ANNUAL REPORT 2002

LPKF Laser & Electronics


MicroLine Drill
LPKF

Contents

Message by the Chairman of the Board of Directors

Dear Shareholders,

2002 was a very difficult financial year for the LPKF Group just as it was for numerous companies in the electronics sector. Despite the fact that the good level of orders received at the end of 2001 and the beginning of 2002 initially raised the hope of a very promising development of the sector, the subsequent drop in orders received meant that the original planning could not be maintained. The second half of the financial year in particular was very disappointing. The upturn predicted by many financial institutes failed to appear. The willingness of our potential customers to invest continues to be very low. This also seems to happen in the first quarter 2003.

Whilst 2001 was marked by an increase in turnover in the Rapid PCB Prototyping segment, we have now suffered the first decline in sales in this segment for a very long time. This is primarily attributable to the cutback in electronics laboratory budgets and the intense efforts of the PCB industry to acquire contracts for prototype production. However, there is also some good news: our clients have finally increased their interest in high-end systems and we were able to sell some laser systems for Rapid PCB Prototyping in this sector. The average price achieved in Rapid PCB Prototyping was also boosted considerably.

The development in the Laser Systems segment was more satisfactory overall. There was a clear boost in turnover in the StencilLaser segment as well as in the PCB Laser Drilling system segment. We were able to sell more systems in these segments than the previous financial year despite the very difficult economic environment which affected the PCB industry in particular. This highlights that PCB manufacturers are still willing to invest in new technologies even in difficult times if there is a promise of a rapid return on investment. The orders received in the MicroLine Laser segment for the production of blood sugar sensors is also considered to be very good news. The main impact on turnover of the sale of these systems will be registered in the ongoing financial year.

We are proud that despite the very difficult economic conditions in 2002, we have been able to generate a profit of K€ 634. Another positive aspect is that we have very significantly improved the cash position compared to the start of 2002. Both of these facts highlight that our company has the strength to successfully maintain its position even in a difficult economic environment.

Research activities were continued as planned in the financial year. Advances were made in particular in implementing the Application Center in Bad Salzuflen where potential users and clients can see the whole production line in action from material manufacture, injection moulding and lasering, right through to the metallisation of a three-dimensional circuit. However, the main focus was on strengthening sales-related business activities. As a result, we will again be able to present in the ongoing financial year some new products in the Rapid PCB Prototyping, StencilLaser and MicroLine Drill segments. These new products are the springboard for growth in 2003.

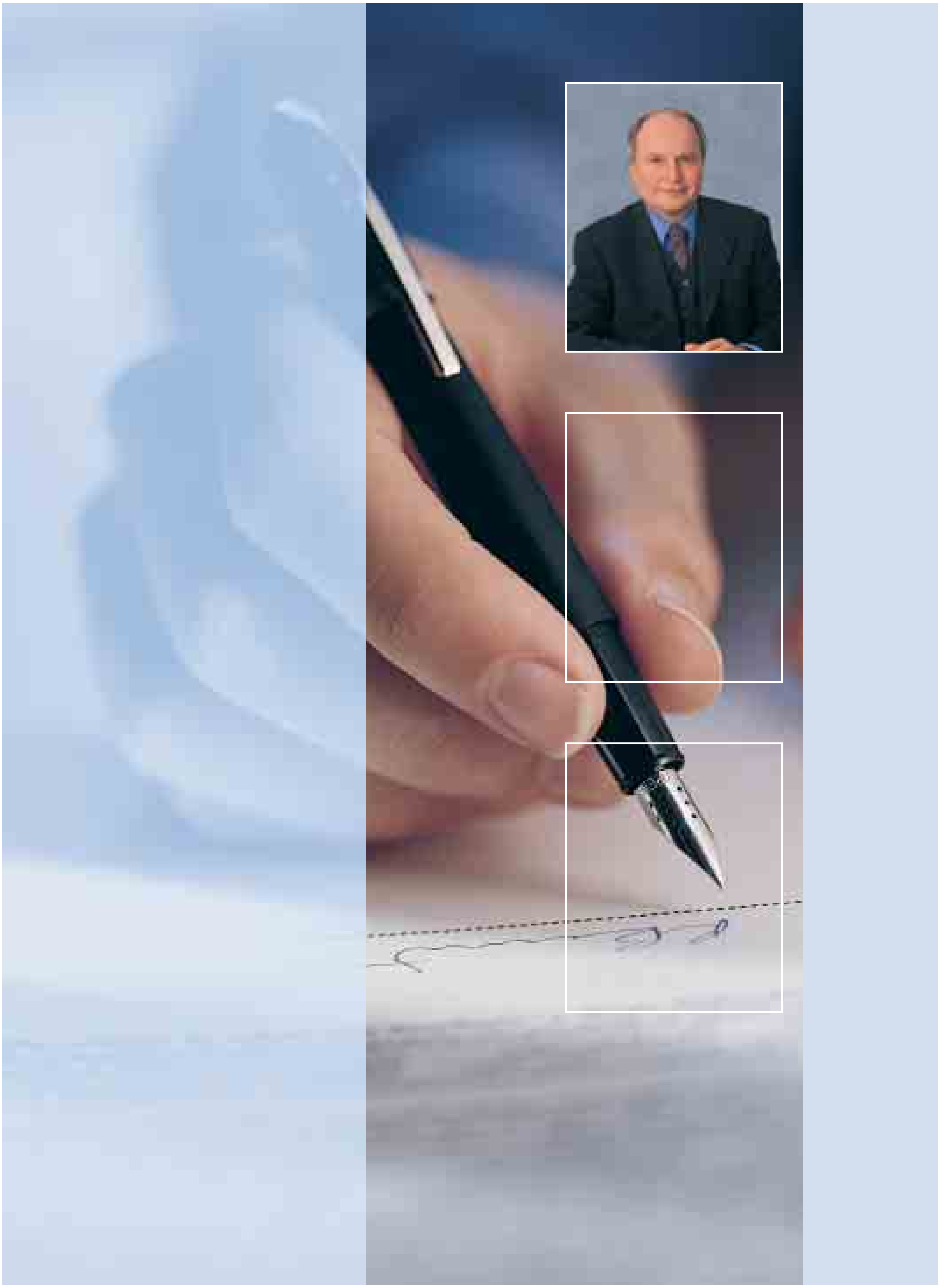
In addition, one of our most important objectives at present is to strengthen the Group’s Service segment. This strategy is being pursued to simplify the access of potential clients to LPKF technology, and for these customers to generate profits by saving them the expense of investing in capital goods. The good return on sales of the subsidiaries ELASER and A-Laser in the service sector highlight the potential of this business activity.

Our thanks go to the staff without whom this result would not have been possible, and to the Supervisory Board who helped us with their experience, their advice and their support. Reflecting our philosophy of efficient corporate governance, LPKF has long been characterised by intense collaboration between the two boards. 2003 will undoubtedly again be a difficult year for the company because there is still no sign of any enduring increase in growth in the electronics industry. Nevertheless, the attractivity of our products in particular gives us hope that we will again be able to increase turnover this year. We therefore face the future with optimism, although one thing is unmistakable: much will depend on the global political situation and its influence on the world economy.

A dividend distribution for 2002 was at first planned by the Board of Directors and the Supervisory Board, because liquidity data are positive. However, the current situation of the world economy, which already affects the first quarter of 2003, induced us to revise this decision. Given a positive business development in the current business year, the former dividend policy will be continued.

I look forward to your continued support.

Bernd Hackmann
Garbsen, March 2003



Report of the Supervisory Board

The Supervisory Board intensified its already very close collaboration even further in the 2002 financial year. In the reporting period, eight formal meetings took place. In addition, there were a considerable number of informal discussions between members of the Supervisory Board and the Board of Directors dealing with complex topics of strategic significance to the company.

The hoped for upswing in the global electronics market in the 2002 financial year failed to appear. On the contrary, the semi-conductor and PCB sectors suffered a considerable slump in sales which naturally had a negative effect on plant and system manufacturers such as LPKF.

The willingness to invest in our existing Rapid PCB Prototyping and MicroLine Drill Laser product lines was modest although there was obviously still an urgent need to invest in StencilLasers so that we were pleased to achieve a good level of growth in this segment.

Another positive aspect was the sale of more MicroLine technology in the sensorics sector.

The main focus of the Supervisory Board's advisory activities in the reporting year was therefore the launch and market penetration of new technologies.

This primarily concerns 3D-MID, but also ultra-fine PCB structuring using the additive method, as well as the technological refinement of the subtractive process in co-operation with Atotech Deutschland GmbH.

The Board of Directors and the Supervisory Board both recognised that the range of products urgently needed to be expanded – particularly in the light of the unstable global situation – with the aim of reducing the risk to the company and to stimulate above average growth in the future.

In this context, the end of the reporting year brought encouraging and promising results so that firm measures for a market launch can be anticipated in second quarter 2003.

With respect to the risk management, intense discussions were held on the recently introduced Corporate Governance Code. The Board of Directors presented the following specific measures and results:

- The Board of Directors and Supervisory Board of LPKF Laser & Electronics AG will comply principally with the rules of conduct laid down in the Corporate Governance Code in line with the official announcement in the electronic Bundesanzeiger. In the view of the Board of Directors and the Supervisory Board, good corporate governance is a vital prerequisite for efficient corporate decision making and control procedures.
- A risk inventory was carried out once more in the 2002 financial year which involved updating the risk management manual.
- In addition, the Dasa-Zert monitoring audit of the DIN EN ISO 9001:2000 quality management system was passed successfully. This is an important element of the early identification of risks and the regulated handling of business processes.

Moreover, the attention was drawn to urgently needed cost reduction, especially in the area of personnel expenses, and explicit proposals were made.

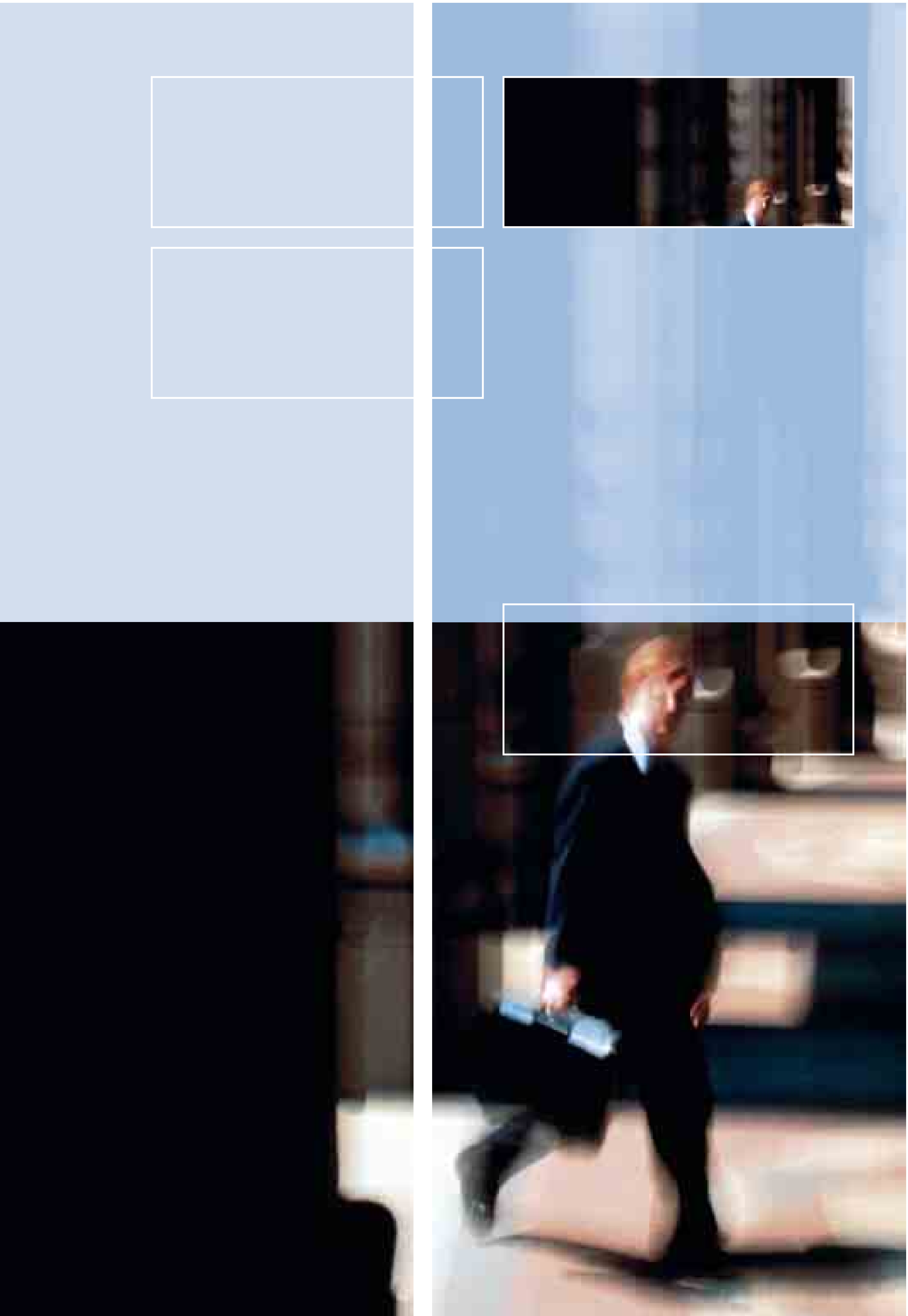
The Supervisory Board engaged PwC Deutsche Revision Aktiengesellschaft to audit the 2002 annual financial statements according to the decision of the annual general meeting on 13 June 2002. Individual and group financial statements were audited and given unconditional approval by the auditor.

The auditor participated at the meeting of the Supervisory Board on 18 March 2003, 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. They are now authorised. The net income for the year totalling K€ 634 will be carried forward.

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 Directors and the auditors. The consolidated financial statements and the management board report on the state of company have been reviewed by the Supervisory Board, which has then approved the consolidated financial statements. The Supervisory Board would like to thank the Board of Directors, the works council, all of the employees, and the management and staff of subsidiaries, for their commitment to the company and the work they have carried out in the reporting period. Despite continuing difficult conditions in 2002, 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 university institutes who in many cases have worked together with our company for many years.

Garbsen, March 2003
On behalf of the Supervisory Board

Bernd Hildebrandt



German Code of Corporate Governance

The Supervisory Board and the Board of Directors consider good corporate governance to be vital for the establishment of efficient decision making and control processes within the company. Both boards have evaluated the Corporate Governance Code and determined with satisfaction that LPKF Laser & Electronics AG has to a very large degree been managed in accordance with the rules of the Corporate Governance Code since the admission to listing. The Board of Directors and Supervisory Board of LPKF Laser & Electronics AG will continue to comply with the Corporate Governance Code as laid down in the official published version in the electronic Bundesanzeiger (Federal Gazette).

We consider the Corporate Governance Code to be an important step in manifesting the legal regulations governing company management in Germany. The code is a significant contribution to making the corporate governance system in Germany more transparent and comprehensible to foreign investors. This is not the place to discuss all of the elements of the Corporate Governance Code in detail, but it is important to stress that they are an integral part of the overall analysis and orientation of the company.

The management of LPKF Laser & Electronics AG deviates from the code with respect to the following aspects:

- 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. It is intended to decide about a proposal for the appropriate amendment of the articles of association in order to award a performance-related pay element to the members of the Supervisory Board at a later point of time.
- The quarterly reports will be 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 declaration of compliance according to § 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 2003
LPKF Laser & Electronics AG

The Board of Directors The Supervisory Board

The LPKF Group Management Report 2002

Concentration on core skills: the foundation for future innovations and corporate success.

The annual general meeting

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

The Board of Directors
Bernd Hackmann · Chairman
Dr. Jörg Kickelhain
Christoph Wiese

Company bodies

Development of business

1. Development of the sector and the overall economy
Contrary to all forecasts, there was again no improvement in the electronics market in the reporting year and it continues to be characterised by recessionary tendencies around the world. Although there was hope in the first quarter of a positive outlook for the second half of the year, this proved unfounded as the year progressed. The North American market has suffered especially badly. This situation had a negative effect on the Rapid PCB Prototyping segment in particular. The whole electronics sector, and the PCB market in particular, suffered a world-wide slump in turnover of approx. 50 % in terms of square metres of circuit board sold on the world market. Under these circumstances, there was a clear cutback in investments during the reporting period. This also affected the LPKF Group's "new technologies" (3D-MID, additive technology, HDI, sensorics). The willingness to push ahead with innovative processes and technologies in the electronics sector only took place in a severely restricted way and has slowed down the growth of the LPKF Group as a consequence.

Against this background, the LPKF Group revised its sales planning in November 2002. Planned investments were shelved. However, R&D activities for new product lines were modified to respond to the weakness of the electronics market by revising the spectrum of products and services. Examples include special low-cost machines for laser applications. Another aspect is the expansion of the Service segment to uncouple the decision by potential customers to use LPKF technology from the need to make financial investments.

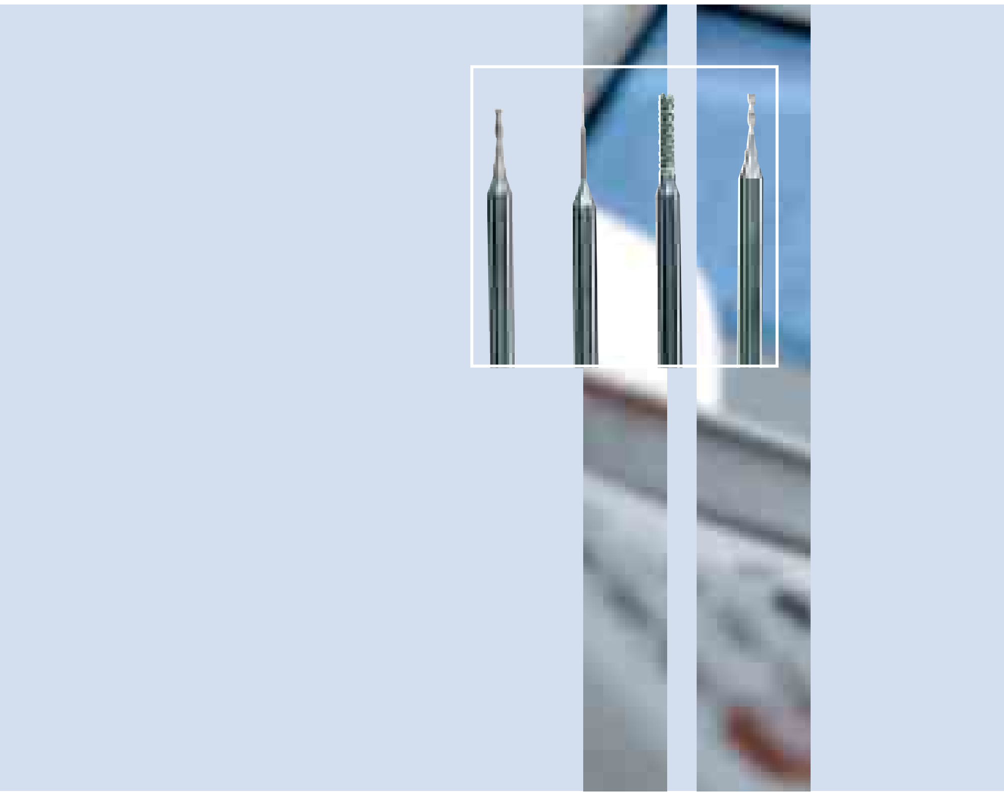
Global cash management was also a vital factor during the reporting period. An important element of risk management policy against the background of the difficult market conditions was the stabilisation of the liquidity situation.

Despite the difficult global situation, the VDMA (Verband Deutscher Maschinen- und Anlagenbauer e.V. – German Association of Mechanical and Plant Engineering Companies) and numerous other institutes are prognosing very slight growth worldwide within the electronics industry in the second half of 2003. This is forecast to continue in the years to follow. The motors of growth in this context are telecommunications and the automobile sector – which is incorporating more and more electronics in its products.

2003 may therefore again provide the LPKF Group with opportunities to grow slightly if the global electronics markets recover and there is again enthusiasm to invest. Examples include Laser Cutting and Drilling Systems products, MicroLine Lasers for ultra-fine structures, and 3D-MID technology. These opportunities are also associated with risks linked to the introduction and acceptance of products - which need to be taken into consideration with regard to new product developments in particular. The global economic situation is a very important factor in the risk/opportunity ratio during these uncertain times.

2. Turnover and sales development
Overall turnover in all segments has increased by 9.2 % to € 25.3 million. However, turnover in the Rapid PCB Prototyping segment shrank in the reporting year by 21.6 % to € 9.4 million. This was strongly influenced by the weakness of the North American market. The cutback in investments has also had an impact on the design departments of our potential clients, which had a particularly serious effect on this segment. For LPKF, this is an important indicator confirming the global recession in the electronics sector. However, the response we received at "electronica", the world's largest electronics trade fair which took place in November 2002 in Munich, confirmed the considerable level of continuing interest in Rapid PCB Prototyping products even in the light of the cutbacks in development budgets.

Positive news was the increase in turnover in the Laser Systems segment which rose by 66.5 % to € 13.7 million. The success of the MicroLine Laser in particular had a clearly positive impact. StencilLaser systems also maintained their position very well in the market and made an important contribution to the growth of this seg-



Recessionary development in the electronics market

Sales planning revised because of slowdown in willingness to invest

Positive response at trade fairs highlights interest in LPKF products

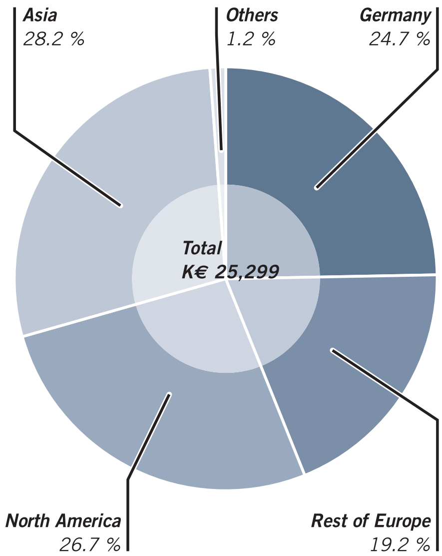
Turnover boosted in Laser Systems segment

Balanced turnover by country underpins good risk distribution

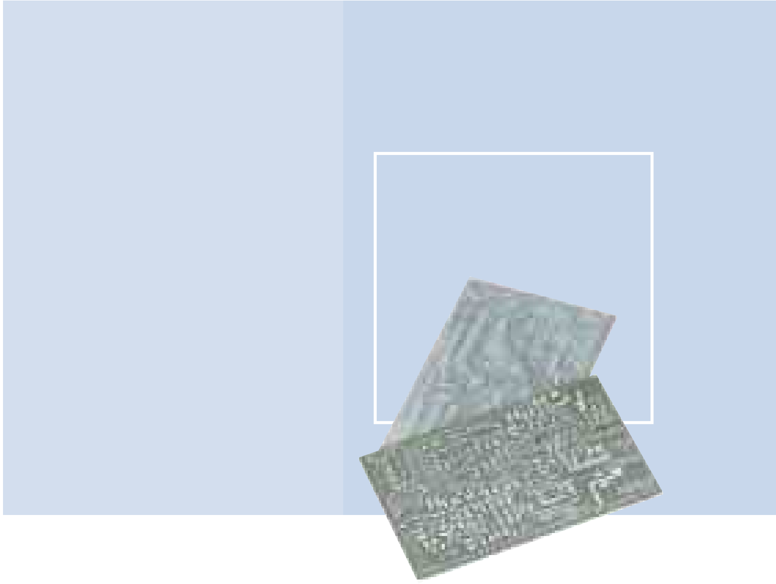
ment. Generally, all of the new products of the LPKF Group presented to potential clients in the reporting year and earlier were welcomed despite the clear reduction in volume in 2002. This position provides a good platform for a potential boost in the LPKF Group's growth in subsequent financial years if there is a fundamental recovery in the electronics industry. In the 3D-MID technology segment, the sales in the reporting period only reflect small volume orders for samples. No series production applications have yet been realised. However, real potential for sales is indicated for the ongoing financial year. A solderable and thus heat-resistant material was presented very successfully for the first time at the world's largest trade fairs, and clients ordered samples for production quality articles. It was also possible to confirm rapid prototyping 3-D-MIDs for plastic components. This underlines the potential of these materials, also in combination with the laser plastic welding technology developed by Laserquipment AG. The LPKF Group sees this as a potential breakthrough for marketing in the 2003 financial year and plans to firm up its strategy for this segment in the light of the results of the first half.

The turnover distribution according to country remains well balanced and reflects a good risk distribution. It also highlights the particularly weak economy in North America. There are no major dependencies on countries or single large companies or major customers in the Laser Cutting and Drilling Systems and Rapid PCB Prototyping segments with the exception of the MicroLine Laser segment where, during the course of the reporting period, only two major customers were acquired: one in medical sensorics, and one with the co-operation project with Atotech Deutschland GmbH. The aim in the future is to expand the customer potential with the goal of reducing the level of risk. Measures to boost sales such as leasing contracts will be increasingly used to expand turnover further.

Sales are primarily handled in Euros or US Dollars. LPKF Laser & Electronics AG's orders in hand as at 31.12.02 were up by 84.7 % compared to the same time the previous year at approx. € 4.2 million. Orders received in the first months of the ongoing financial year have declined significantly year-on-year because of the large degree of uncertainty in the market.



Total turnover according to country



3. Production and procurement

Circuit board plotters and presses for multi-layer circuit board placement systems for Rapid PCB Prototyping and all in-house manufactured laser sources are supplied by the subsidiary LPKF d.o.o./Kranj. LPKF Motion & Control GmbH/Thuringia is the main supplier of positioning tables and the associated controls in the Laser Systems segment. The machine controls for circuit board plotters are also manufactured in Suhl/Thuringia. There are also numerous subcontractors for components and services in addition to the Group companies. The amount of capital tied up in inventories has declined by € 1.0 million. This inventory situation was achieved by an active stock management even though an increase in inventories was required for the MicroLine Laser segment because systems for medical sensors are being built here which are not scheduled for delivery until 2003. The inventories include customer-oriented articles as well as new products to ensure that delivery times are kept relatively short when clients make their decisions to invest. LPKF considers this to be a strategic advantage, particularly during difficult times.

The first control audit of the DIN EN ISO 9001:2000 quality management system was successfully passed by the production sites in Garbsen, Suhl / Thuringia and Kranj. Over a period of several days, the certification company Dasa-Zert thoroughly investigated the process reliability and risk early warning system and concluded that they were fully functioning.

4. Investments

For the Group the originally planned investments were executed in full in the financial year 2002 in order to futher improve the future prospects of the Group. Total investments in tangible and intangible assets therefore only totalled K€ 1,988, K€ 592 of these alone went to capital investments as well as investments in intangible assets at Laserquipment AG.

Investment concentrated on systems for research and development. This involved product investment to expand the range of LPKF products, as well as setting up the Application Center in Bad Salzuflen where the 3D-MID technology continues to be expanded in a client-oriented way. During the reporting period, work was also started on the targeted expansion of the Service segment. This strategy will also be rigorously pursued in the future with the aim of maintaining technological market share. It is also a response to the cutback in investment as a consequence of the difficult overall economic situation. Investments are planned in the new financial year for the Laser Cutting and Drilling Systems, MicroLine Laser, 3D-MID and Service segments.

LPKF Laser & Electronics AG increased its stake in Laserquipment AG during the reporting period to 51.01 % of the share capital with the aim of boosting the growth of this company. Another objective is to generate synergies from the use of technology and distribution channels.

5. Financing measures

Cash flow remained very stable during the reporting period. Credit account limits were not exploited. The operative business generated an inflow of funds which was steadily enlarged during the course of the reporting period. The main aspect here involved changes in the inventories and receivables from ongoing business activities. Two currency hedging contracts with a face value of KUS$ 560 were taken out to hedge a dollar transaction.

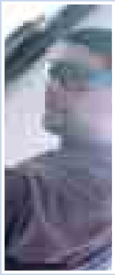
The asset and financial situation can currently be considered to be sound. Value adjustments have been carried out with respect to long-term low-yielding claims associated with discounting and other provisions against specific debts. This negative effect on the results totals K€ 77.

The profit situation has weakened but is still considered to be stable with an operative profit margin of 5.7 % (previous year 7.1 %).

6. Human resources

During the 2002 reporting year, the number of staff increased slightly on an annual-average basis from 210 to 219. Extra staff joined the R&D department and the Sales department with the aim of speeding up the product marketing process.

Qualification measures were continuously carried out in all departments to keep the staff completely up-to-date. This also applies to the methods and tools used in the company. An example is the introduction of a new computer-supported project management system which is used widely in the R&D departments in particular. In the ongoing financial year, staffing levels will reflect the development in sales.

Capital tied up in inventories reduced year-on-year

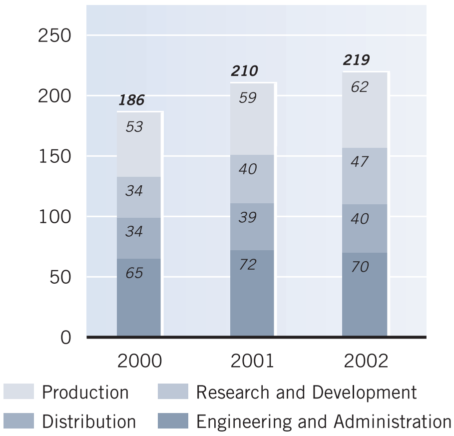
Company financial situation extremely sound

Slight increase in workforce

Shortfall in stencil production partially compensated for by other services

Targets in USA not achieved

Sales and marketing activities to be strengthened in services sector



Personnel

LPKF Laser & Electronics AG Headquarter · Garbsen	€ 10,647,895
LPKF d.o.o. System Production · Kranj, Slovenia (75 %)	LPKF Laser & Electronics Inc. Sales USA · Wilsonville, Oregon/USA (60 %)
LPKF Motion & Control GmbH System Production · Suhl, Thuringia (50.94%)	LPKF Franklin Industries N.V. Sales BeNeLux · Mechelen, Belgium (100 %)
ELASER GmbH Stencil Production · Suhl, Thuringia (100 %)	LPKF France S.A.R.L. Sales France · Lisses, France (94 %)
A-LASER Stencil Production · Beaverton, Oregon/USA (100 %)	LPKF Tianjin Co., Ltd. Sales China · China (100 %)
LPKF Laser Components GmbH Research and Development · Garbsen (80 %)	LPKF Properties LLC Real Estate USA · Wilsonville, Oregon/USA (60 %)
Laserquipment AG Laser plastic welding · Erlangen (51.01 %)	PhotonicNet GmbH Competence Center · Hanover (9.09 %)

7. Report on affiliated companies

Elaser GmbH

There was a considerable shortfall in turnover in the Stencils segment during 2002. The slump in sales in stencil production was partially compensated by growth in services not involving stencils: the high-precision machining of ceramic components. Elaser pursues our company's strategy which is to only provide services until clients can afford their own laser system. This service strategy is very significant at present because definite dates for investment decisions are being postponed in this period of global economic weakness. Against this background, the provision of services can make particularly important profit contributions. The challenge for Elaser is to permanently balance the two sides of this strategy.

A-Laser Inc. in the USA

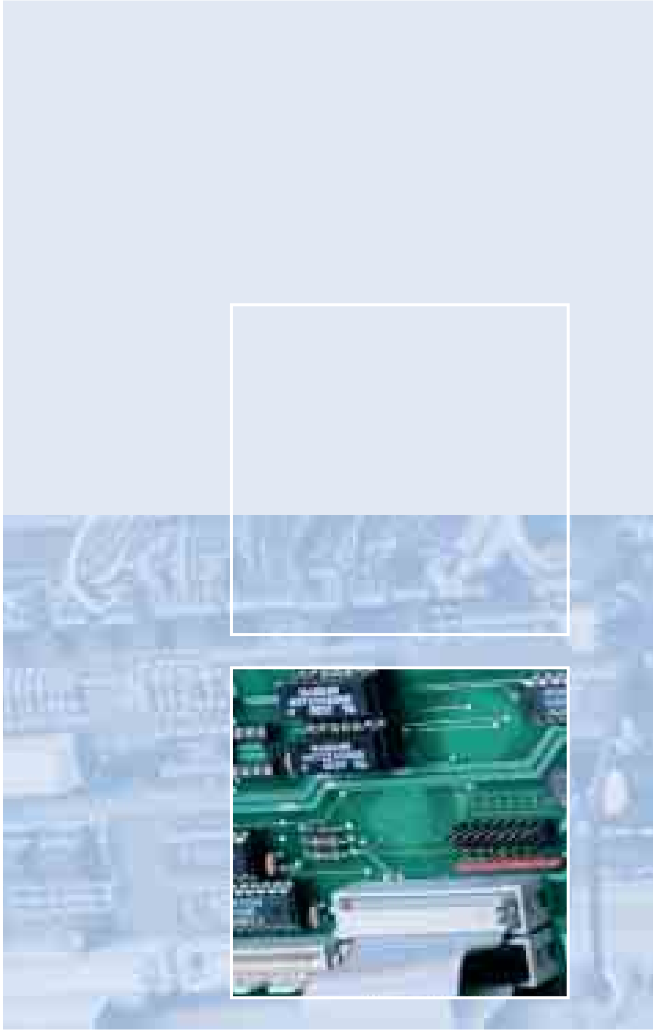
The company failed to meet its targets. This is mainly attributable to the weakness of the North American market. The turnover structure has moved more towards services outside of the stencils sector as a result of the prevailing economic situation. In the last quarter of the reporting period, the company invested in a ScanCheck system to meet the growing demand for quality by supplying 100 % tested stencils and an accompanying certificate. New opportunities will be opened up to boost turnover in 2003 should the North American economy revive.

LPKF Motion & Control GmbH

Turnover at LPKF Motion & Control GmbH could not be held at the same level as the previous year. This is primarily attributable to a shortfall in laser system sales because LPKF AG was able to use existing inventories to cover some of its sales. External turnover with measuring technology companies has only increased slightly because of the overall economic environment and therefore only compensated the above mentioned shortfall to a minor extent. Currently, the development of a new control system for Rapid PCB Prototyping is scheduled to be completed in the near future. In addition, new developments in the Laser Cutting and Drilling Systems segment referred to above are being prepared as part of the strategy for rounding off the product spectrum. The sales and marketing work to increase turnover in the measuring technology sector are being expanded. The company successfully passed the first control audit of the DIN EN ISO 9001:2000 quality management system carried out during the reporting period. In 2003, the economic success of the company will be largely determined by the economic development of the electronics market and the external turnover with measuring technology clients.

LPKF d.o.o. in Slovenia

The company's turnover reflects the current general economic situation and has therefore shrunk and failed to meet its targets. Nevertheless, it was still possible to generate a good operative profit. The products outside of the LPKF product range developed and



manufactured by LPKF d.o.o. were not able to expand their turnover in the light of the overall economic framework. In the ongoing year, the development in turnover will continue to reflect the global economic development of the electronics market.

During the reporting period, the company very successfully passed the first DIN EN ISO 9001:2000 control audit. When selecting the site for 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 instance. The purchase of real estate which enables the fusion of two locations in the vicinity of Kranj during the reporting period enables the activities to be concentrated in one area.

LPKF Laser Components GmbH

This company was founded in 1999 in co-operation with a partner in Russia to support the transfer of laser technology expertise. The activities developed as planned in 2002 and made a contribution to the company's R&D potential. Against this background, the company will continue to acquire laser technology expertise in 2003.

LPKF Laser & Electronics Inc. in the USA

This company acts as a sales and service partner for the Group in North America. The downturn in the North American economy also had a serious impact on LPKF USA. The company generated a negative result in the reporting period. It failed to meet its targets in the Rapid PCB Prototyping segment and in the Laser Systems segment. In the Laser Systems segment in particular, many clients failed to make investments even though the company received numerous inquiries and made many offers. This development has also clearly affected the Rapid PCB Prototyping products for the first time. This means that development budgets have also been considerably cut back in North America. Nevertheless, the segment receives a very large number of inquiries from clients. Interest in the products therefore remains unbroken. This indicates the potential for opportunities in the ongoing financial year although success at LPKF USA is also dependent on the overall development of the economy and the political situation.

LPKF Properties LLC

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.

This company was initially involved in the sale of Rapid PCB Prototyping systems in France. LPKF France is now also increasingly involved in the acquisition of customers for laser systems. It already achieved its first success during the reporting period with a MultifunctionLaser. However, although a balanced result was achieved, it failed to meet the targets for the reporting year. Nevertheless, the chances in 2003 are again good for generating positive results if there is an economic upturn, especially when the marketing of laser systems generates additional success. The market clearly has potential.

LPKF Franklin Industries N.V.
This company again failed to achieve turnaround in this financial year. This resulted in a further reduction in staff to adapt the cost structure to the reduction in turnover. In the ongoing financial year, sales and marketing activities against the background of a lower cost structure will be managed from head office to permanently return the company to improved profitability. Staffing will be increased in Belgium specifically for the marketing of laser systems. The company retains the exclusive distribution rights for the Benelux market.

LPKF Tianjin Co. Ltd.
LPKF Tianjin Co. Ltd. is responsible for sales, the production of sample board prototypes and stencil manufacture in China. LPKF Tianjin also offers services including maintenance and repair. Developments during the reporting period proved that the investment in China was a prudent long-term decision. Turnover in the Chinese market was boosted and is favoured by the special economic situation in China. The growth strategy will be continued in 2003 and strengthened by the establishment of branch sales offices within China.

Laserquipment AG
LPKF Laser & Electronics AG has increased its holding in Laserquipment AG to 51.01 % of the share capital during the reporting period. The company is a spin-off of the Bavarian Laser Center in Nuremberg–Erlangen and 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 support them until they purchase an appropriate system. Eight systems were sold during the reporting period, enabling the company to meet its business plan. A considerable increase in turnover is planned in the ongoing financial year. The plans are to achieve balanced operative earnings before interest, tax, depreciation and amortisation (EBITDA). The development of the overall economy is also critical for the success of this company in the ongoing financial year.

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 with the aim of accelerating the development of optical technologies in Germany. The strategy has proven successful in the reporting period and good co-operation has been established in the field of optical technologies.

8. Research and development
In the R&D segment, measures have been initiated to respond to the overall weakness in the global electronics market by the development of special low-cost products to stimulate the willingness of potential clients to make investments. This includes the new products in the Laser Cutting and Drilling System segment whose impact on turnover will not be revealed until the 2003 financial year. In addition to these new developments, work has continued during the reporting period on projects for the production of medical sensors and the ultra-fine structuring of flexible and rigid boards. In addition, the 3D-MID Application Center for the production of prototypes and samples on the basis of doped granulates started operations in Bad Salzuflen. The first samples have already been presented to potential clients but no orders for series production were acquired during the reporting period. In the Rapid PCB Prototyping segment as well, improved products and additions to the product range were presented at important domestic and international trade fairs. An example is "electronica", the world's largest electronics trade fair which was held in Munich at the end of the year, at which considerable interest was again shown in the LPKF Group products.

Despite the economic slowdown, 2002 was marked by the increasing miniaturisation of electronic circuits and the associated use of high-precision laser systems. Traditional process engineering techniques have also kept pace with this miniaturisation trend and stand in direct competition to the new technologies developed by the LPKF Group. This is precisely where the crucial risk lies: even if there is full market acceptance of our products, there are many reasons behind decisions to delay investment which thus have a negative influence on the development of LPKF's turnover. This means it is difficult to predict the time at which the innovative technologies presented here will actually establish themselves, and that there is always still a risk associated with acceptance.

Big cut also in North-American development budget

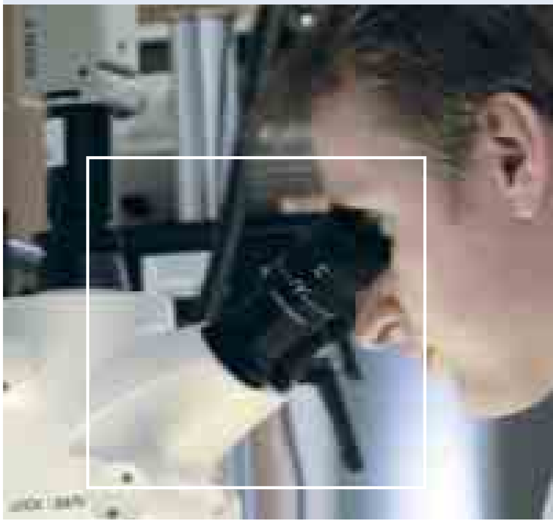
LPKF France strengthens acquisition of laser system orders

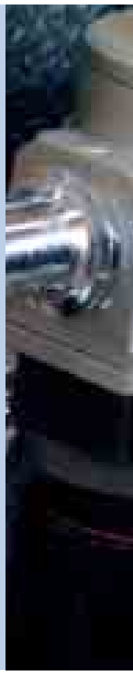
Staff cuts at LPKF Franklin Industries

Turnover in Chinese market boosted

LPKF acquires majority holding in Laserquipment AG

3D-MID Application Center opens its doors





9. Risk management system

The LPKF Group is exposed to numerous risks as its pursues its global business activities in the electronics market. The investment behaviour of potential clients in a recessionary economic environment represents a special challenge for risk management and in particular for the risk early warning system. It is possible to limit risks by implementing suitable measures. Risks can be rapidly and precisely identified by an early warning system. However, risks can never be completely excluded. The assessment of risk must always be seen in the context of the time the risk evaluation is carried out. In other words, future risks which cannot be identified at the present time or appear at the present time to be negligible, can also have a negative impact on business results.

With the “Law on Control and Transparency in Business” (KonTraG) legislation has been in place since 1998 regulating stock corporation risk management systems and internal control systems. In addition, the Transparency and Disclosure Law (TransPuG) was also recently passed by the government. This law focuses in particular on the audit obligation of the risk early warning system and for any changes in the auditing report to be highlighted. The Board of Directors of LPKF Laser & Electronics AG is responsible for 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 co-ordinates and authorises the various measures implemented to control the risks.

As part of the risk identification and control procedure, existing instruments, such as the risk management manual and the reporting tools, are continuously updated and documented. In the 2002 financial year, the risk manager carried out a risk inventory. Another important element in the early warning system and the regulated transaction of business processes is the quality management system according to DIN EN ISO 9001:2000 – whose efficiency is checked annually by a neutral organisation as part of the monitoring audit. The corporate governance model implemented by the LPKF Group is also relevant in this context, in particular because a high degree of risk limitation is provided by the co-operation between the Supervisory Board and the Board of Directors.

Business risks

The global markets of the electronics and circuit board industries are subject to cycles marked by the introduction of new technologies as well as changes in consumption patterns. In this context, consideration has to be given to the general competitive situation as well as the willingness of our clients to invest in new technologies. As a company, the LPKF Group is repeatedly exposed to rapid and far-reaching changes resulting from the introduction of new technologies. In addition, the lengthy worldwide recession currently affecting the markets highlights that the LPKF Group can also be affected by the postponement of investment decisions and cuts in budgets. Although as a supplier to the electronics industry, LPKF’s most important sales markets involve capital goods, and is therefore not directly exposed to special cycles affecting the semi-conductor technology business, the state of the economy affects both markets. This situation is particularly highlighted by the Rapid PCB Prototyping segment where development budget cuts by potential customers have had a particularly serious impact on the development in turnover and profitability.

Miniaturisation trend unbroken

Early warning system for precise identification of risks

No direct dependency on individual suppliers

Planned expansion of MicroLine Laser client potential

Currency hedging contracts to protect against exchange rate fluctuations

Risks minimised by permanent Supervisory Board and Board of Directors' follow-up

The shareholding in Laserquipment AG should therefore be seen as a means of boosting our innovation and competitive strength against this background. Investments of this kind are always associated with risks if 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.

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 suppliers. However, price changes in particular are a parameter which can have a special influence on business activities. During the reporting period the "replacement time factor" for components did not cause any bottlenecks. However, there could be a change here in 2003 if the economy revives and the reduced production capacities cannot cope with demand. This could have an effect on suppliers' pricing policies with associated risks for material costs.

Dependence on customers

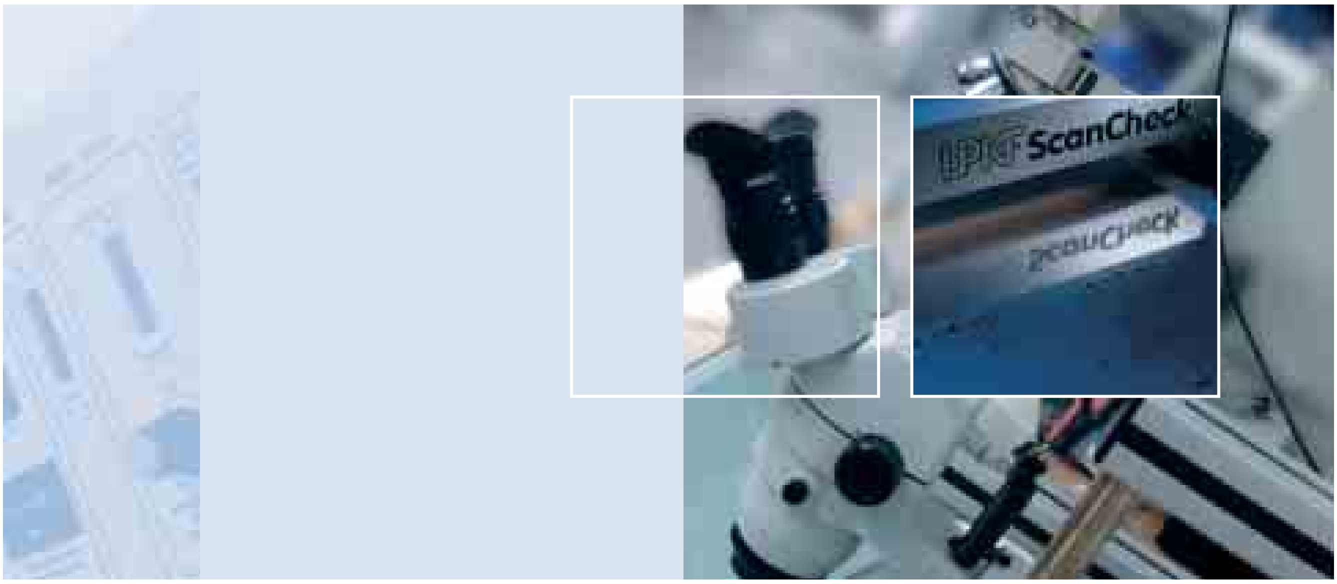
The regional spread of our sales markets is balanced. This has been demonstrated for several years by the distribution of our turnover according to region so that there are no special risks associated with this factor. In the MicroLine Laser segment, sales have only been realised with two major customers during the reporting period. An expansion of the client potential is planned for the ongoing financial year and this is expected to limit the level of risk. In the other product segments, there are no dependencies on major clients. Each of the many new clients are always 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 is carried out with reliable institutes with adequate experience in this sector to safeguard the collection of payments.

Exchange rate fluctuations

The exchange rates between foreign currencies 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 current strengthening of the Euro compared to the Dollar increases the price of LPKF products in the affected regions. It is therefore associated with increased turnover risks. During the reporting period, two cash-flow hedges with a face value totalling T$ xx were concluded to minimise the risks associated with exchange rate fluctuations. No other exchange rate hedging instruments were used.

Research and Development

LPKF's success significantly depends on the speed with which new products can be pushed through the development pipeline and launched on the market. The market acceptance and transfer from 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 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 sampling 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 to harness all of the benefits of the available technology. This way it is not only possible for LPKF to achieve cost benefits, but also benefits for the technology itself and associated market opportunities. During the continuing global recession, this is precisely the aspect which is associated with additional risk when global investment stops, 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 applications.

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

Patent risks

LPKF Laser & Electronics AG 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. LPKF Laser & Electronics AG considers the acquisition of patent rights to be the most effective means of protecting its R&D investments from depreciation. Moreover, it is also possible for patent searches to reveal the existence of patents and protection rights held by other institutions in technologies which could be of use to the company.

Human resource risks

Demand for highly qualified staff is still high even in periods of economic difficulties. 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 share participation scheme on the basis of convertible bonds to honour the loyalty of staff to the company. The first tranche of a stock option plan was issued during the reporting period and made an additional contribution to motivating and binding top performers to the company.

10. Business report

Business in 2002 did not develop according to plan. The positive forecast issued at the start of the financial year therefore had to be revised during the reporting period. The global recession which has now lasted for several years has affected the results of the LPKF Group. There is currently no real growth in the electronics sector. Quite the reverse: the mood amongst consumers and companies is marked by a high degree of uncertainty. Only Asia, and particularly the Chinese market have to a certain degree escaped the impact of this trend. The reporting period was marked by a large amount of acquisition activity to achieve the reported turnover, flanked by efforts to boost the company's liquidity and check the economic necessity of all expenditure – all with the overriding aim of generating a positive corporate result and strengthening the company's earnings power. At the end of the financial year, the considerable amount of interest shown in LPKF Laser & Electronics AG products at the world's largest electronics trade fair in Munich highlighted that the range of products and the strategy behind them is clearly in tune with the demands of our clients.

Contrary to the development of the overall economic environment, it was possible to significantly improve the financial situation of the Group in particular as a result of the rigorous reduction of K€ 2,251 in outstanding receivables during the reporting year. This is particularly reflected in the increase in cash and cash equivalents as well as short-term securities from K€ 5,386 (previous year K€ 2,338). The company's asset situation continues to be extremely sound as indicated by various factors including the high capital ratio of 68.0 % (previous year 67.2 %). Share capital finances 210.5 % (previous year 195.9 %) of the fixed assets. The share-capital: outside-capital ratio is 212.5 % (previous year 204.7 %). On the investment side, the main item is the investment in equipment for with R&D projects.

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

Patents protect cutting-edge technology

Staff loyalty rewarded by employee share participation scheme

Course of business in 2002 not according to plan

High quality of product range praised by customers and trade journals

Functional advantages for customers thanks to development of market-oriented systems

Close co-operation between Supervisory Board and Board of Directors in line with the Corporate Governance Code

11. 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. Trade journals as well as numerous potential clients have frequently praised the high quality of our product range and the future-oriented features of our products. On the basis of 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 our growth strategy, as is the commitment to keep the LPKF team together during a difficult overall economic period. This strategic approach has a strong influence on corporate policy. The first 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 successfull dedication to continuous improvement. Despite the aforementioned good starting position, it goes without saying that after several years of recession, the success and the 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. Against such a background, it is essential to pool the resources of the company, concentrate on its key skills, and to retain the ability to vigorously respond proactively to negative effects.

The first successful production of samples and sales of the innovative products in the Rapid PCB Prototyping, MicroLine Laser and Laser Cutting and Drilling Systems segments are an important indication of the acceptance of these products. However, confirmation is still required of the sustainable market success of the new LPKF technologies. In addition to the associated risks described above, this is also where the LPKF Group's greatest opportunities lie.

The development of market-oriented systems, pursuing the technological trend towards further miniaturisation, and providing our clients with functional advantages – at the same time as improving cost structures – are primary objectives. And with the Laser Cutting and Drilling Systems, the MicroLine Laser family and the still new 3D-MID technology we are strategically on the right course to fulfilling these objectives. A crucial aspect in this context is the market and client focus of the company. This is precisely where the LPKF Group has concentrated all of its technological activities, at the same time as never losing sight of the need to generate a positive business performance.

12. Events after the balance sheet date

None

LPKF Laser & Electronics AG

Garbsen, 3 March 2003

Bernd Hackmann
Chairman of the Board

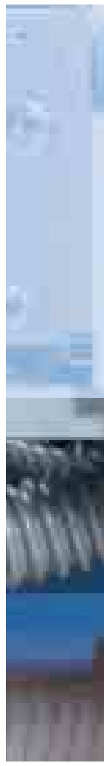
Dr. Jörg Kickelhain
Board of Directors, R&D

Christoph Wiese
Board of Directors, CFO

Solutions in a difficult environment

LPKF reacts actively to current market situation:

Strategic expansion of service sector, targeted expansion of product range, shorter delivery times and superb after-sales service as key qualifications.



The facts have to be faced: there has been little improvement in the global economic situation in the last twelve months. Forecasts of a general upturn all proved to be unrealistic. As a consequence, 2002 mirrored the previous year in the cautiousness of clients' investment strategies. The procurement of new production and development technology advisable from a technical point of view was repeatedly postponed by many companies clearly on the basis of economic considerations. This applied particularly to investment in new innovative technologies where reliable forecasts of their commercial benefits were very difficult to provide against the background of an uncertain political and economic environment.

The situation represents a special challenge for a company like LPKF. As a system and equipment supplier to the electronics industry, our company has played a pioneering role for more than two decades in the introduction of new technologies for PCB production and prototype development. In carrying this out, a key element of our corporate philosophy has always been to find our own answers to the most urgent technical problems, and to complement or replace existing technologies when they have reached the limits of their capacities. But in difficult economic times in particular, there is a tendency among many companies to generate turnover as long as possible with the equipment at their disposal – a strategy not only associated with the risk of technological standstill, but also the danger in the medium term of falling behind the technical level of competing companies.

LPKF is fully aware of this trend and has responded proactively to the changed circumstances: by the specific adaptation of the product range to the current market situation, a strategic expansion of the Service segment, and by more intensely harnessing two of our company's most important core assets: a superb after-sales service and extremely short delivery times.

The LPKF Laser Center – job-shop service for laser micro-material processing

Because of the high speed of innovation and the increasing trend towards the further miniaturisation of electronic components, production technology in PCB manufacturing is today facing a large-scale change in technology. The continuous expansion of the range of functions of electronic equipment going hand-in-hand with reductions in size and weight, can only be met by ever finer structures in electronic circuits. And in the opinion of most experts, structures of this kind can mostly only be realised with the help of laser technology.

However, economic reasons are currently the main factor why there is a low willingness to invest in these technologies – even where they are urgently required. LPKF is therefore offering potential users the opportunity of using the technical qualities of laser micro-processing by providing a job-shop service. With its broad spectrum of available applications, the new Laser Center at the company's headquarters in Garbsen represents another important division. From micro-drilling and structuring, routing, cutting and milling of flexible, rigid-flex and rigid PCBs, right through to ceramics processing and the ablation of extremely thin metallic layers – used for the production of sensor components for instance – the Laser Center makes applications available which are either unachievable or no longer optimally realisable using conventional technologies. We therefore provide our clients with the option of benefiting from the highest standards of a technological leader in the field of laser micro-material processing without exposing themselves to any financial risk.

Product portfolio adapted to current market situation

Strategic expansion of service sector

Benefiting from the high standards of laser technology without financial risks

Application Center creates marketing platform for 3D-MID technology

Future-oriented technologies with high rationalisation potential

For some time now, LPKF has been involved in laser-supported methods for the production of 3D-MIDs – three-dimensional injection-moulded circuit carriers capable of partially or completely replacing conventional PCBs. Compared to conventional boards, 3D-MIDs not only have the advantage of increased design freedom, they also have an enormous rationalisation potential because of the shorter process chain involved.

The 3D-MID Application Center in Bad Salzuflen, Lower Saxony, Germany, gives our clients the possibility for the first time of familiarising themselves with the whole process chain of this very promising technology on the basis of service contracts. This new facility is therefore the springboard for the broad market launch of this LPKF-developed production method and the 3D-MID technology which experts consider to have an extremely promising future.

Product portfolio adapted to the needs of the market

The development of LPKF products has always been based on two key strategies. Firstly, a proven module philosophy that enables the considerable shortening of development times for product variations or new versions by a new combination of individual modules. Secondly, the strategy of always keeping the expertise for the key elements of a product in-house to ensure that the sub-technologies involved can be used as the basis for new and further developments. By rigorously implementing these successful strategies which have proved their value time and time again in the past, LPKF has now succeeded in expanding its product range to reflect the most recent developments in the overall economy and proactively adapt the product spectrum to the current market situation.


LPKF
StencilLaser

Key qualifications: after-sales service and short delivery times

Module philosophy underpins flexible reaction to customer specifications

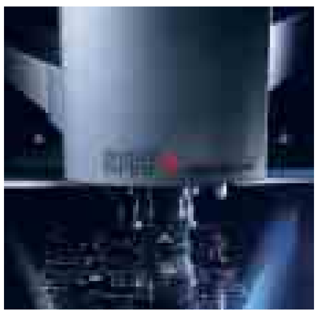
This business philosophy is graphically illustrated by the current diversification of the StencilLaser product range. One example is our response to requests from numerous companies to offer a low-cost entry model with slightly less sophisticated technical features than the standard versions. Upgrading has also been carried out at the other end of the product range with the launch of a high-end model – the StencilLaser SL 600 MicroCut – which is perfectly matched to the high demands for precision and degree of resolution required by users in the semi-conductor technology sector.

The same strategic expansion of a product spectrum is also pursued within the MicroLine Drill product family comprising combined laser drilling and structuring machines. Again in response to increased demands from our clients, we launched a specially designed tool on the market in the form of a low-cost version specifically for cutting applications. Against the background of tighter budgets, this enables customers who do not require the full scope of functions in the all-round devices usually offered by this product family to tailor their investments much more specifically to a particular technological application.

Service and deliverability as quality factors

In addition to the high quality and high performance of our technologies, our clients also value our superb after-sales service which is an integral part of LPKF's product portfolio. In the sensitive high-tech sector in particular, high throughputs, absolute reliability and smooth operation are vital for the economic use of modern production technology. To meet these demands, LPKF has backed up its products for many years now with the concept of preventative maintenance: regular servicing avoids the occurrence of expensive breakdowns. And if an acute problem arises, our service technicians are at hand within the shortest possible time.

And because our clients are involved in a market characterised by an extremely fast pace of innovation, they themselves often have to react very quickly to customer demands: the new technologies needed to fulfil a contract must be made available as fast as possible. The length of the lead times can therefore be a critical factor for commercial success. One of the quality features of our company has therefore also been to supply and install its machinery within the shortest possible time. This is only feasible because stocks of the standard machines are always available and because the module philosophy in product development enables us to respond particularly flexibly and quickly to customer demands. The relatively large amount of capital tied up in inventories as a result of pursuing this strategy is thus also the foundation for a significant competitive edge.

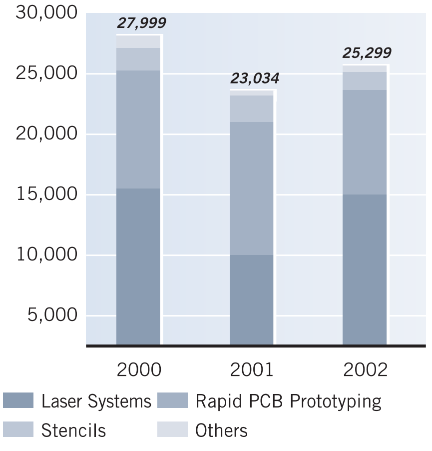


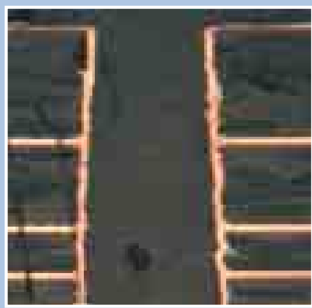

LPKF
Laser & Electronics
Start
Stop

LPKF technology: competence that gains respect

High quality standards underpin market leadership. Flexible concepts open up new areas of application beyond classical end uses.

Turnover distribution according to segments (in K€)





Rapid PCB Prototyping

Competitive edge through quality in the development sector

Higher standards, tighter schedules, increasing innovation pressure – probably no other sector is suffering more from the increase in competition than the development sector. In economically difficult times in particular, the efficiency and capacity of R&D departments are the crucial factors which can make all the difference between the success and failure of a company. In addition to the necessary expertise and technical excellence, survival in the current challenging environment is also dependent on access to ultra-modern development technology.

As the world leader in Rapid PCB Prototyping, LPKF has over 26 years experience in providing innovative electronics designers with the technical solutions and vital process know-how required for the rapid creation of production quality prototypes in their own laboratories. The complete product line which we make available to our clients enables every prototype production step to be carried out under laboratory conditions: from converting the EDA/CAD data of the circuit artwork; the routing of lines and spaces; through-hole plating of single to multi-layer boards using ultra-modern reverse-pulse-plating systems; fine-pitch-print soldering; component placement and the lead-free soldering of components in standard reflow production methods. The heart of this integrated system is the tried-and-tested inverting method developed by LPKF which is still the principle behind all circuit board plotters – a pro-environment, time and cost saving alternative to the previously conventional etching technology and now a worldwide standard in in-house prototyping.

Because of its well-known name, the unbroken quality standards and the high level of its service and customer-care, the Rapid PCB Prototyping segment is a key part of our business – even in economically difficult times. And there is a clear trend towards the extension of existing basic systems and the upgrading of existing product lines.

LPKF's close contact to the market enables it to regularly attract new groups of customers to the Rapid PCB Prototyping sector. Given the shrinking budgets and reduction in manpower, one of the main aspects here is to enhance productivity factors by increasing the level of automation within Rapid PCB Prototyping product lines. Moreover, in addition to the development sector, there is an increasing focus on conventional batch production as a new area of application. Important areas of application here are the further processing of assembled boards and de-panelling.

Rapid PCB Prototyping:

Stiff competition in the development sector

Complete product line enabling production quality prototypes to be produced under laboratory conditions

New areas of application in series production

MicroLine Drill:

Technological alternative in the high-resolution cutting sector

MicroLine Drill product family – a classic example of modular system design

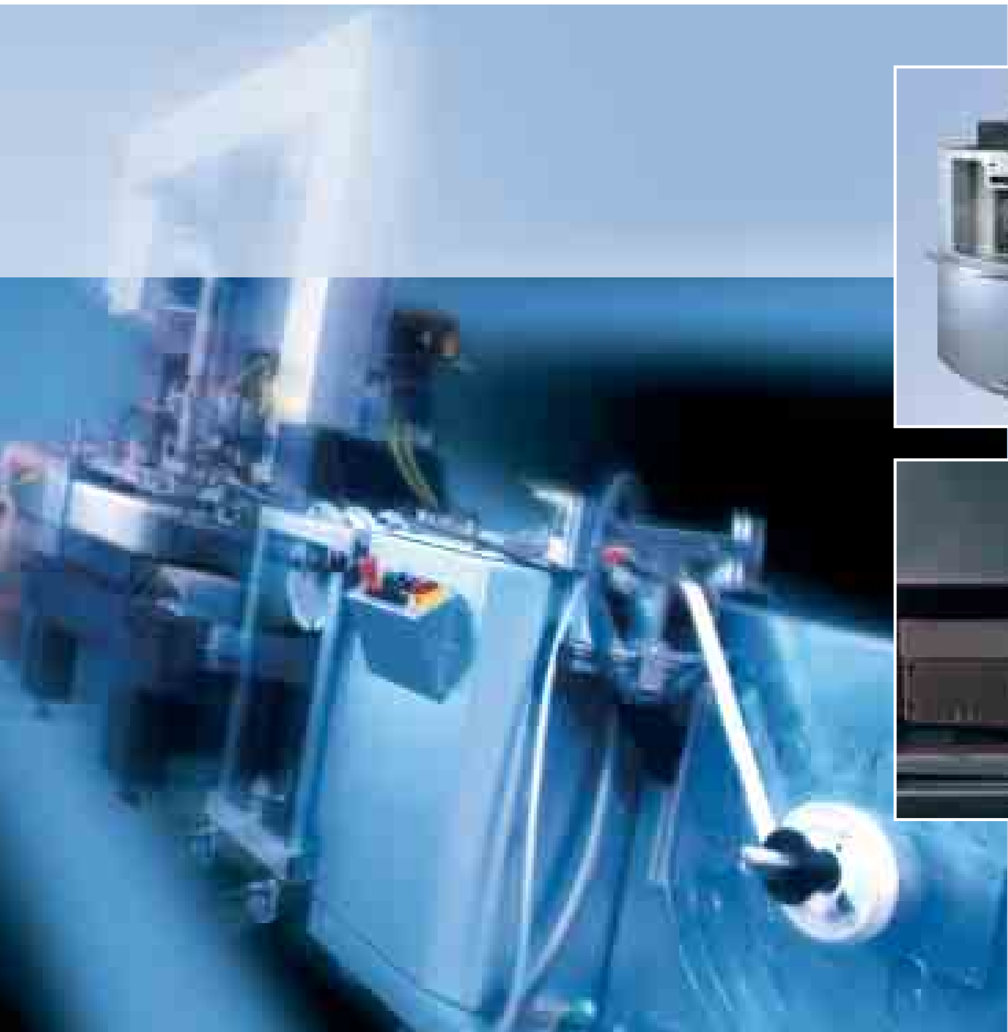
MicroLine Drill

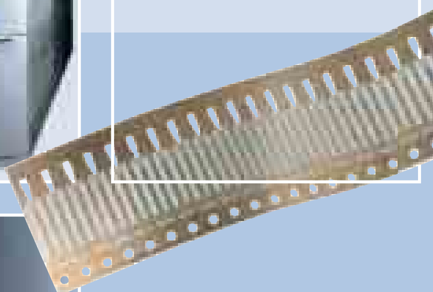
Good prospects created with new areas of application

The MicroLine Drill 600 developed by LPKF impressively demonstrates how new applications can be repeatedly and successfully generated from existing technology by virtue of a flexible mechanical concept. Originally designed as a combined drilling and cutting system that marries the structuring of ultra-fine tracks with the drilling of microvias, the MicroLine Drill now also enables our clients to carry out high-resolution cutting applications on a wide range of materials. The MicroLine Drill is therefore the first model in this product family worldwide to break through the barriers of conventional laser drilling applications and offer a viable technological alternative when mechanical or conventional methods reach their limits.

This opens up a large spectrum of new end uses for the system which was specifically developed to meet the demands of medium-sized and small-sized companies ambitious to enter the crucial market for the production of high density interconnects (HDI). The aim was to offer a system with a good price/performance ratio. This was achieved using an especially developed high-performance UV-laser.

Technical diversification of this kind using existing technologies is only possible because our corporate philosophy has always included keeping the key skills for a technology in-house. The MicroLine Drill product family typifies this philosophy and highlights one of our major strengths: the standard LPKF modular technology concept that enables us to react at all times to the specific wishes of operators. In difficult times in particular, this gives our clients the advantage of controlling their investments more precisely because the technical standards and the related budget can be harmonised in advance.





3D-MID

The future lies in three dimensions

With the development of a laser-supported method for the production of three-dimensional injection-moulded circuit carriers (3D-MIDs), LPKF has provided the electronics industry with a technology which combines flexibility of design to a previously unheard of degree with environmental-friendliness and high levels of economic efficiency. The Laser Direct Structuring method (LDS) enables high-resolution CAD artwork to be directly transferred to a component produced using conventional injection-moulding technology – and even highly complex geometrical structures are possible.

The production of 3D-MIDs using the LDS method is a considerable technical and economic improvement compared to alternative technologies. For instance, the use of a laser enables rapid artwork changes to be realised at no extra cost. And because unlike other methods, it automatically dispenses with several production steps, it also saves a considerable amount of time – a major step forward given the increasingly tight time schedules involved in modern mass production. It is also possible for the first time to use one manufacturing process for the production of prototypes right through to series production. The expensive and time consuming production integration required by alternative methods becomes completely unnecessary. This considerably reduces the development times for new products – an aspect which plays an increasingly important role given the trend towards ever shorter product cycles and the significant factor of time-to-market. With respect to structural resolution, the LDS method is also capable of producing fine lines and spaces (up to 100 µm) which is well ahead of the competition and highlights that in terms of miniaturisation, laser direct structuring is clearly the most future-oriented method available in this sector.

The establishment of the new 3D-MID Application Center in Bad Salzuflen is an important milestone in the marketing of this technology. In the only facility of its kind in the world, clients and potential users can see for themselves the qualities of this highly-innovative technology on the basis of job-shop operations and sample production.

3D-MID:

Integration of the printed circuit board in three-dimensional products

New area of application: Rapid PCB Prototyping

MicroLine Laser:

Highest productivity levels thanks to reel-to-reel system

Expansion of services to include ultra-fine structuring

MicroLine Laser

The economic alternative in the ultra-fine sector

LPKF has now achieved a real breakthrough in laser structuring with the MicroLine Laser for the mass production of low-cost ultra-fine structures. The advantages of laser structuring compared to conventional photolithography are the higher precision (structure widths, structure gaps) at a reduced number of process steps. The process can be incorporated in all existing PCB production lines. This option raises the willingness of potential custumers to invest and helps save costs.

In the rigid and flexible PCB sector, LPKF has entered a promising co-operation with Atotech Deutschland GmbH. Atotech Deutschland GmbH developed a special etch-resistant layer which can be structured using high-precision LPKF MicroLine Laser technology. This process completely replaces photolithography.

In addition, a reel-to-reel method was developed for flexible PCBs whose successful marketing includes the production of electrode layouts in the bio-sensorics sector. Throughputs of 150 sensors/sec. combined with extreme levels of precision are the outstanding features of this method and represent another step in the expansion of LPKF's technological leadership in laser microstructuring.

LPKF responded to the overall weakness in the economy and the associated slowdown in investment by expanding its service sector to include ultra-fine laser structuring in its new "Garbsen Laser Centre" where companies in the microelectronics, microsystems technology, medical technology and telecommunications sectors can order samples produced cost-effectively by specialists in the job shop.

A complete reel-to-reel plant is also available.

StencilLaser

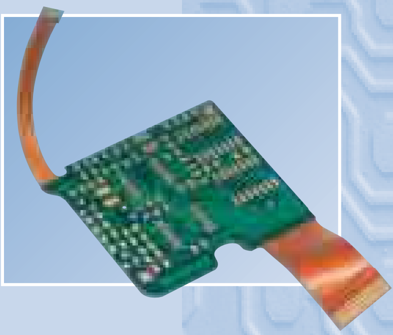
From entry model to high-end device

Business in the StencilLaser market was mainly influenced by two trends last year. Firstly, a reduction in willingness to invest was registered among some users of this technology – the manufacturers of printing stencils for PCB production – as a consequence of the general economic situation. Secondly, we observed an increase in demand for particularly fine and precise stencils, especially amongst highly-specialised service companies in the semi-conductor production sector, and an associated marked increase in demand in this sector for sophisticated high-end devices.

LPKF reacted to both trends early and expanded its product range to respond more flexibly to the different requirements of the various client groups in this sector. In order to make it possible for less financially powerful clients to enter this technological segment and enable the cost-effective expansion of existing capacities, we made another version available in addition to the models already used in numerous businesses. Like the standard models, this new device is based on proven LPKF technology but is suitable even for small investment budgets thanks to its moderately reduced technical specifications.

In addition, a high-end device has very recently been made available to meet the extremely high demands for precision and fineness required by various fields of application in the semi-conductor technology sector in particular. This device perfectly meets the stringent specifications for stencil production demanded by this sector. Thanks to this multi-track business philosophy, LPKF as the market and technology leader in this sector, has also succeeded in achieving a satisfactory result in the StencilLaser segment despite the difficult economic environment in 2002.

The increasing demand for LPKF's inspection systems also highlights the continuous rise in quality assurance standards in the stencil production sector. In this way, we enable stencil producers to maintain a high level of stencil production quality at the same time as giving them a valuable marketing instrument thanks to the ability to confirm the quality of their products.



StencilLaser:

Product spectrum expands into low-cost segment

New high-end products for semi-conductor technology

LPKF Laser Center in Garbsen

An important element in expansion of the service sector

The experts are unanimous that companies interested in highest levels of precision and fineness combined with non-contact material processing will have to use laser technology in the medium term. The unbeatable advantages of laser technology compared to conventional mechanical methods are obvious in applications including the opening of polyimide films or reworking already assembled PCBs and other highly complex special end uses.

Given the current uncertain economic forecasts, many users find themselves facing a serious dilemma: the urgently required investment in laser technology for technical reasons is often hindered by the ever shrinking budgets. An answer to this dilemma is the LPKF Laser Center in Garbsen which has been set up to enable companies lacking the financial flexibility to purchase high-end laser processing machines to use the job-shop as an alternative option so that they too can benefit from the technical advantages of laser drilling or ultra-fine line structuring – not to mention competent advice and process development support. From the engraving and cutting of sintered ceramics to the structuring of resists and the separation of ultra-fine lines, the new center opens up an unmatched range of applications thanks to its broad spectrum of equipment. The service is already being used by big-name companies in the electronics industry.

Not least because of its immediate proximity to the development and production departments, the LPKF Laser Center can call on an extraordinary depth of processing expertise. The profile is supplemented by application-oriented research and development, the production of feasibility studies, and direct product design support. This close contact to our clients generates valuable ideas for the conception of new technologies and markets for laser micro-material processing.

Annual group balance

Annual group balance for the business year 2002 considering the standards of the International Accounting Standards Board (IASB).

Statement of income

	Notes	31.12.2002 K€	31.12.2001 K€
Sales	1	25,299	23,034
Changes in inventories of finished goods and work-in-process		-394	1,758
Own work capitalised	2	856	484
Other operating income	3	1,466	1,275
		27,227	26,551
Cost of materials	4	7,503	6,824
Personnel expenses	5	10,262	9,089
Depreciation and amortisation	6	2,269	2,657
Other operating expenses	7	5,751	6,354
Operating profit		1,442	1,627
Other interest and similar income	8	156	164
Interest and similar expenses	8	263	309
Result from ordinary activities		1,335	1,482
Income tax	9	645	448
Group result before minority interest		690	1,034
Minority interest		56	222
Net income		634	812
Net income per share (basic, in €)	25	0.06	0.08
Net income per share (diluted, in €)	25	0.06	0.08

Consolidated statement of the changes in shareholders' equity

Consolidated statement of the changes in shareholders' equity for the financial year ended 31. Dezember 2002 (previous year in brackets)

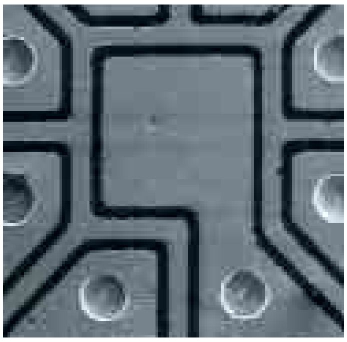
	Subscribed capital *K€*	*Capital reserve* *K€*	*Group retained earnings* *K€*	*Foreign currency translation adjustment* *K€*	*Total* *K€*
As at 1.1.2002	10,638	3,730	7,847	472	22,687
As at 1.1.2001	(10,500)	(3,622)	(6,982)	(270)	(21,374)
Adaptation of the opening balance sheet figures not	-	-	-	-	-
affecting net income	(-)	(-697)	(697)	(-)	(-)
Buying back own stock	-	-	-	-	-
	(-)	(-133)	(-)	(-)	(-133)
Issuing own stock	-	-	-	-	-
	(-)	(30)	(-)	(-)	(30)
Payments resulting from capital increase	10	38	-	-	48
	(138)	(908)	(-)	(-)	(1,046)
Dividend payment to shareholders	-	-	-	-	-
	(-)	(-)	(-644)	(-)	(-644)
Net result	-	-	634	-	634
	(-)	(-)	(812)	(-)	(812)
Foreign currency translation adjustment of net invest-	-	-	-	-149	-149
ments in economically-independent foreign subunits	(-)	(-)	(-)	(-)	(-)
Other foreign currency translation adjustment	-	-	-	-561	-561
	(-)	(-)	(-)	(202)	(202)
As at 31.12.2002	10,648	3,768	8,481	-238	22,659
As at 31.12.2001	(10,638)	(3,730)	(7,847)	(472)	(22,687)

Balance sheet: Assets

	Notes	31.12.2002 K€	31.12.2001 K€
Fixed assets	10		
Intangible assets			
Software		115	97
Goodwill		348	387
Development costs		1,581	2,089
Rights to use		118	187
		2,162	2,760
Tangible assets	10		
Land and buildings		5,927	5,904
Technical equipment and machinery		1,305	1,175
Other equipment, factory and office equipment		1,124	1,728
Prepayments and construction in process		232	11
		8,588	8,818
Financial assets	10		
Participations		2	2
Other loans		13	0
		15	2
Total fixed assets		10,765	11,580
Current assets			
Inventories	11		
(System) components		3,830	3,257
Work-in-process		2,393	2,402
Finished goods and merchandise		3,364	4,834
Prepayments		113	200
		9,700	10,693
Accounts receivable and other assets			
Trade accounts receivable	12	4,924	7,175
Other assets	13	1,683	1,120
		6,607	8,295
Securities		198	10
Cash on hand, Bank balances	14	5,188	2,328
Total current assets		21,693	21,326
Deferred charges and pre-paid expenses	15	93	88
Deferred tax assets	16	772	778
Total assets		33,323	33,772

Balance sheet: Liabilities and shareholders' equity

	Notes	31.12.2002 K€	31.12.2001 K€
Shareholders' equity			
Share capital	17	10,648	10,638
Capital reserve	17	3,768	3,730
Net income for the year			
Retained earnings		7,847	7,035
Net income		634	812
Foreign currency translation adjustment		-238	472
		22,659	22,687
Minority interests	18	1,705	1,656
Provisions			
Provisions for pensions	19	203	179
Tax provisions	20	324	321
Other provisions	20	1,229	1,006
		1,756	1,506
Liabilities			
Bonds	22	175	180
Middle- and long-term liabilities due to banks	21	2,328	2,589
Short-term liabilities due to banks	21	364	1,253
Trade accounts payable		1,284	20
Payment received on account of orders		1,017	1,130
Other liabilities		1,005	1,496
		6,173	6,668
Deferred income		15	9
Deferred grants	3	339	404
Deferred tax liabilities	23	676	842
Total liabilities		33,323	33,772



Cash flow statements

	Notes	2002 K€	2001 K€
Operating activities			
Net income for the year		690	1,034
Depreciation and amortisation of fixed assets		2,269	2,657
Profit/loss from sale of assets		-138	-19
Cashless currency differences in fixed assets		361	-18
Other non-payment income/expenses		231	-8
Changes in inventories and accounts receivables and other assets		2,677	-3,676
Changes in provisions and accrued liabilities		250	-1,001
Changes in liabilities and deferred income		-313	234
Cash flows from operating activities	(24)	6,027	-797
Investing activities			
Fixed asset investments intangible assets		-334	-357
Fixed asset investments tangible assets		-1,520	-1,380
Investment in subsidiaries		-240	0
Investment in other affiliated companies		-13	0
Receipts from sale of equipment		334	104
Cash flows from investing activities		-1,773	-1,633
Financing activities			
Dividends paid		0	-644
Payments to minority interests		-8	0
Payments of parties		43	975
Payments of minority interests		148	46
Equity portion of convertible bond		0	-133
Change in long-term bank borrowings		83	0
Repayments long-term bank borrowings		-258	-337
Cash flows from financing activities		8	-93
Changes in cash and cash equivalents			
Changes in cash and cash equivalents due to exchange rates		-239	59
Changes in cash and cash equivalents		4,262	-2,523
Cash and cash equivalents as at 1.1.2002		1,342	3,806
Cash and cash equivalents as 31.12.2002		5,365	1,342
Composition of cash and cash equivalents			
Cash		5,188	2,328
Short-term investments		198	10
Bank overdraft		-21	-996
Cash and cash equivalents		5,365	1,342

Notes to the 2002 consolidated statements

Basis of preparation

The consolidated financial statements of LPKF Laser & Electronics AG, Garbsen, for the year ended 31 December 2002, have been prepared using uniform accounting policies. All of the standards of the International Accounting Standards Committee (IASC) and interpretations of the Standing Interpretations Committee (SIC) were observed on the balance sheet date.

The financial year corresponds to the calendar year. The consolidated financial statements have been prepared in Euro.

Consolidated group

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

Name	*Domicile*	*Holding %*	*Acquisition/founding*
Full consolidation			
ELASER Gesellschaft für Elektronik, Laser und Automation GmbH	Suhl/Germany	100.0	1989
LPKF d.o.o.	Kranj/Slovenia	75.0	1995
LPKF Franklin Industries N.V.	Mechelen/Belgium	100.0	1995/1999
LPKF Laser & Electronics Inc.	Wilsonville/USA	60.0	1999
A-Laser Inc.	Beaverton/USA	100.0	1999
LPKF Motion & Control GmbH	Suhl/Germany	50.9	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	51.0 (previous year 19.9)	2000/2002

Because of the use for the first time of SIC 33, the participation in Laserquipment AG, Erlangen in the reporting year will be fully consolidated instead of being consolidated according to the equity method because of the existence of an option to acquire another 31 % of the shares. The previous year's statements have been adapted as required because in the previous year control of the company already existed with the possibilities of influencing financial and business policy. This option was exercised with effect from 1 October 2002. The acquisition is reported in the financial statements according to the acquisition method. The acquisition price of K€ 240 and an assignable value of the pro rata acquired net assets without any specially acquired capital reserves of K€ 107, gives rise to an increase in goodwill of K€ 133 which is reported in the intangible assets.

A 9.09 % shareholding in PhotonicNet GmbH in Hannover, acquired in 2000, is not controlled by LPKF and therefore has not been fully consolidated.

Consolidation principles

The basis for the consolidated financial statements are the financial statements prepared according to standard rules as at 31 December 2002 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 receivables 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.

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.

in Euro	*Reporting date rate*		*Average rate*	
(1 € = x currency)	*31.12.2002*	*31.12.2001*	*31.12.2002*	*31.12.2001*
Slovenian Tolar	230.1577	218.8364	224.5400	217.9652
US-Dollar	1.0422	0.8813	0.9383	0.8957
Chinese Renminbi Yuan	8.5940	7.3071	7.7960	7.4199

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 business segments comprise the following activities:

· 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 Stencils business segment includes all the activities carried out by ELASER and A-Laser which manufacture stencils for printing tracks and gaps.
· The Others segment involves all of the minor activities such as marketing special software packages in Belgium etc.

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, depreciations and amortisations 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.

		Laser systems	*Rapid PCB Prototyping*	*Stencils*	*Others*	*Not distributed*	*Total*
External sales	2002 K€	13,685	9,420	1,611	583	0	25,299
	2001 K€	8,219	12,017	2,353	445	0	23,034
Operating income	2002 K€	2,090	763	351	64	-1,826	1,442
	2001 K€	-340	2,336	630	274	-1,273	1,627
Assets	2002 K€	16,541	9,552	1,835	593	4,802	33,323
	2001 K€	18,816	11,372	1,994	517	1,073	33,772
Liabilities	2002 K€	2,056	1,081	168	86	5,568	8,959
	2001 K€	2,728	1,166	205	131	5,199	9,429
Investments	2002 K€	1,269	573	110	40	8	2,000
	2001 K€	525	621	344	0	266	1,756
Depreciation	2002 K€	1,301	517	313	63	75	2,269
	2001 K€	1,350	745	409	98	55	2,657
Non-cash expenses	2002 K€	1,016	586	72	34	124	1,832
	2001 K€	193	90	0	1	935	1,219

		Germany	*Rest of Europe*	*North America*	*Asia*	*Others*	*Total*
External sales	2002 K€	6,255	4,857	6,768	7,118	301	25,299
	2001 K€	4,798	4,343	7,669	5,607	617	23,034
Assets	2002 K€	25,116	2,997	4,653	557	0	33,323
	2001 K€	24,647	3,042	5,593	490	0	33,772
Investments	2002 K€	1,196	415	183	206	0	2,000
	2001 K€	894	457	252	153	0	1,756

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 total K€ 856. This comprises technical equipment and machinery used by affiliated companies for production, prototype development projects activated during 2002, to be used throughout their lifetimes for group production operations. The depreciation of ongoing projects valued at material and personnel costs takes place over 5 years.

3. Other operating income (in K€)

	2002	*2001*
Grants for research and development	795	610
Reversal of deferred item for grants	65	126
Exchange gains	71	229
Gains from sale of plant and machinery	168	33
Gains from reversal of other provisions	73	127
Others	294	150
	1,466	1,275

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

4. Cost of materials (in K€)

	2002	*2001*
Cost of (system) components and purchased merchandise	6,646	5,953
Cost of purchased services	857	871
	7,503	6,824

5. Personnel expenses and employees

	2002	2001
Wages and salaries (in K€)		
Salaries	7,118	6,593
Wages	1,140	914
Other	283	184
	8,541	7,691
Social security costs and pension costs (in K€)		
Employer's contribution to social security	1,411	1,184
Workman's compensation board	42	34
Pension costs	268	180
	1,721	1,398
	10,262	9,089

The number of employees in each division was as follows as at 31 December:

	2002	2001
Production	62	59
Distribution	40	39
Research and development	47	40
Engineering and administration	70	72
	219	210

In addition, there were also eight part-time employees and ten trainees as at 31.12.2002.

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 (in K€)

	2002	2001
Advertising and distribution expenditure, trade fair costs	1,095	1,471
Business gifts, entertainment expenses, travel	595	650
Research and development	430	429
Sales commissions	344	229
Investor relations	307	345
Rent, incidental rental expenses, leasing	307	238
Financial statements, publicity and auditing fees	245	201
Postage, telephone, facsimile	234	228
Insurance, contributions, levies	228	301
Legal and consultancy costs	229	290
Supervisory board expenses	220	207
Voluntary social expenses	199	318
Vehicle costs	184	149
Services	132	112
Exchange losses	117	182
Repairs/maintenance	107	183
Allocation to bad debts	104	88
Office materials, books, software	100	112
Bank charges	66	75
Real estate and building costs	22	16
Others	486	530
	5,751	6,354

The total expenses for research and development in 2002 were K€ 3,179, made up of the reported materials costs totalling K€ 950 plus other costs including personnel costs and depreciation totalling K€ 2,229.

Existing leasing agreements entered into by the company are classified as operating leases. The leasing payments are expensed in the statement of income.

Significant agreements reported under leasing mainly include leasing agreements for vehicles as described in detail in note 29 "Other financial obligations".

8. Financial results (in K€)

	2002	2001
Other interest and similar income	156	164
Interest and similar expenses	-252	-293
Interest on convertible bond		
Changes in present value	-2	-7
Payment to subscribers	-9	-9
	-107	-145

9. Income taxes (in K€)

	2002	2001
Corporate tax and solidarity surcharge	554	917
Trade tax	267	260
Deferred taxes	-176	-729
	645	448

In the balance sheet, tax claims of K€ 273 were formed for 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€ 596, cf. note 16. For the preparation of the consolidated financial statements, the individual corporate tax rates in the countries involved were used for the calculation of the deferred taxes.

Reconciliation between anticipated and effected tax expenditure in K€

	2002	2001
Consolidated net income before income taxes	1,335	1,482
Anticipated tax expense 38 % (previous year 38 %)	507	563
Tax relief associated with dividend payments	0	-145
Definitive tax associated with distribution of profits	0	28
Non-activated deferred taxes in a loss situation	112	59
Tax rate variances amongst subsidiaries	73	3
Tax relief associated with investment promotion	-85	0
Payment of back tax associated with a field audit	89	0
Other variances	-51	-60
Effective tax expense 48 % (previous year 30 %)	645	448

Balance sheet assets

10. Fixed assets

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

	Acquisition/manufacturing costs					
	Balance 01.01.2002 K€	*Currency differences K€*	*Additions K€*	*Reclassifi-cation K€*	*Disposals K€*	*as at 31.12.2002 K€*
Fixed assets						
Intangible assets						
Software	490	0	95	0	1	584
Goodwill	897	0	133	0	0	1,030
Development costs	3,286	-11	237	0	0	3,512
Rights to use	929	-41	2	0	0	890
	5,602	-52	467	0	1	6,016
Tangible assets						
Land and buildings	6,779	-162	315	131	0	7,063
Technical equipment and machinery	3,855	-288	625	726	767	4,151
Other equipment, factory and office	5,234	-79	348	-856	205	4,442
Prepayments and construction in process	11	0	232	0	11	232
	15,879	-529	1,520	1	983	15,888
Financial assets						
Participations	2	0	0	0	0	2
Other loans	0	0	13	0	0	13
	2	0	13	0	0	15
	21,483	-581	2,000	1	984	21,919

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. The amortisation 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 (in K€):

	2002	*2001*
Laser Systems	1,398	1,832
Rapid PCB Prototyping	183	257
	1,581	2,089

Accumulated depreciation						Net book value	
as at 01.01.2002 K€	Currency differences K€	Additions K€	Reclassifi-cations K€	Disposals K€	as at 31.12.2002 K€	as at 31.12.2002 K€	Previous year K€
393	0	77	0	1	469	115	97
510	0	172	0	0	682	348	387
1,197	-7	741	0	0	1,931	1,581	2,089
742	-34	64	0	0	772	118	187
2,842	-41	1,054	0	1	3,854	2,162	2,760
875	-1	257	5	0	1,136	5,927	5,904
2,680	-129	468	458	631	2,846	1,305	1,175
3,506	-49	490	-463	166	3,318	1,124	1,728
0	0	0	0	0	0	232	11
7,061	-179	1,215	0	797	7,300	8,588	8,818
0	0	0	0	0	0	2	2
0	0	0	0	0	0	13	0
0	0	0	0	0	0	15	2
9,903	-220	2,269	0	798	11,154	10,765	11,580

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 scheduled 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:

The following useful lives are assumed:	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

11. Inventories (in K€)

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€ 233 of the total inventories. The inventories in each segment are as follows in a comparison with the previous year:

	2002	2001
Laser Systems	6,001	6,212
Rapid PCB Prototyping	3,332	4,101
Stencils	192	192
Others	175	188
	9,700	10,693

Unlike the previous year, certain inventory components are now classified as system components and not as merchandise. The statements for the previous year were adjusted accordingly.

12. Trade accounts receivable (in K€)

	2002	2001
Nominal amount of accounts receivable	5,073	7,261
Provision for doubtful accounts incl. exchange losses	-63	-2
Lump-sum provisions including discounting	-86	-84
Accounts receivable after provisions, discounting and exchange losses	4,924	7,175

The trade accounts receivables are generally shown in the balance sheet at the nominal value, those with a longer term are reported in accordance with their cash value. Adequate provision has been made for concrete and latent risks of non-payment. The residual book value of the receivables totals K€ 321 and concerns receivables with a remaining term of more than one year.

13. Other assets (in K€)

	2002	2001
Input VAT refunds	568	207
Income tax refunds	588	583
Reinsurance	140	115
Outstanding investment grants	166	0
Others	221	215
	1,683	1,120

Other assets totalling 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€ 8) as well as cash in other banking accounts of K€ 5,179 (previous year: K€ 2,320).

15. Prepaid expenses

The capitalised deferred charges and prepaid expenses primarily concern prepaid insurance premiums totalling K€ 93 (previous year: K€ 88).

16. Deferred tax asset

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 of only K€ 59 were capitalised as a precautionary measure for a foreign company even though the tax losses exceed this figure. 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. The valuation of the deferred taxes took into consideration the temporary increase in the German corporate tax rate of 1.5 %-points because of the flood solidarity tax set for the 2003 assessment period. In detail, K€ 2 were entered on the deferred tax asset side and K€ 8 on the deferred tax liabilities side. The development of the deferred taxes is as follows:

Deferred tax assets (in K€)	2002	2001
Tax loss carry forwards	284	236
Special item	8	25
Inter-company profit elimination and other deductible temporary differences	480	517
	772	778

Deferred tax liabilities (in K€)	2002	2001
Capitalised development costs and other deductible temporary differences	676	842
	676	842

Liabilities

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 § 207 AktG i.v.m. § 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 Directors according to § 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 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 § 4 Section 7 of the Memorandum and Articles of Association, was adapted in accordance with § 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 nominal value bonds entitle their owners to exercise a conversion right to acquire 1 new share in LPKF Laser & Electronics AG with an arithmetical share of the share capital of LPKF Laser & Electronics AG of € 1. The conversion price for the acquisition of such a share will be calculated on the basis of a formula reflecting a comparison of the increase in value of LPKF's shares compared to the German share index (DAX). When exercising the conversion right to acquire a share, a cash payment must be made corresponding to the amount the conversion price exceeds the proportional nominal amount of the bond being converted.

The term of the convertible bond is 5 years (maturity date 29 December 2003) with an annual interest rate of 5 %. In accordance with the resolution passed by the annual general meeting on 13 June 2002, the Board of 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 annual number of exercise periods increased to four. This means that the rights can be exercised four times a year in each case from the day 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.

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 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 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 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 Directors in agreement with the Supervisory Board and subject to all revisions arising from capital measures or a conversion of the company.

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

The new shares which are acquired by exercising the option rights are entitled to a share of the profits for the financial year in which the option rights were exercised. The shares required to fulfil the exercised option rights will be made available by a contingent capital increase. The share capital of the company currently 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 § 4.

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

The option holders can exercise the option rights in general up to 50 % not earlier than 2 years; 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) during the period from the day of the receipt to the day of exercising the right (performance target in the sense of § 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 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 conversion options in agreement with the listing requirements;
- the regulations concerning the treatment of option rights in special cases (e.g. the death or parental leave of an option holder);
- to determine reasons for termination in the interests of the company as well as regulating the terms of termination in detail, and in particular, to determine them more precisely when the employment relationship terminates for reasons for which an option holder is responsible (see (1));
- 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 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 afore mentioned beneficiaries in the first tranch. 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.

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 floatation costs were transferred from capital reserves to net income for the year.

18. Minority interests (in K€)

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

	2002	2001
As at 1 January	1,656	1,344
Additions	49	312
As at 31 December	1,705	1,656

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

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 executive members of the parent company. The calculations were made using the corridor method in accordance with IAS 19 and 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:

	2002	2001
Cash value of the non-externally financed obligations	257	179
Unreported time-adjusted losses	-54	0
Net debt reported in the balance sheet	203	179

The following amounts were reported in the statement of income:

	2002	2001
Ongoing office hours expenditure	11	14
Interest expenditure from obligations	13	13
Total expenses reported in the statement of income	24	27

The above mentioned amounts are included in the personnel costs; the interest expenditure on the obligations is reported in Note 8.

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

	2002	2001
Provisions for pensions as at 1.1.	179	191
Net expenditure reported in the statement of income	24	27
Others	0	-39
Net debt reported in the balance sheet as at 31.12.	203	179

The provisions for pensions were calculated using the following assumptions:

	2002	2001
Discounting rate as at 31.12.	6.0 %	7.0 %
Future increase in remunerations	0.0 %	0.0 %
Future increase in pensions	1.5 %	2.0 %
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€)	*2002*	*2001*
Corporation tax and solidarity surcharge	80	52
Trade tax	105	208
Other taxes on the basis of auditing	139	61
	324	321

The other provisions particularly include provisions for R&D payments, legal and consultancy costs, and for workman's compensation board and outstanding bills.

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

Provisions (in K€)	*As at 01.01.2002*	*Utilisation*	*Releases*	*Additions*	*As at 31.12.2002*
Provisions for pensions	179	-	-	24	203
Accrued taxes	321	260	-	263	324
Bonuses	157	157	-	224	224
Guarantees	310	268	42	278	278
Annual financial statement costs	133	133	-	250	250
Others	406	401	5	477	477
Total	1,506	1,219	47	1,516	1,756

21. Liabilities

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

Type of liability (in K€)	*Total amount*	*with a remaining term of*			*Secured amount*	*Type of security*
		Up to 1 year	*1 to 5 years*	*More than 5 years*		
Convertible bond	175	175	-	-	-	-
	(180)	(180)	(-)	(-)	(-)	(-)
Liabilities due to banks	2,692	364	1,021	1,307	1,994	*
	(3,842)	(1,253)	(1,027)	(1,562)	(2,190)	(*)
Prepayments received on orders	1,284	1,284	-	-	-	-
	(20)	(20)	(-)	(-)	(-)	(-)
Trade accounts payable	1,017	1,017	-	-	-	-
	(1,130)	(1,130)	(-)	(-)	(-)	(-)
Other liabilities	1,005	1,005	-	-	65	**
	(1,496)	(1,496)	(-)	(-)	(-)	(-)
	6,173	3,845	1,021	1,307	2,059	
	(6,668)	(4,079)	(1,027)	(1,562)	(2,190)	

** Land charge ** Security assignments*

Further note on liabilities:

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

In addition, LPKF d.o.o. has taken out an unsecured loan of KSIT 19,000, subject to interest of 10.5 % p.a. and a term ending in June 2003.

The market value of the fixed interest loan is K€ 2,568. The loans are specified for the financing of new construction measures and/or the acquisition of real estate.

The other liabilities include a loan totalling KSIT 15,000 taken out by LPKF d.o.o. subject to interest at 4.59 % p.a. and a term of one year which was granted by a closely associated company.

The other liabilities carry no interest.

Original loan (in K€)	*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

22. Bond

The debenture loan involves a convertible bond discussed in note 17. The share capital proportion was determined on the basis of the net present value method. Discounting was carried out using a standard market interest rate.

23. Deferred taxes

Deferred tax liability based on the capitalisation of development costs. The deferred taxes were calculated using the tax rate stipulated for each of the countries involved (cf. Note 16).

Other information

24. Cash flow statement

The cash flow from operating activities includes tax payments of K€ 974 (previous year: K€ 1,680), interest paid totalling K€ 262 (previous year: K€ 309) and interest received of K€ 156 (previous year: K€ 164). The short term financial assets refers exclusively to the shares in a money market fund reported in the balance sheet under Securities. The amounts reported in the balance sheet under Liabilities due to banks includes K€ 21 (previous year: K€ 996) current account liabilities as well as loan liabilities totalling K€ 2,671 (previous year: K€ 2,846).

25. Profit per share

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

Dilution of the earnings per share applies when the average number of shares in circulation is increased by including the issue of potential shares in connection with the LPKF Laser & Electronics AG convertible bond issue and the options issued as part of the share option scheme. Convertible bonds and options always dilute the earnings. In the 2002 financial year, the definite average share prices according to IAS 33 were below the exercise prices so that no dilution effects need to be taken into consideration.

	2002	*2001*
Number of shares undiluted	10,642,833	10,564,302
Effect of the issue of potential shares from convertible bonds and option scheme	0	152,662
Number of shares diluted	10,642,833	10,716,964
Consolidated earnings (in K€)	634	812
Elimination of interest expense for convertible bonds	0	9
Elimination of taxation effect on interest expenditure for convertible bonds	0	-3
Adjusted net results	634	818
Income per share (basic, in Euro)	0.06	0.08
Net income per share, diluted (in Euro)	0.06	0.08

26. Dividend per share

Dividends are only taken into consideration after a resolution on profit appropriation is passed by the annual general meeting. There are no plans to propose a dividend payment for 2002 at the annual general meeting on 5 June 2003.

27. Related parties transactions

Zeltra Naklo d.o.o., Slovenien
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€ 137 were purchased from this related party in 2002. In addition, the related party granted the Slovenian subsidiary a loan with a nominal value of KSIT 15,000 on 31 December 2002 subject to interest at standard market rates.

PMV d.o.o., Slovenien
50 % of the shares in PMV d.o.o. are held by a shareholder of the subsidiary LPKF d.o.o. In 2002, business relations with this company covered development and production services and rentals and/or licence agreements totalling K€ 382.

Franklin Trading N.V., Belgien
The managing director of LPKF Franklin Industries N.V. appointed to 31 December 2002, and the Supervisory Board members Klaus Sülter and Bernd Hildebrandt were shareholders of Franklin Trading N.V. up to 30 September 2002 from whom LPKF Franklin Industries N.V. leased the office space up to 30 September 2002. In the 2002 financial year, rent totalling K€ 10 was paid to Franklin Trading N.V.

Related board members and other closely associated natural persons
Through the exercise of an option, the company acquired another 31 % shareholding in Laserquipment AG, Erlangen from two members of the Supervisory Board at a total purchase price of K€ 240. In addition, loans held by these members of the Supervisory Board with a total nominal value including pro rata interest of K€ 432 was taken over. The loans are subject to standard market interest rates.

The managing director of LPKF Properties LLC granted this company a loan totalling K€ 178.

In addition, secretarial services totalling K€ 14 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€ 14.

On the balance sheet date, LPKF AG had liabilities due to members of the Supervisory Board of K€ 209. A member of the Supervisory Board provided the group with consultancy services totalling K€ 26.

In addition, one close relative of a member of the management 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 exception of the aforementioned, there are no other significant claims or liabilities against LPKF group companies with respect to related parties.

28. Corporate Governance Code

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

29. Other disclosures

Other financial commitments

Long-term real estate and building lease contracts exist for the offices of A-Laser, LPKF d.o.o. 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 rates contained in the results for the year € 19,479,00
· up to 1 year € 45,024,00
· longer than 1 year and up to 5 years € 70,569,00.

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 payables, other assets, liquid assets, payables associated with the convertible bond, liabilities due to banks, and other liabilities. Valuation was based on continued acquisition costs.

The “Financial assets available for sale” include the securities reported under current assets. This is a Dresdner Bank money market fund which was 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

In addition to original financial instruments, IAS 39 also regulates the reporting in the balance sheet of derivative financial instruments and hedging transactions.

No derivative or hedging transactions were in place on 31 December 2002. 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 KUS$ 280 were entered into to hedge against the currency risks associated with planned sales. These hedges gave rise to profits of K€ 1 and a loss of K€ 3 respectively.

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 effect on the financial strength of the group. Risk management is handled by the Board of 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.

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 only 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.

30. Others

The conditions according to § 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 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 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 Directors are:

- Dipl.-Ing. Bernd Hackmann, Chairman
- Dipl.-Ing. Dr. Jörg Kickelhain (Deputy Chairman of the Supervisory Board of Laserquipment AG, Erlangen)
- Dipl.-Wirt.-Ing. Christoph Wiese

The remuneration of the Board of Directors totalled K€ 810 (K€ 805). During the 2002 financial year, the Board of Directors received fixed salaries totalling K€ 719 and performance-related salary bonuses totalling K€ 91. In addition, the Board of Directors were granted 16,000 share options as part of the 2001 share option scheme as a salary component with a long-term motivation factor. As at 31 December 2002, the members of the Board of Directors held 283,650 (242,650) shares, which are broken down as follows:

Number of shares held by board members	*31.03.02*	*30.06.02*	*30.09.02*	*31.12.02*
Board of directors				
Bernd Hackmann	150,000	150,000	190,000	190,000
Dr. Jörg Kickelhain	92,600	92,600	92,600	92,600
Christoph Wiese	50	50	1,050	1,050
Aufsichtsrat				
Bernd Hildebrandt	884,250	884,250	899,850	904,150
Klaus Sülter	924,500	924,500	926,800	926,800

The members of the Supervisory Board are:

Bernd Hildebrandt	· Businessman (Chairman) · Supervisory board member of LPKF d.o.o.
Klaus Sülter	· Power of attorney for Cura Consult GmbH (Deputy Chairman) · Supervisory Board member of Bankverein Werther, Werther
Dr. Heino Büsching	· Lawyer/tax adviser · ISR AG, Braunschweig (Chairman of the Supervisory Board)

The remuneration of the Supervisory Board totalled K€ 186 (K€ 187).

31. Events after the balance sheet date
No significant events occurred after the balance sheet date.

Garbsen, 3 March 2003 LPKF Laser & Electronics AG

Sgn. Bernd Hackmann Sgn. Dr. Jörg Kickelhain Sgn. Christoph Wiese

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 2002. The preparation and the content of the consolidated financial statements according to the International Accounting Standards of the IASC (IAS) are the responsibility of the Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statement are in accordance with IAS.

We conducted our audit of the consolidated financial statement 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. 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 AG group for the business year in accordance with IAS.

Our audit, which according to German auditing regulations also extends to the group management report prepared by the Board of Managing Directors for the business year from 1 January to 31 December 2002, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the group's position and suitably presents the risk 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 2002 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, 17 March 2002

PwC Deutsche Revision Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Annual financial statement of LPKF Laser & Electronics AG

Assets	*31.12.2002 K€*	*31.12.2001 K€*
Fixed assets		
Intangible assets		
Software	84	62
Rights to use	18	36
	102	98
Tangible assets		
Land and buildings	3,719	3,886
Technical equipment, plant and machinery	370	415
Other equipment, factory and office equipment	884	966
Prepayments and construction in process	0	11
	4,973	5,278
Financial assets		
Shares in affiliated companies	2,894	1,242
Loans to affiliated companies	1,222	472
Participations	2	44
Loans due from other group companies	0	190
	4,118	1,948
Total fixed assets	9,193	7,324
Current assets		
Inventories		
Raw materials and supplies	4,517	3,710
Finished goods	2,148	2,896
Advanced payments	495	583
	7,160	7,189
Accounts receivable and other assets		
Trade accounts receivable	3,496	5,653
Accounts due from affiliated companies	2,149	3,729
Accounts due from other group companies	0	6
Other assets	1,004	717
including a term to maturity of more than one year K€ 140 (previous year: K€ 115)		
	6,649	10,105
Cash on hand, bank balances	3,353	255
Total current assets	17,162	17,549
Deferred charges and prepaid expenses	28	50
including disagio K€ 2 (previous year: K€ 3)		
Total assets	26,383	24,923

Liability and shareholders' equity	*31.12.2002 K€*	*31.12.2001 K€*
Shareholders' equity		
Subscribed capital (conditional capital K€ 953 (previous year: K€ 962))	10,648	10,638
Capital reserve	4,568	4,530
Net income for the year		
Retained earnings	4,028	2,966
Net income	772	1,062
	20,016	19,196
Provisions		
Provisions for pensions	235	213
Tax provisions	221	247
Other provisions	929	703
	1,385	1,163
Liabilities		
Bonds, of which convertible K€ 179 (previous year: K€ 184)	179	184
Liabilities due to banks	2,000	3,185
Payments received	1,227	20
Trade accounts payable	323	330
Accounts due to affiliated companies	801	567
Other liabilities	452	278
including taxes K€ 94 (previous year: K€ 134)		
including social costs K€ 116 (previous year: K€ 112)		
	4,982	4,564
Total liabilities	26,383	24,923

Annual financial statements of LPKF Laser & Electronics AG

	31.12.2002 *K€*	*31.12.2001* *K€*
Sales	19,259	17,477
Changes in inventories of finished goods and work-in-process	275	313
Own work capitalised	0	139
Other operating income	974	1,059
	20,508	18,988
Cost of materials		
Cost of raw materials and supplies	7,840	7,604
Personnel expenses		
Wages and salaries	4,939	4,423
Social security and pension costs	855	741
of which pension costs: K€ 67 (previous year: K€ 64)		
Depreciation and amortisation costs and other write-offs on current assets	660	720
Other operating expenses	4,797	4,619
	19,091	18,107
Income from investments	0	113
Income from profit and loss transfer agreements	60	591
Municipal trade tax participation passed on to a subsidiary	18	38
Other interest and similar income	147	91
there of from affiliated companies: K€ 76 (previous year: K€ 57)		
Other interest and similar expenses	169	213
Profit/loss from ordinary operations	1,473	1,501
Taxes on income	688	428
Other taxes	13	11
Net income	772	1,062
Retained earnings brought forward from the previous year	4,028	2,966
Net income for the year	4,800	4,028

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