivalents			
Changes in cash and cash equivalents due to exchange rates		-239	-239
Changes in cash and cash equivalents		873	4,262
Cash and cash equivalents as at 1.1.2003		5,365	1,342
Cash and cash equivalents as at 31.12.2003		**5,999**	**5,365**
Composition of cash and cash equivalents			
Cash		4,820	5,188
Short-term investments		1,271	198
Bank overdraft		-92	-21
Cash and cash equivalents		**5,999**	**5,365**



Notes to the 2003 consolidated statements

Basis of preparation

The consolidated financial statements of LPKF Laser & Electronics AG, Garbsen, for the year ended 31 December 2003, 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.

The financial year corresponds to the calendar year. The consolidated financial statements have been prepared in Euro. Because the consolidated reporting is now presented in more detail, the structure of the previous year's figures has been revised and adjusted where necessary to ensure that reporting for the financial year is compatible.

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:

Consolidation principles

The basis for the consolidated financial statements are the financial statements prepared according to standard rules as at 31 December 2003 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 and is amortised over five years.

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

Deferred taxes are accounted according to the liability method on all of the temporary differences between the tax values and the book values of the assets and liabilities. The income taxes are calculated in compliance with the valid laws and directives.

Consolidated group

Name	Domicile	Holding %	Acquisition/founding
Full consolidation			
LaserMicronics GmbH	Garbsen/Germany	100.0	1989
LPKF d.o.o.	Kranj/Slovenia	75.0	1995
LPKF Benelux N.V.	Brussels/Belgium	100.0	1995/1999
LPKF Laser & Electronics Inc.	Wilsonville/USA	60.0	1994/1999
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	80.0	1999
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0	2000
Laserquipment AG	Erlangen/Germany	78.9 (previous year 51.0)	2000/2002/2003

LaserMicronics GmbH is the new name for Elaser GmbH. The headquarters were also moved at the same time from Suhl to Garbsen. LPKF Benelux N.V. is the new name for LPKF Franklin Industries N.V.

As part of increases in capital, the shareholding in Laserquipment AG rose step by step to 78.9 % during the reporting year. A 9.09 % minority shareholding in PhotonicNet GmbH in Hannover, acquired in 2000, has not been consolidated.

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)	31.12.03	31.12.02	2003	2002
Slovenian Tolar	236.4000	230.1577	233.8304	224.5400
US-Dollar	1.2607	1.0422	1.1309	0.9383
Chinese Renminbi Yuan	10.3336	8.5940	9.26011	7.7960

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.

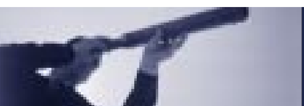
The following divisions form the basis for the primary segment reporting:
- Rapid PCB Prototyping involves the further development, production and marketing of circuit board plotters for the world market.
- Laser systems includes all systems such as the StencilLaser, MicroLine Laser and other new laser technologies.
- The Services division includes the activities carried out by LaserMicronics and A-Laser which manufacture stencils for printing tracks and gaps, and provides other services.
- The Others segment involves all of the minor activities.

Individual expenditure and earnings items 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 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 adjust-ments, 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	Services	Others	Not distributed	Total
External sales	2003	12,305	9,095	1,027	240	0	22,667
	2002	13,685	9,420	1,611	583	0	25,299
Operating income	2003	1,131	1,380	89	-15	-1,285	1,300
	2002	2,090	763	351	64	-1,826	1,442
Assets	2003	16,334	8,105	1,079	393	6,081	31,992
	2002	16,135	9,397	1,634	577	5,580	33,323
Liabilities	2003	1,681	812	18	89	5,088	7,688
	2002	2,841	985	36	83	5,014	8,959
Investments	2003	928	135	5	6	1	1,075
	2002	1,269	573	110	40	8	2,000
Depreciation	2003	1,412	485	233	31	50	2,211
	2002	1,301	517	313	63	75	2,269
Non-cash expenses	2003	549	474	36	9	255	1,323
	2002	1,016	586	72	34	124	1,832

Regional segments							
in K€		Germany	Rest of Europe	North America	Asia	Others	Total
External sales	2003	5,578	4,149	6,794	5,894	252	22,667
	2002	6,255	4,857	6,768	7,118	301	25,299
Assets	2003	24,799	2,982	3,923	288	0	31,992
	2002	25,116	2,997	4,653	557	0	33,323
Investments	2003	912	92	43	28	0	1,075
	2002	1,196	415	183	206	0	2,000



Statement of income

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

2. Own work capitalised
The own work capitalised reported in the financial statements totals K€ 739. This comprises technical equipment and machinery used by affiliated companies for production, prototype development projects activated during 2003, 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 five 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 grants“ is based on the useful life of the associated capitalised development costs. The same accounting procedure applies to a grant for building costs in Suhl totalling K€ 413.

Other operating income in K€	2003	2002
Grants for research and development	592	833
Exchange gains	222	71
Gains from sale of plant and machinery	185	168
Gains from reversal of other provisions	144	73
Reversal of deferred grants	67	65
Gains from reversal of value adjustments	1	39
Others	113	217
	1,324	**1,466**

4. Cost of materials

Cost of materials in K€	2003	2002
Cost of (system) components and purchased merchandise	6,158	6,646
Cost of purchased services	475	857
	6,633	**7,503**

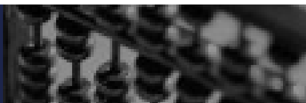
5. Personnel expenses and employees

Personnel expenses in K€	2003	2002
Wages and salaries		
Salaries	6,710	7,118
Wages	1,059	1,140
Other	211	283
	7,980	**8,541**
Social security costs and pension costs		
Employer's contribution to social security	1,343	1,411
Workman's compensation board	48	42
Pension costs	196	268
	1,587	**1,721**
	9,567	**10,262**

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

Number of employees	2003	2002
Production	56	60
Distribution	39	40
Research and Development	47	45
Engineering and Administration	66	70
	208	**215**

In addition, there were also 9 part-time employees and 12 trainees as at 31. December 2003.



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 2003 were K€ 3,429, made up of the cost of materials totalling K€ 408 plus other costs including personnel costs and depreciation totalling K€ 3,021.

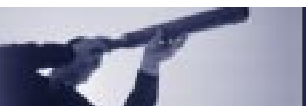
The leasing agreements entered into by the company and reported here are classified as operating leases. The leasing payments are reported in the statement of income linearly over the term.

Significant agreements reported under leasing mainly include leasing agreements for vehicles as described in detail in note 28 “Other financial commitments”.

Other operating expenses in K€	2003	2002
Advertising and distribution expenditure	781	814
Travel, entertainment expenses and business gifts	627	595
Rent, incidental costs, leasing, real estate and building costs	552	471
Allocation to bad debts, exchange losses	334	221
Repairs, Maintenance, Operating materials	321	287
Legal and consultancy costs	314	300
Research and Development	291	430
Postage, telephone, facsimile	258	234
Trade fair costs	253	257
Insurance, contributions, levies	234	199
Supervisory board expenses	220	220
Investor Relations	201	307
Financial statements, publicity, auditing fees	182	245
Services	172	132
Voluntary social expenses	158	199
Vehicle costs	132	165
Sales commissions	64	344
Office materials, books, software	59	100
Bank charges	55	66
Others	201	165
	5,409	**5,751**

8. Financial results

Financial results in K€	2003	2002
Other interest and similar income	100	156
Depreciation of current asset securities	-6	0
Interest and similar expenses	-217	-252
Interest on convertible bond		
Changes in present value	-2	-2
Payment to subscribers	-9	-9
	-134	**-107**



9. Income taxes

Income taxes in K€	2003	2002
Corporate tax and solidarity surcharge	427	554
Trade tax	225	267
Deferred taxes	-294	-176
	358	**645**

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.

In the balance sheet, tax claims of K€ 760 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€ 276, cf. note 16. The deferred tax expenses has risen by K€ 44 because of temporary differences to the previous year not taken into consideration earlier. Tax expenses were reduced by K€ 121 by using losses carried forward for which no deferred tax assets had previously been capitalised. 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€	2003	2002
Consolidated net income before income taxes	1,166	1,335
Anticipated tax expense 38 % (previous year 38 %)	443	507
Use of losses carried forward for which no deferred taxes had previously been capitalised	-121	0
Non-activated deferred taxes in a loss situation	26	112
Tax rate variances amongst subsidiaries	-110	73
Tax relief associated with investment promotion	0	-85
Temporary rise in corporation tax related to Flood Victim Solidarity Law	18	7
Recaptured temporary differences between financial statements and tax accounts not taken into consideration the previous year	44	0
Tax refund/Payment of back tax associated with a field tax audit	-26	89
Other variances	84	-58
Effective tax expense 31 % (previous year 48 %)	**358**	**645**

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 01.01.03	Currency differences	Additions	Reclassification	Disposals	as at 31.12.03
Assets						
Intangible assets						
Software	584	0	33	0	0	617
Goodwill	1,030	0	0	0	0	1,030
Development costs	3,512	-7	71	0	0	3,576
Rights to use	890	-21	1	0	8	862
	6,016	**-28**	**105**	**0**	**8**	**6,085**
Tangible assets						
Land and buildings	7,063	-163	0	0	2	6,898
Technical equipment and machinery	4,151	-298	652	649	807	4,347
Other equipment, factory and office	4,442	-35	136	-368	511	3,664
Prepayments and construction in process	232	0	182	-281	0	133
	15,888	**-496**	**970**	**0**	**1,320**	**15,042**
Financial assets						
Participations	2	0	0	0	0	2
Other loans	13	0	0	0	4	9
	15	**0**	**0**	**0**	**4**	**11**
Total fixed assets	**21,919**	**-524**	**1,075**	**0**	**1,332**	**21,138**

The goodwill arising from company acquisitions (capitalised differences arising from capital consolidation) are reduced by scheduled straight-line amortisation over the useful life in each case. Because of the economic difficulties of a subsidiary, a decrease in value of K€ 15 was reported in the goodwill in the 2003 financial year. The amortisation and decrease in value of goodwill from the acquisition of companies is reported in the „Depreciation and amortisation“ entry.

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. The items are shared by the segments as follows:

Development costs shared by segments

in K€	2003	2002
Laser Systems	783	1,398
Rapid PCB Prototyping	110	183
	893	**1,581**

In the 2003 financial year, special reductions in value on intangible assets produced in-house totalling K€ 61 were implemented under IAS 36.

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

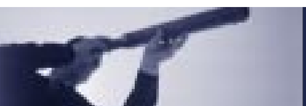
The tangible assets are valued at acquisition or production cost reduced by accumulated straight-line depreciation. Land is not depreciated.

The production costs cover the cost of direct materials and material overheads and the manufacturing costs and manufacturing overheads, as well as production-related pro rata administration costs. Outside capital costs are not capitalised.

The following useful lives are assumed:

Assumed useful lives

	Years
Software	3
Goodwill	5
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



Accumulated depreciation						Net book value	
as at 01.01.03	Currency differences	Additions	Reclassifi-cation	Disposals	as at 31.12.03	as at 31.12.03	Previous year
469	0	59	0	0	528	89	115
682	0	213	0	0	895	135	348
1,931	-5	757	0	0	2,683	893	1,581
772	-20	101	0	8	845	17	118
3,854	**-25**	**1,130**	**0**	**8**	**4,951**	**1,134**	**2,162**
1,136	-13	258	1	0	1,382	5,516	5,927
2,846	-162	461	337	692	2,790	1,557	1,305
3,318	-26	362	-338	491	2,825	839	1,124
0	0	0	0	0	0	133	232
7,300	**-201**	**1,081**	**0**	**1,183**	**6,997**	**8,045**	**8,588**
0	0	0	0	0	0	2	2
0	0	0	0	0	0	9	13
0	**0**	**0**	**0**	**0**	**0**	**11**	**15**
11,154	**-226**	**2,211**	**0**	**1,191**	**11,948**	**9,190**	**10,765**

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 applicable market value 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 market 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 gives rise to a liability of K€ 125. This is balanced by assets totalling K€ 113. The term of the contract is 36 months (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 is reported on the assets-side with a value of K€ 25, and on the liabilities-side for an identical amount.

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, reported in the 2003 financial year: K€ 14
- Up to 1 year: K€ 43
- Longer than 1 year, and up to 5 years: K€ 118

11. Inventories

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

Manufacturing costs of finished goods and work-in-process include manufacturing costs, manufacturing overheads, direct material costs and material overheads, as well as production-related pro rata administration costs. In line with the benchmark method, borrowing costs were not capitalised. The Fifo method is used to value the inventory asset items.

The lower net sales values were applied to K€ 353 of the total inventories. The inventories in each segment are as follows in a comparison with the previous year:

Inventories in K€	2003	2002
Laser Systems	6,352	6,001
Rapid PCB Prototyping	3,004	3,332
Services	48	192
Others	109	175
	9,513	**9,700**

12. Trade accounts receivable

The trade accounts receivable are generally shown in the balance sheet at the nominal value less appropriate provisions for amounts considered to be uncollectable. Those with a term exceeding one year are reported in accordance with their cash value. Here, additions to the provisions for receivables are reported in "Other operating costs", whilst releases are reported in "Other operating income".

The residual book value of the receivables totals K€ 267 and concerns receivables with a remaining term of more than one year.

Trade accounts receivable in K€	2003	2002
Nominal amount of accounts receivable	5,198	5,073
Provision for doubtful accounts including exchange losses	-142	-63
Lump-sum provisions	-29	-86
Accounts receivable after provisions, discounting and exchange losses	**5,027**	**4,924**

13. Other assets

Other assets in K€	2003	2002
Input VAT refunds	220	568
Income tax refunds	165	588
Reinsurance	162	140
Outstanding grants	67	166
Others	266	221
	880	**1,683**

Other assets totalling K€ 162 (previous year: K€ 140) have a remaining term of more than one year.

14. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand of K€ 9 (previous year: K€ 9) as well as cash in other banking accounts of K€ 4,811 (previous year: K€ 5,179).

15. Prepaid expenses

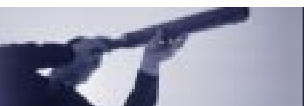
The capitalised deferred charges and prepaid expenses primarily concern prepaid insurance premiums totalling K€ 107 (previous year: K€ 93).

16. Deferred tax

The capitalised deferred tax asset encompasses deferred taxes primarily on the basis of tax loss carry forwards, inter-company profits and the additions of a special entry for grants. Deferred taxes were measured in line with the retention of earnings tax rates valid for the individual countries. Deferred taxes were capitalised for two subsidiaries even though these companies generated a loss in the 2002 financial year. The business plans which have been submitted indicate that these deferred tax claims can be used in subsequent years. The deferred taxes were solely set up with respect to capitalised development costs. In addition, K€ 102 were allocated for liabilities-side deferred tax assets from differences in the currency translation of net investments in economically independent foreign subunits. Insofar as the valuation of the deferred taxes last year took into consideration the temporary increase in the German corporate tax rate of 1.5 %-points because of the Flood Solidarity Law set for the 2003 assessment period, there was a release of deferred tax assets totalling K€ 2 and deferred tax liabilities totalling K€ 9. The development of the deferred taxes is as follows:

Deferred tax assets in K€	2003	2002
Tax loss carry forwards	760	307
Special item	4	8
Inter-company profit elimination and other deductible temporary differences	420	457
	1,184	**772**

Deferred tax liabilities in K€	2003	2002
Capitalised development costs and other deductible temporary differences	883	676
	883	**676**



Liabilities and shareholders' equity

17. Subscribed capital

In accordance with the resolutions passed by the Annual General Meeting on 15 June 2000, the share capital and other DM amounts in the Memorandum and Articles of Association were converted to Euro. There was also a capital increase from company funds according to Art. 207 AktG i.v.m. Art. 4 EGAktG, the reclassification of the share capital, as well as an adjustment and modification of the contingent capital, which was also associated with a change in the Memorandum and Articles of Association.

The authorisation of the Board of Managing Directors according to Art. 4 Section 6 of the Memorandum and Articles of Association, to increase the share capital with the authorisation of the Supervisory Board (authorised capital) in the period up to 13 October 2003 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 € 5,250,000 (authorised capital) by one or more issues of up to 5,250,000 new shares for cash or contributions in kind up to 14 June 2005.

The conditional capital according to Art. 4 Section 7 of the Memorandum and Articles of Association, was adapted in accordance with Art. 218 AktG to enable the share capital to be contingently raised by up to € 500,000. The conditional capital increase shall only be realised in proportion to the extent to which the holders of convertible bonds, issued by the company on the basis of the resolution passed by the Annual General Meeting on 13 October 1998, exercise their conversion rights to convert the bonds into new shares. The new shares participate in the profits from the beginning of the financial year in which the option to utilise the conversion rights was exercised. The € 1.00 nominal value bonds entitle their owners to exercise a conversion right to acquire one new share in LPKF Laser & Electronics AG with an arithmetical share of the share capital of LPKF Laser & Electronics AG of € 1.00. The conversion price for the acquisition of such a share will be calculated on the basis of a formula reflecting a comparison of the increase in value of LPKF's shares compared to the German share index (DAX). When exercising the conversion right to acquire a share, a cash payment must be made corresponding to the amount the conversion price exceeds the proportional nominal amount of the bond being converted.

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

The share capital of the company after conversion was € 10,647,895 and is divided into 10,647,895 ordinary shares belonging to the shareholders with a theoretical value of € 1.00 each.

The premium on the new shares issued was incorporated in the capital surplus.

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

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

The legal subscription rights of the shareholders are excluded.

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

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

The new shares which are acquired by exercising the option rights are entitled to a share of the profits for the financial year in which the option rights were exercised. The shares required to fulfil the exercised option rights will be made available by a contingent capital increase. The share capital of the company currently totalling € 10,647,895 will be contingently increased by up to € 600,000 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 Art. 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 two years; and an additional 25 % not earlier than three years; 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 Art. 193 Section 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 company Board of Managing Directors – 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 and 2002. 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 con version 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 beneficiaries can only exercise the option rights for the first time in the 2004 financial year. The subscription price is 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. Of the options issued up to the reporting date, 126,186 options are still entitled to be exercised.

In accordance with IAS 19.145, the granted share options were not reported in the balance sheets or the statement of income.

In accordance with SIC 17, K€ 697 of the flotation costs were transferred from capital reserves to net income for the year on January 2001.

18. Minority interest

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

Minority interest in K€	2003	2002
As at 1 January	1,705	1,656
Additions/disposals	-148	49
As at 31 December	**1,557**	**1,705**

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 interest.

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.

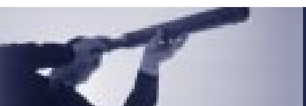
The provisions for pensions reported in the balance sheet refer exclusively to the performance-related pension commitments to the current and former executive members of the parent company. The calculations were made using the corridor method in accordance with IAS 19 (whereby actuarial profit and losses 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 following amounts were reported in the balance sheet for the payment commitments:

Reported amounts in the balance sheet in K€	2003	2002
Cash value of the non-externally financed obligations	287	257
Unreported time-adjusted losses	-53	-54
Net debt reported in the balance sheet	**234**	**203**

The following amounts were reported in the statement of income:

Reported amounts in the statement of income in K€	2003	2002
Ongoing office hours expenditure	14	11
Amortised actuarial losses	1	0
Interest expenditure from obligations	16	13
Total expenses reported in the statement of income	**31**	**24**



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€	2003	2002
Provisions for pensions as at 1.1.	203	179
Net expenditure reported in the statement of income	31	24
Pensions paid out of company assets	0	0
Others	0	0
Net debt reported in the balance sheet as at 31.12.	**234**	**203**

The provisions for pensions were calculated using the following assumptions:

Calculating assumptions	2003	2002
Discounting rate as at 31.12.	5.75%	6.0%
Future increase in remunerations	0.0%	0.0%
Future increase in pensions	1.25%	1.5%
Fluctuation rate	0.0%	0.0%

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€	2003	2002
Corporation tax and solidarity surcharge	64	80
Trade tax	1	105
Other taxes on the basis of tax audit	111	139
	176	**324**

Provisions schedule in K€	As at 01.01.03	Utilisation	Release	Additions	As at 31.12.03
Provisions for pensions	203	0	0	31	234
Accrued taxes	324	214	0	66	176
Bonuses	224	124	0	0	100
Guarantees	278	196	79	192	195
Annual financial statement costs	250	239	6	143	148
Others	477	389	59	297	326
	1,756	**1,162**	**144**	**729**	**1,179**

The other provisions particularly include provisions for services, legal and consultancy costs, and for workman's compensation board, overtime and outstanding bills.

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

21. Liabilities

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	175	175	-	-	-	-
	(175)	(175)	(-)	(-)	(-)	(-)
Liabilities due to banks	2,958	490	1,420	1,048	2,328	*,**
	(2,692)	(364)	(1,021)	(1,307)	(2,603)	(*,**)
Prepayments received on account of orders	337	337	-	-	-	-
	(1,284)	(1,284)	(-)	(-)	(-)	(-)
Trade accounts payable	995	844	151	-	-	-
	(1,017)	(1,017)	(-)	(-)	(-)	(-)
Other liabilities	835	835	-	-	38	**
	(1,005)	(1,005)	(-)	(-)	(65)	(**)
	5,300	**2,681**	**1,571**	**1,048**	**2,366**	
	(6,173)	**(3,845)**	**(1,021)**	**(1,307)**	**(2,668)**	

*Land charge **Security assignments

The amount due to banks includes fixed interest loans totalling K€ 2,866 (previous year: K€ 2,671) which are subject to interest at rates of 3.75 % p.a. to 5.85 % p.a.

Conditions of loans in K€ Original loan	Interest rate p.a.	Term
62	4.50 %	09/99 - 09/04
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

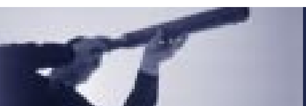
The market value of the fixed interest loan is K€ 2,837. With the exception of the loan taken out in the 2003 financial year, the loans are specified for the financing of new construction measures.

The other liabilities include an unsecured short-term loan totalling the equivalent of K€ 38 taken out by LPKF d.o.o. subject to interest at 8.13 % p.a. which was granted by a closely associated company.

The other liabilities carry no interest.

22. Bond

Convertible bonds are combined finance instruments consisting of an equity component and a debt component. On the issue date, the market 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 2003 corresponds to the market value.



Other information

23. Cash flow statement

The cash flow from operating activities includes tax payments of K€ 752 (previous year: K€ 974), interest paid totalling K€ 228 (previous year: K€ 262) and interest received of K€ 96 (previous year: K€ 156). The inflow of funds from operating activities was reduced by K€ 165 by the reporting date on account of non-cash revenue from the sale of the Stencils segment of LaserMicronics GmbH. The short term financial assets refers exclusively to the shares in a money market or bond fund reported in the balance sheet under Securities. The amounts reported in the balance sheet under Liabilities due to banks include T€ 92 (previous year: K€ 21) current account liabilities as well as loan liabilities totalling K€ 2,866 (previous year: K€ 2,671).

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 in principle dilute the earnings.

Earnings per share	2003	2002
Number of shares undiluted	10,647,895	10,642,833
Effect of the issue of potential shares from convertible bond and option scheme	29,256	0
Number of shares diluted	10,677,151	10,642,833
Consolidated earnings (in K€)	768	634
Adjusted consolidated earnings (in K€)	768	634
Income per share (basic, in €)	0.07	0.06
Net income per share, diluted (in €)	0.07	0.06

25. Dividend per share

Dividends are only taken into consideration after a resolution on profit appropriation is passed by the Annual General Meeting. The Board of Managing Directors and the Supervisory Board propose on the Annual General Meeting on 3 June 2004 using part of the net income reported by LPKF Laser & Electronics AG for the 2003 financial year of € 5,441,149.69 to pay to the shareholders a dividend of € 0.03 per share, with a total amount of € 319,436.85 based on the share capital with dividend entitlement of 10,674,895.00. Also to transfer € 4,000,000.00 of the remaining net income to earnings reserves (other earnings reserves according to Art. 266 Par. 3 A. III. No. 4 HGB) and to carry forward the remaining amount of € 1,121,712.84.

26. Related parties transactions

Zeltra Naklo d.o.o., Slovenia

A shareholder of the subsidiary LPKF d.o.o. holds 100 % of the shares in Zeltra Naklo d.o.o. Materials and equipment, merchandise and services totalling K€ 70 were purchased from this related party in 2003. In addition, the related party granted the Slovenian subsidiary a short-term loan with a nominal value of KSIT 8,876 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 d.o.o, and 50 % by other related parties. In 2003, business relations with this company covered development and production services and rentals and/or licence agreements totalling K€ 272. In addition, Group companies carried out orders totalling K€ 103 for PMV d.o.o.

Related board members and other closely associated natural persons

The managing director of LPKF Properties LLC was granted a loan by this company totalling K€ 130.

In addition, secretarial services totalling K€ 17 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€ 16.

On the balance sheet date, LPKF AG had liabilities due to members of the Supervisory Board of K€ 209. Dr. Büsching provided the Group with consultancy services totalling K€ 47. Mr Hildebrandt received K€ 5 for the rental of office space to the Group.

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 management laid down by Art. 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 A-Laser, LPKF d.o.o., Laserquipment AG and LPKF France, as well as car leasing contracts involving 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 installment contained in yearly results:	€ 45,024.00
- up to 1 year:	€ 45,024.00
- longer than 1 year and up to 5 years:	€ 25,545.00.

See note 10 for the finance leasing commitments.

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

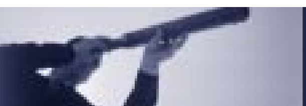
IAS 39 fundamentally differentiates between original and derivative financial instruments. The original financial instruments are divided up into the following categories:
- Financial instruments held for trading purposes
- Financial instruments held until reaching maturity
- Issued loans and claims
- Financial assets available for sale.

Financial instruments belonging to the "Financial instruments held for trading purposes" and "Financial instruments held until reaching maturity" do not exist.

With respect to the „Issued loans and credits" these are primarily loans and trade accounts payable, other assets, liquid assets, payables associated with the convertible bond, liabilities due to banks, and other liabilities. Valuation was based on continued acquisition costs or the market value. Changes in market value are reported in the books with an effect on net income.

The "Financial assets available for sale" include liquid assets and the securities reported under current assets. The securities concern a money market fund and shares in a bond fund which were valued at the price existing on the settlement date (market value). Changes in the attributable market value were reported with an effect on net income.

The participation in Photonic Net 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 market value cannot be reliably determined at acceptable costs, they are reported at the level of their acquisition costs.



2. Derivative financial instruments
The Group uses various derivative financial instruments to hedge against future transactions and cashflows.

The anticipated foreign currency payments are hedged up to 50 % maximum for a period of up to six months. During the course of the year, two currency hedging contracts in the form of cash flow hedges with a nominal volume in each case of KUSD 400 were entered into to hedge against the currency risks associated with planned sales. In addition, to hedge against an existing dollar trade receivable totalling KUSD 400, a currency option transaction (fair-value hedge), was taken out which is not due until the 2004 financial year. This fair-value hedge whose term continues around three months beyond the reporting date was reported at a market value of K€ 23. This market value was assessed by the bank issuing the hedge. Changes in market value are reported in the books with an effect on net income, insofar as reportable transactions have already taken place. The hedging transactions generated profits of K€ 46. No other derivative or hedging transactions were in place on 31 December 2003.

3. Hedging policy and risk management
Around 75 % 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
The conditions according to Art. 292a HGB to exempt a company from the obligation of preparing consolidated annual financial statements according to German accounting standards have been fulfilled. The consolidated annual financial statements follow the rules in accordance with DRS 1 of the German Accounting Standards Committee, and in particular, the European guidelines on consolidated accounting (directive 83/349/EU). In this context, the main variances from the German Commercial Code (HGB) with respect to accounting methods, valuation methods and consolidation methods were as follows:
- Capitalisation of development costs
- Accounting the convertible bond at present value
- Capitalisation of deferred taxes on tax loss carry forwards, if their use was considered probable.
- Treatment of the costs arising from subscribed capital transactions in a way not affecting net income.
- Securities and currency put options are reported in the balance sheet at their market value even if this exceeds the acquisition costs.

LPKF Laser & Electronics AG has thus been exempted from the obligation of preparing its annual financial statements according to the German Commercial Code.

The members of the Board of Managing Directors are:
- Dipl.-Ing. Bernd Hackmann, Chairman
  (Supervisory Board Chairman of Laserquipment AG, Erlangen from 1 January 2004)
- Dipl.-Ing. Dr. Jörg Kickelhain
  (Deputy Supervisory Board Chairman of Laserquipment AG, Erlangen) to 29 February 2004
- Dipl.-Wirt.-Ing. Christoph Wiese

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

During the 2003 financial year, the Board of Managing Directors received fixed salaries totalling K€ 445 (K€ 697).

The performance-based component was related for the first time in the 2003 financial year to the Group EBT and only comes into effect when a minimum net profit for the year of € 1.0 million has been generated. No subsequent changes to the performance targets are permitted. The ultimate size of the performance-based salary components for the 2003 financial year is determined during the elaboration of the consolidated annual financial statements of LPKF Laser & Electronics AG.

In the previous year, the Board of Managing Directors was paid a performance-based salary component of K€ 91. This was calculated for the last time from the annual financial statements of LPKF Laser & Electronics AG.

In addition, the Board of Managing Directors was granted 16,000 share options in the 2003 financial year as part of the 2001 Share Option Scheme as a salary component with a long-term motivation factor.

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				
	31.03.03	30.06.03	30.09.03	31.12.03
Board of Managing Directors				
Bernd Hackmann	6,400	12,800	12,800	12,800
Dr. Jörg Kickelhain	4,800	9,600	9,600	9,600
Christoph Wiese	4,800	9,600	9,600	9,600

The intrinsic value of the options granted to the Board of Managing Directors in the 2003 financial year totalled K€ 37 on the reporting date 31.12.2003. The intrinsic value of all of the options held by the Board of Managing Directors is also K€ 37.

The remuneration of the Supervisory Board of LPKF Laser & Electronics AG in the 2003 financial year totals K€ 180 (K€ 180). From 1 January 2004 this will comprise a fixed total remuneration of K€ 135 p.a. plus a variable component oriented to the dividend paid in the preceding financial year.

As at 31 December 2003, the members of the Board of Managing Directors held 285,650 (283,650) shares, which are broken down as follows:

Shares held by Board members				
	31.03.03	30.06.03	30.09.03	31.12.03
Board of Managing Directors				
Bernd Hackmann	190,000	190,000	190,000	190,000
Dr. Jörg Kickelhain	92,600	92,600	92,600	92,600
Christoph Wiese	3,050	3,050	3.050	3,050
Supervisory Board				
Bernd Hildebrandt	904,150	904,150	905,150	888,550
Klaus Sülter	926,800	926,800	908,800	808,800

In the third and fourth quarters 2003, Mr Hildebrandt and Mr Sülter sold 15,600 and 118,000 shares respectively in LPKF Laser & Electronics AG.

Garbsen, 8 March 2004
LPKF Laser & Electronics AG

Sgn. Bernd Hackmann

Sgn. Christoph Wiese

The members of the Supervisory Board are:

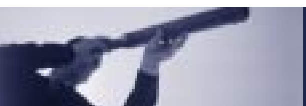
Bernd Hildebrandt
- Businessman (Chairman)
- Chairman of the Supervisory Board LPKF d.o.o., Kranj/Slovenia
- Member of the Supervisory Board of Laserquipment AG, Erlangen (from 1 January 2004)

Klaus Sülter
- Power of attorney for Cura Consult GmbH (deputy chairman)
- Member of the Supervisory Board of Bankverein Werther AG, Werther
- Member of the Supervisory Board LPKF d.o.o., Kranj/Slovenia

Dr. Heino Büsching
- Lawyer/tax adviser
- Member of the Supervisory Board of Solara AG, Hamburg

30. Events after the balance sheet date

With effect from 29 February 2004, the Research & Development Director Dr. Jörg Kickelhain, left the company by mutual agreement.



Auditor's Report

We have audited the consolidated financial statements of LPKF Laser & Electronics AG consisting of the balance sheets, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements for the business year from 1 January to 31 December 2003. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the company's Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the LPKF Laser & Electronics Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test based within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financing statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the LPKF Laser & Electronics Group for the business year in accordance with IFRS.

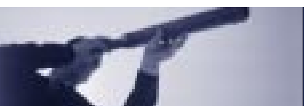
Our audit, which also extends to the group management report prepared by the Board of Managing Directors for the business year from 1 January to 31 December 2003, has not led to any reservations. In our opinion, on the whole the group management report together with the other information of the consolidated statements provide a suitable understanding of the group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January to 31 December 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Hanover, 12 March 2004
PwC Deutsche Revision Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

T. Stieve	Dr. M. Schellhorn
German Public Accountant	German Public Accountant

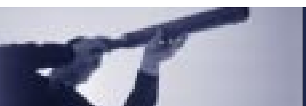
Annual financial statements of LPKF Laser & Electronics AG

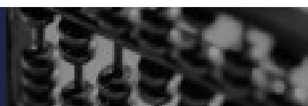
Balance sheet: Assets in K€	31.12.2003	31.12.2002
Fixed assets		
Intangible assets		
Software	63	84
Rights to use	0	18
	63	**102**
Tangible assets		
Land and buildings	3,547	3,719
Technical equipment, plant and machinery	603	370
Other equipment, factory and office equipment	668	884
Prepayments and construction in process	133	0
	4,951	**4,973**
Financial assets		
Shares in affiliated companies	3,335	2,894
Loans to affiliated companies	1,008	1,222
Participations	2	2
	4,345	**4,118**
	9,359	**9,193**
Current assets		
Inventories		
Raw materials and supplies	3,989	4,517
Finished goods	2,641	2,148
Prepayments	702	495
	7,332	**7,160**
Accounts receivable and other assets		
Trade accounts receivable	3,916	3,496
Accounts due from affiliated companies	1,504	2,149
Other assets	463	1,004
including a term to maturity of more than one year K€ 162 (previous year: K€ 140)		
	5,883	**6,649**
Securities	1,015	0
Cash on hand, bank balances	2,869	3,353
	17,099	**17,162**
Deferred charges and prepaid expenses	35	28
including disagio K€ 0 (previous year: K€ 2)		
Total assets	**26,493**	**26,383**



Balance sheet: Liabilities and shareholders' equity in K€	31.12.2003	31.12.2002
Shareholders' equity		
Subscribed capital (conditional capital K€ 953 [previous year: K€ 953])	10,648	10,648
Capital reserve	4,568	4,568
Retained earnings		
Retained earnings, brought forward	4,800	4,028
Net income for the year	641	772
	20,657	**20,016**
Provisions		
Provisions for pensions	257	235
Tax provisions	108	221
Other provisions	583	929
	948	**1,385**
Liabilities		
Bonds, of which convertible: K€ 175 (previous year: K€ 179)	175	179
Liabilities due to banks	2,333	2,000
Payments received on accounts of orders	338	1,227
Trade accounts payable	281	323
Accounts due to affiliated companies	1,324	801
Other liabilities	437	452
including taxes K€ 78 (previous year: K€ 94)		
including social costs K€ 117 (previous year: K€ 116)		
	4,888	**4,982**
Total liabilities	**26,493**	**26,383**

Statement of Income in K€	2003	2002
Sales	17,951	19,259
Changes in inventories of finished goods and work-in-process	749	275
Own work capitalised	218	0
Other operating income	792	974
	19,710	**20,508**
Cost of materials		
Cost of raw materials and supplies	7,698	7,840
Personnel expenses		
Wages and salaries	4,657	4,939
Social security and pension costs	884	855
thereof pension costs: K€ 72 (previous year: K€ 67)		
Depreciation and amortisation costs	669	660
Other operating expenses	4,627	4,797
	18,535	**19,091**
Income from profit and loss transfer agreements	232	60
Municipal trade tax participation passed on to a subsidiary	55	18
Other interest and similar income	140	147
thereof from affiliated companies: K€ 69 (previous year: K€ 76)		
Depreciation of financial assets	302	0
Other interest and similar expenses	166	169
Profit/loss from ordinary operations	**1,134**	**1,473**
Taxes on income	468	688
Other taxes	25	13
Net income	**641**	**772**
Retained earnings brought forward from the previous year	**4,800**	**4,028**
Net income for the year	**5,441**	**4,800**





Imprint

Publisher
LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Germany

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

lpkf@lpkf.de
www.lpkf.de

Concept, design and layout
ADHOME
Leinstraße 33
30159 Hannover
Germany

Phone +49 (0)5 11/6 00 95-7 40
Fax +49 (0)5 11/6 00 95-2 07

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

Number of copies
2.500 German
2.000 English

LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Germany

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

lpkf@lpkf.de
www.lpkf.de