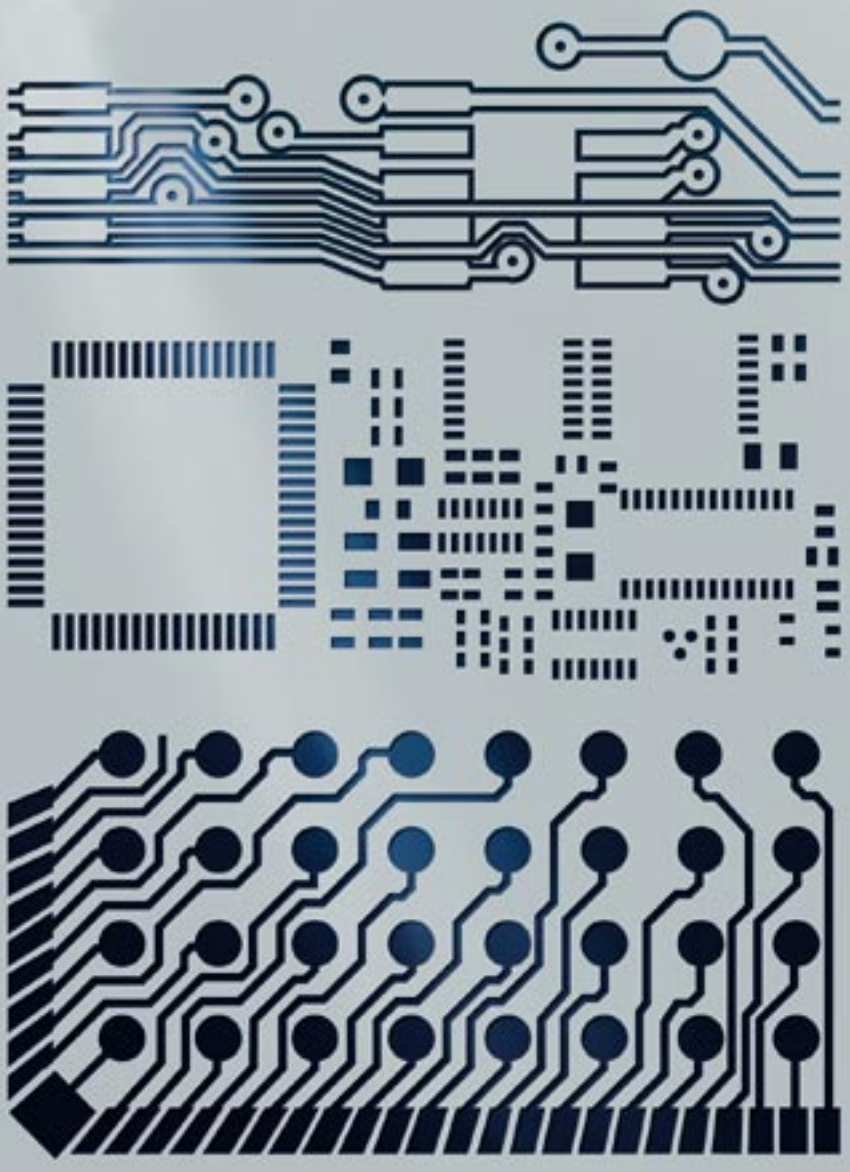
Annual Report 2000



LPKF
Laser & Electronics


LASERS FOR THE WORLD OF ELECTRONICS
LPKF
Laser & Electronics

LPKF Laser & Electronics AG, Garbsen near Hannover, is one of the international market leaders in the field of laser-supported application technologies for modern microelectronics. In the course of its 25 year history, the company has applied expertise, know-how and quality-awareness to develop highly successful solutions and sophisticated products, with the result that it has built up a first class reputation around the world amongst major clients and research institutes.

New LPKF headquarters

Reception

1976 Foundation of LPKF and introduction of the first prototyping systems
1980 Establishment of branch in USA
1984 Launch of a complete prototyping system (including CAD program)
1989 Entry into laser technology with the aim of developing economically-efficient laser technology products for the microelectronics sector
1991 Construction and move to new company headquarters in Garbsen
Entry into drive technology by founding LPKF Motion & Control
1993 Development of the StencilLaser
1994 Foundation of LPKF Slovenia
1996 Development projects: 3D-MID and Chip Size Packaging
1997 First MicroLine Laser prototype
1998 Conversion to stock corporation and IPO
1999 Co-operation agreements with Atotech Deutschland GmbH and MANIA Technologie AG in December
2000 Development of MicroLine Drill laser system for drilling and structuring printed circuit boards

Key Group figures at-a-glance	2000	1999	1998
Turnover (in DM million)	54.8	38.6	31.9
EBIT	12.3	9.5	8.1
Cash-flow	10.8	7.6	5.4
Investments	10.3	5.6	2.5
Earnings per share (in DM) – undiluted	0.59	0.42	0.38
Turnover according to countries (in DM million)			
Domestic	14.0	8.5	8.4
Rest of Europe	9.7	8.1	8.3
North America	15.5	11.4	7.6
Asia	14.1	10.1	7.3
Others	1.5	0.5	0.3
Turnover according to product (in DM million)			
Laser	27.8	17.2	15.6
Rapid Prototyping	20.9	17.1	13.4
Stencils	3.9	3.4	2.1
Others	2.2	0.9	0.8
Staff	186	122	92

Karl Jaspers

The future is open: open for opportunities

LPKF Board of Directors (from left) Dr. Jörg Kickelhain (R&D), Bernd Hildebrandt (Chairman of the Board of Directors), Bernd Hackmann (Production, Sales, Marketing)

Dear shareholders ...

Message by the Chairman of the Board of Directors

Bernd Hildebrandt

2000 was another significant year for LPKF Laser & Electronics AG: this, the second financial year of our company as a stock corporation was the one in which we planned to launch new laser systems on the market. These systems are intended to guarantee a boost in growth in the coming years. It is clear today that we have already largely achieved our objective. Our turnover figures not only reveal the further sales increase in the Rapid Prototyping and StencilLaser segments, they also include for the first time completely new products: MicroLine Laser for the surface structuring of ultra-fine circuits, MicroLine Drill for drilling and structuring, Polymer StencilLaser, FlexRouter (from a co-operation with Mania AG), ProtoLaser for fine structuring in the laboratory as well as ScanCheck for the automatic optical inspection (AOI) of stencils.

We have achieved the target figure we voluntarily raised. Naturally, one could have wished for even higher sales for one or another product segment, but what we considered, and still consider, to be more important is that we have confirmed our acceptance by the market. And this also means that with our highly innovative products we are also very well equipped for 2001 and subsequent years. Our systems precisely fulfil the main demand trends in the electronics market: ever shorter product life cycles for products that mostly have to be made using ultra-fine conductor technology. Our way forward is clear: to become the market leader with new processes that secure market leadership well into the future and to sell the products with a good margin. And we also hope that we can continue to rely on your confidence in us.

This year LPKF can look back on 25 years of success. I am also proud that I have been able to play a responsible role in the progress of the company and its workforce during this quarter of a century. This includes going public and IPO in the "Neue Markt"(New Market). And precisely here, in recent months in particular, we have demonstrated the solid foundations on which our company stands: in an environment where other companies have lost up to 90 per cent of their value, or in some cases, even gone bankrupt, LPKF has survived virtually unscathed. The reasons for this are obvious: on the one hand, our employees – our most important resource – are closely involved with the company, and on the other hand, the enormous potential of our innovative products is arguably unequalled. A great deal of effort was put into achieving this success. In the last twelve months I have devoted my time increasingly to strategic planning and investor relations. To ensure that this work is carried out even more successfully, I will be withdrawing completely from operative day-to-day business as Chairman of the Board of Directors to be able to work even more effectively in this respect as Supervisory Board Chairman.

LPKF right from the start, and unlike most other German companies, involved the Supervisory Board early in the decision making process along the lines of an American "Board". And this proved very effective thanks to the work of the former Supervisory Board Chairman Klaus Sülter. This active and not only "supervisory" Supervisory Board is to be strengthened even further by this move. As you know, these decisions regarding the making up of the Board of Directors have already been made – without haste and with a view to the future. My family and I have been associated with the company for a very long time – and this relationship is something that we also wish to maintain. I look forward to the continued good co-operation in the future!

Yours faithfully

Bernd Hildebrandt,
Garbsen, March, 2001

LPKF Laser & Electronics AG, Garbsen, Germany · 10,500,000 EUR

- **LPKF d.o.o.,** Kranj, Slowenien, 1,5000,000 SIT · 75%
- **LPKF Motion & Control GmbH,** Suhl, Thüringen, Germany, 192,000 DM · 50,94%
- **ELASER GmbH,** Suhl, Thüringen, Germany, 50,000 DM · 100%
- **A-LASER,** Beaverton, Oregon/USA, 250,000 US $ · 20% / 80%
- **LPKF Laser Components GmbH,** Garbsen, Germany, 25,000 EUR · 80%
- **Laserquipment AG,** Erlangen, Germany, 50,000 EUR · 19,99%
- **LPKF Laser & Electronics Inc.,** Wilsonville, Oregon/USA, 100 US $ · 60%
- **LPKF, Franklin Industries N.V.,** Mechelen, Belgium, 9,980,000 BF · 100%
- **LPKF Laser & Electronics France,** Lisses, France, 50,000 EUR · 94%
- **LPKF Tianjin Co., Ltd,** China, 600,000 EUR · 100%
- **LPKF Properties LLC,** Wilsonville, Oregon/USA, 100 US $ · 60%
- **PhotonicNet GmbH,** Hannover, Germany, 27,500 EUR · 9,09%

Prospects for the future ...


LPKF
LPKF

Controlled growth ...

Report of the Supervisory Board

Research and Development

The Supervisory Board herewith presents its third report on the progress of our company as a stock corporation

Five formal meetings took place during the reporting period. The main subjects of these meetings were the Board of Directors' reports on the situation of the company that were each presented by the Board of Directors with the associated figures. Problems and queries were discussed openly with respect to their relevance to the impact on the company. The necessary resolutions were elaborated unanimously. In addition, the Supervisory Board provided support on numerous occasions to the Board of Directors on matters concerning the future strategic development of LPKF AG.

The Board of Directors' goal is for the company's core business activities to grow in a controlled way through co-operations, entry into strategic alliances and acquisitions. The Supervisory Board in negotiations with potential partners enthusiastically supported this strategy.

Meetings between the Supervisory Board and the Board of Directors with fund managers and analysts during "road shows" were also just as successful and valuable for the company.

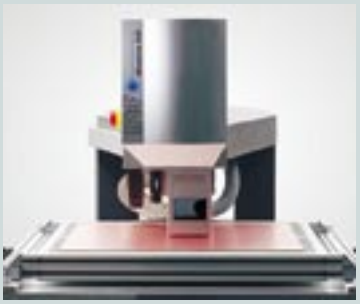
The objective and detailed discussions of published data with this group of people is important because their investment recommendations are followed by a large number of investors. This is another field where the Supervisory Board, after prior agreement with the Board of Directors, feels that it should not only actively support the Board of Directors in meetings, but also participate in the above-mentioned discussions.

As already reported previously, cooperative work with universities has brought significant success. In this regard, the University of Erlangen and the Lemgo Technical University have developed and planned numerous research projects together with LPKF.

We consider the close research cooperation with top universities to highlight the merits of our company, as well as being a challenge to realise the strive for know-how transfer from theory into practice.

The Supervisory Board places a very high priority on research and development. We consider co-operations along these lines to provide major opportunities to secure the market leadership and strong position of the company in its markets, as well as to underpin the future generation of value-added within the company.

In the last annual report, the Supervisory Board announced its firm intention to not only continue its previous practice of working closely, openly and effectively with the Board of Directors, but also where possible to intensify and further enhance these activities.


LPKF MicroLine Drill


Trade-fair booth at electronica2000 in Munich


LPKF MicroLine Laser

The Supervisory Board is well aware that the "LPKF model" is being scrutinised by an interested public as well as the shareholders.

The co-operation between the two official company bodies is obviously gaining in significance.

This also means that the job of Supervisory Board member is far more than an honorary position. An increasingly common opinion is, recognised experts and highly qualified managers should carry out this task, respectively, with the professionalism to properly carry out this task in close co-operation with the Board of Directors. When an internationally active and highly-regarded management consultancy like Heidrick & Struggles highlights that the work of a Supervisory Board is a professional responsibility which involves activating unused management resources within the Supervisory Board for the good of the company, it only remains for us to agree whole-heartedly and point to the way we have already put this into practice.

The evolution of the Board of Directors and the Supervisory Board as defined by German law into a management committee along the lines of an American "Board" is unmistakable – in particular in the case of companies with major institutional investors.

Although the change is only taking place slowly, we are convinced that we have already moved a good step forward in this regard. The regulations that control the co-operation put into practice by Boards of Directors and Supervisory Boards are not yet fully covered by the KonTraG law. The system practised by us as well as other companies may have some influence in this regard.

In accordance with its official obligations, the Supervisory Board appointed the accounting firm Societäts Treuhand Gruppe GmbH, Wirtschaftsprüfungsgesellschaft, Hannover, on December 21, 2000 to audit the 2000 annual financial statements. The audit report has now been reviewed and given unconditional approval by the auditor.

The auditor participated at the relevant meeting of the Supervisory Board on March 14, 2001 and provided additional information when requested on the auditing of the annual financial statements.

In accordance with the legislation, the Supervisory Board in turn reviewed the annual financial statements, the management report and the profit appropriation proposal and thus approved the annual financial statements. They are now authorised.

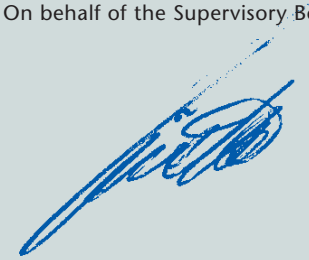
Moreover, approval was also given to the proposal for the appropriation of the net income for the year totalling DM 7,061,191.47, by utilising a part totalling DM 1,260,000 to pay a dividend of DM 0.12 per share with dividend entitlements and to carry forward the remaining net income for the year of DM 5,801,191.47.

The consolidated financial statements, the management board report on the state of the company and the auditor's report were available for reference during discussions with the Board of Directors and the auditor. They were incorporated in the review and acknowledged with approval.

The Supervisory Board thanks the Board of Directors, the works council and all of the employees for their commitment to the company and for the work they have carried out. Without this dedication, LPKF would not be what it is today, namely a "pearl of the new market", to quote the shareholders' representative associations at last year's annual general meeting.

Garbsen, March 14, 2001

On behalf of the Supervisory Board



Klaus Sülter

Systematic innovations ....

LPKF Group management report

Development of the sector and the overall economy

The electronics market was a significant engine of growth for the global economy in the reporting period. The mobile phone market in particular continued its amazing success story. The VDMA (Verband Deutscher Maschinen- und Anlagenbau e.V. – German Mechanical and Plant Engineering Association) forecasts that the total electronics industry will have a market volume of US $ 1.34 trillion in 2004.

The global printed circuit board market can be used as a guide for LPKF. According to preliminary information, this grew around eight per cent during the year. Although no precise data are currently available for 2000, VDMA is certain that 2000 was a year of record growth for the printed circuit board industry. Growth in 2001 is expected to be less dynamic. However, VDMA still forecasts that this will be a very good year around the world. Important driving forces now as well as in the future, are telecommunications, data processing and automobile electronics.

The trend is increasingly shifting towards production technologies for new semi-conductor generations. The increased use of CSPs (Chip Size Packaging) will accelerate even further the demand for HDI circuits (High Density Interconnect). This opens up significant market opportunities for LPKF's MicroLine series in particular.

The dynamic development in the electronics industry demands continuous new research and development. For instance, the innovation cycle in the mobile telephone sector has reduced to six months. The "time-to-market" factor has gained increasingly in significance. This opens up excellent market opportunities for LPKF's Rapid Prototyping division. Special importance is assigned in this regard to LPKF's product strategy of serving the market as a system supplier.

Turnover and sales development

The development in Rapid Prototyping turnover during the reporting period was very positive with a growth of 22.1 per cent. LPKF is a system supplier in this segment and has succeeded in considerably improving its range of products. The new products have enjoyed very high levels of acceptance by the market and have made a considerable contribution to the growth in the Rapid Prototyping division. The ProtoLaser, a combination of laser technology and circuit board plotter, has proved its market acceptance by the first successful sales. This system enables ultra-fine structuring of 40-50 µm to be achieved already during the production of a prototype.

Turnover of laser systems grew by 61.7 per cent. The excellent success of this segment was due to the first sales of the new product lines such as the MicroLine Laser family, Polymer StencilLaser, FlexRouter, ScanCheck and MicroLine Drill. Two machines were sold immediately after the presentation of the new MicroLine Drill system at electronica2000 in Munich.

This new development is a combined microvia drilling and structuring system especially designed for average printed circuit board lot sizes. Eight new developments in all segments were launched on the market in 2000. They were rewarded with immediate

sales. These new products played a significant part in the company's growth.

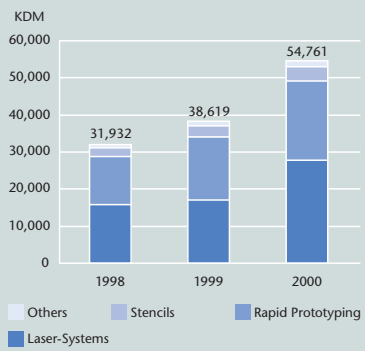
The sales distribution according to countries is well balanced and represents a good spread of risk – there is no major dependency on either country, major company or major client.

Turnover distribution according to countries

Production and procurement

LPKF Slovenia d.o.o./Kranj is the main supplier of circuit board plotters, laser sources and the ScanCheck system. The production range was strategically expanded to harness additional synergies for manufacturing cost optimisation. The global procurement prices have risen in the face of high demand. In addition, order fulfilment times for components have also increased. The rise in the material application ratio reflects a change in the product mix but can also be attributed to the increase in prices of globally procured components.

Turnover distribution according to segments



This is partially compensated by producing at subsidiaries in Slovenia. The high growth in turnover, echoing innovation dynamism and the associated extremely high material throughput within the company, was fully realised by the introduced capacity expansion measures.

The introduction of the DIN EN ISO 9001:2000 quality management system is going ahead on all fronts. Parts of the system are already being successfully used. The certification audit for the overall system is planned for the third quarter 2001.

Investments

The staff moved into the new building at the Garbsen headquarters in autumn 2000. Investments totalled 3,945 KDM. In addition, the capacity at LPKF Motion & Control in Suhl was also increased. This involved investments totalling 2,700 KDM.

Investments concentrating on R & D laser systems are planned in the 2001 financial year. This involves the systematic continuation of the dynamic innovation strategy to ensure that customer-orientated products can be rapidly launched in the market. There is also a continuous flow of investment in the Rapid Prototyping division to ensure the maintenance of the technical leadership in this segment as well.

LPKF Tianjin Co. Ltd. was established in China as a one hundred per cent subsidiary.

LPKF Laser & Electronics AG took a 19.9 per cent shareholding in the authorised capital of Laserquipment AG. LPKF also acquired a stake of 9.09 per cent in PhotonicNet GmbH.

Development

Financing measures

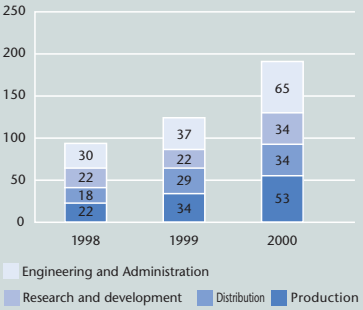
All of the R & D costs and investments were funded from liquid assets, as was the interior of the new building in Garbsen. The same also applies to the acquisition of shareholdings and investments in start-ups: LPKF Tianjin Co. Ltd., Laserquipment AG and PhotonicNet GmbH.

The new buildings in Garbsen and Suhl were externally financed with long-term loans.

Personnel

On the balance sheet date at the end of the 2000 reporting year, the workforce had risen from 122 to 186. The new staff are involved in production, sales/marketing, R & D and engineering/administration.

Personnel



Report on affiliated companies

Elaser GmbH

Turnover in 2000 dropped by 13.8 per cent compared to 1999 to with a good sales return at the same time. This is attributable to the strategic role of the company that provides a stencil manufacturing service for the period until a customer buys its own StencilLaser. The turnover in 2001 should be at a slightly higher level.

A-Laser Inc. in the USA

The company achieved its planned targets and is now an important service company in the North American market covering all aspects of stencil technology.

LPKF Motion & Control GmbH

The new building (total investment 2,700 KDM) was occupied in the reporting year 2000. The capacity extension enabled the company to completely fulfil its production plans. Employing new staff intensified development. A new system was developed and produced for the quality control of very complex stencils for printed circuit board production. The first sales of the system were achieved in 2001. New control systems and drives for rapid prototyping and laser systems are currently being developed. Through the very high levels of technical excellence in drive and control technology, the company made a major contribution to LPKF's global success.

LPKF d.o.o. in Slovenia

New equipment in Slovenia considerably improved the quality of the circuit board plotters that the company supplies. In addition, it was also possible to optimise manufacturing costs on the basis of synergies. The development and production of laser sources for StencilLasers and MicroLine Drill was successfully implemented. A completely new technical approach has been taken for the MicroLine Drill in particular, which creates significant market advantages for LPKF. The company chose a location with tax advantages when selecting the site for the company in 1994. The subsequent cancellation of this favourable tax status led to the demand for paying high levels of back-taxes. The Group considers this demand to be unjustified and initiated legal proceedings in 1999. The legal proceedings continued through 2000.

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 started in 2000 as planned.

LPKF Laser & Electronics Inc. in the USA

This company acts as a distribution and service partner for the Group in North America. It strongly boosted the sales of Rapid Prototyping in particular. It now has a well-established reputation in the North American market.

LPKF Properties LLC

The business purpose of this company founded the previous year is to provide LPKF Laser & Electronics Inc. with real estate. The company owns the company offices currently used by LPKF Laser & Electronics Inc.

LPKF France S.A.R.L.

This company is initially involved in the sales of rapid prototyping systems in France. It completely fulfilled its targets in the reported period.

LPKF Franklin Industries N.V.

This company generated a loss of 154 KDM. The remaining shares in the company were bought the previous year to ensure the faster repositioning of the company and to bring it back into profit. The measures to improve the cost structure have generated their first positive results and considerably reduced the loss compared to the previous year. The full effects of the measures will not be shown until 2001.

LPKF Tianjin Co. Ltd.

LPKF Tianjin Co. Ltd. was founded in China as a one hundred per cent subsidiary. In addition to sales and distribution, the company will also manufacture samples of prototype circuit boards and stencils. Services such as maintenance and repair work will also be run from this location. This measure has been implemented to penetrate the Chinese growth market faster and more comprehensively than was previously possible on the basis of company representatives.

Laserquipment AG

LPKF Laser & Electronics AG acquired a 19.9 per cent holding in the share capital of Laserquipment AG. The purpose of the company is to develop, produce and distribute two and three-dimensional system solutions for laser plastic welding. The target markets are the automobile, telecommunications and consumer electronics industries. Laserquipment supplements the range of LPKF products and services in a highly innovative way, particularly in the field of 3D-processing.

PhotonicNet GmbH

LPKF has a holding of 9.09 per cent in PhotonicNet GmbH. This establishes a competence centre for optical technologies. The company is a public-private partnership involving several highly respected companies. The aim of the project is to accelerate the development of optical technologies in Germany. A particular focus is on the development and expansion of laser technologies within a large range of industrial and medical applications. The new company will make expertise available, arrange alliances and recruit and develop highly qualified young staff.

Research & Development

The Research & Development department continuously works on customer-specific structuring projects for the ultra-fine conductor industry. The market launch of the MicroLine systems was realised in the reporting period. In addition, 3-D MID technology is currently at a very significant stage. The development of laser-activatable thermoplastic materials for the additive and selective – and therefore pro-environment – metal plating of plastics such as polypropylene made major progress with respect to technology, materials and manufacturing costs. A 3-D laser system (including controls) with eight axes for structuring three-dimensional housing components was developed and produced in 1999. A pilot production plant for the manufacture of injection moulded granulates was also installed in the Laboratory for Microsystem Technology at the Technical University Lippe in Lemgo. The current production capacity is approx. 40 t/year. This is adequate to provide samples to interested companies as well as for the production of medium-sized series of 3-D MIDs.

Part of the BMBF-funded "MECHATRONIK" follow-up project involves the transfer of the research & development results already achieved onto high temperature thermoplastics. This will be realised from January 1, 2001. The project also involves the further development of 3-D MID laser systems for ultra-fine conductor path structuring. The funding constellation was modified in advance for the material development aspect in particular, so that the associated developments are at LPKF's expense with the aim of enabling the know-how that is gained to be exclusively available to the company for commercial use. To guarantee that all partners can carry out their allotted tasks within the project, LPKF has pledged to make available the compound material in the form of granulate for the whole of the project term. Laser systems for the production of polymer stencils and for handling flex-circuits will round off the development work. In the reporting period, the trend towards the miniaturisation of electronic circuits, and thus the use of high-precision laser systems, developed even faster than forecast in preceding years. The investment in development in the past four to five years will therefore generate even better returns in the following years than predicted. Because of the demands of the printed circuit board market, a very high level of market acceptance is forecast for the flex laser technology as well as the 3-D laser technology. However, there may be time lags involved in the launching of these technologies. There is no doubt about the fact that the developed technologies will be used, only about the precise time when they will be picked up by the market.

Risk management system

The company's business environment is characterised by increasing market globalisation, further strengthening of the competitor situation as well as increasing technological complexity. With the "Law on Control and Transparency in Business" (KonTraG), a move has been made to improve the legal basis for stock corporation risk management systems and internal control systems. The introduction of the DIN EN ISO 9001:2000 quality management system will also play a part in minimising risks by enhancing the company's process-chain transparency.

The establishment of a more efficient and forward-looking risk management structure is an important task for LPKF Laser & Electronics AG, and one which will add value. The primary objective is not to avoid all risks, but to identify and evaluate them, and thus to actively control the risks as part of our global risk strategy. The existing instruments will be continuously improved and reconfigured to identify and control risks.

Business risks

The global markets of the electronics and printed circuit board industries are subject to cycles marked by the introduction of new technologies as well as associated with changes in growth. As a supplier to the electronics industry, the LPKF Group's market is in the capital goods sector and therefore not directly affected by the cycles in semi-conductor technology. Investments in the technologies offered by the LPKF Group are associated with rationalisation opportunities and competitive advantages and are thus also in demand even in periods of recession. Risks associated with economic cycles are therefore minimised although not completely excluded.

Dependence on suppliers

The procurement of components and services from external suppliers are associated with basic risks involving delivery times and changes in price. There are no direct dependencies in this regard on one or more suppliers. However, price changes are a parameter, which have a special influence on business activities.

Dependence on customers

The regional spread of our sales markets is balanced and therefore not associated with any special risks. There are also no major clients accounting for a significant share of turnover. The structure is therefore very homogenous and well balanced. New customers are first investigated with respect to their creditworthiness prior to concluding a deal, and suitable measures are introduced to minimise risk when appropriate.

Exchange rate fluctuations

The exchange rates of foreign currencies into DM and EUR are in part subject to major fluctuations. The only exchange rate of importance to LPKF in this context is the one to the US Dollar. Exchange rate hedging instruments are used to reduce risks as far as possible. Fluctuations in exchange rates can have a positive as well as a negative effect on the company's financial results.

Research & Development

The success of the LPKF Group significantly depends on the speed with which new developments can be pushed from initial production to series production. The first sales after presenting a new development are a positive indicator. However, holistic concepts have to be elaborated with the potential customers to harness all of the benefits of the technology on offer.

Safeguarding the "expertise advantage" also involves applying for patents where relevant. The time component is a basic risk-related parameter in all R & D projects aiming at the series-production of new products. Risks are associated not only with the timing but also with the sale of the first products from the series production run. Considerable investment in R & D projects is also planned in the future, although the relative share of turnover will decrease.

Staff risks

Qualified employees are highly sought after. LPKF has no problem in recruiting sufficient numbers of highly qualified staff thanks to its very close university contacts.
The company runs a staff share participation scheme on the basis of convertible bonds to underpin the close association of the staff with the company. New concepts along these lines will also be relevant in future to reward and keep the special expertise of the out-performers in the company.

Business report

Business in 2000 ran according to plan overall and can be described as positive. One of the important transactions in the financial year was the co-operation agreement concluded in December with Atotech GmbH, Berlin, which was extended by a co-operation agreement with Lambda Physik AG, Göttingen. These moves safeguard the supply of adequate numbers of laser sources. The first MicroLine Laser was delivered to Atotech and will be integrated by spring 2001 in a complete printed circuit board production process. Atotech will then immediately begin marketing this process. The co-operation with Lambda Physik AG secures the supply of adequate numbers of laser sources.

Another co-operation agreement was realised with Enthone-OMI GmbH, Solingen in the third quarter and takes the form of a R & D co-operation for laser-structured ultra-fine circuits. The results of this co-operation are expected to be generated during the course of 2001. These new co-operation agreements will lead to the new development of laser processes which may significantly influence the course of business in the following years. Also worth mentioning in this regard is the existing co-operation with Mania AG, Weilrod.

So far, two FlexRouters have been delivered as demonstration systems for the processing of flexible circuits – there were no other sales during the reporting period. The new company holdings were acquired on the one hand to specifically round off the technology skills base, and on the other hand to improve LPKF's global market presence.

The company's asset and financial situation is stable. The cash flow statements reveal the high level of investment activity. These include R & D projects on the one hand, and increases in capacity and investment in shareholdings on the other hand. The significant increase in accounts receivable is attributable to the strong turnover towards the end of the year. The inventories have been systematically built up to safeguard the high levels of service provided for our customers.

The rise in liabilities is associated with the long-term loans for the new buildings in Garbsen and Suhl.

No increase in capital is currently planned. The need for this may arise as a consequence of acquisitions or a very strong increase in demand for laser systems.

The company's earnings situation is good.

Outlook

The future development of the company will be determined on the one hand by innovation-related dynamism that will have a significant effect on the course of our business in subsequent financial years, and on the other hand by harnessing synergy effects. This is the background against which the forecasts for turnover and the further increase in profitability in future have to be seen. The capacity expansions achieved in Garbsen and Suhl in the reporting period are adequate to achieve the growth targets. The expansion of sales and distribution activities in China is also an important component in the opening up of a market that in future will be associated with dramatic growth in the electronics sector.

In addition, the holdings in Laserquipment AG and PhotonicNet GmbH are strategic investments to round off the global presence of the LPKF products. They also reflect the competence of the Group in all aspects involving 2D and 3D technology, printed circuit board technology and laser technology.

The future development of the company will be emphatically categorised by highly innovative development work and the implementation of the corporate strategy of establishing worldwide acceptance. This involves technologies that lie in the future, as well as systems and processes in the final stage of the development pipeline. The above mentioned technological risks and uncertainties of market acceptance go hand in hand with the enormous opportunities open to companies actively engaged in the electronics growth market. This constellation can result in short-term changes to target figures in the light of modifications to the product mix. One thing is certain: the trend goes towards miniaturisation and evershorter life cycles.

Events after the balance sheet date

In January 2001, LPKF Laser & Electronics AG acquired five thousand of its own shares. No other events influencing the situation of the company as presented in the attached consolidated financial statements took place after the end of the financial year.

LPKF Laser & Electronics AG · Garbsen, February 16, 2001

Bernd Hildebrandt Bernd Hackmann Dr. Jörg Kickelhain

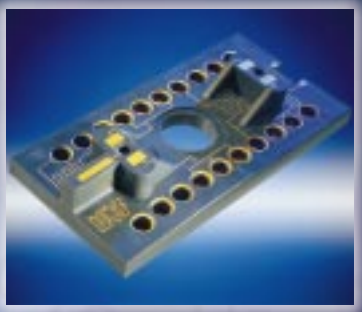
Group net result

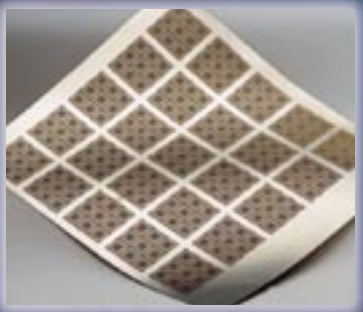
Company bodies

The annual general meeting

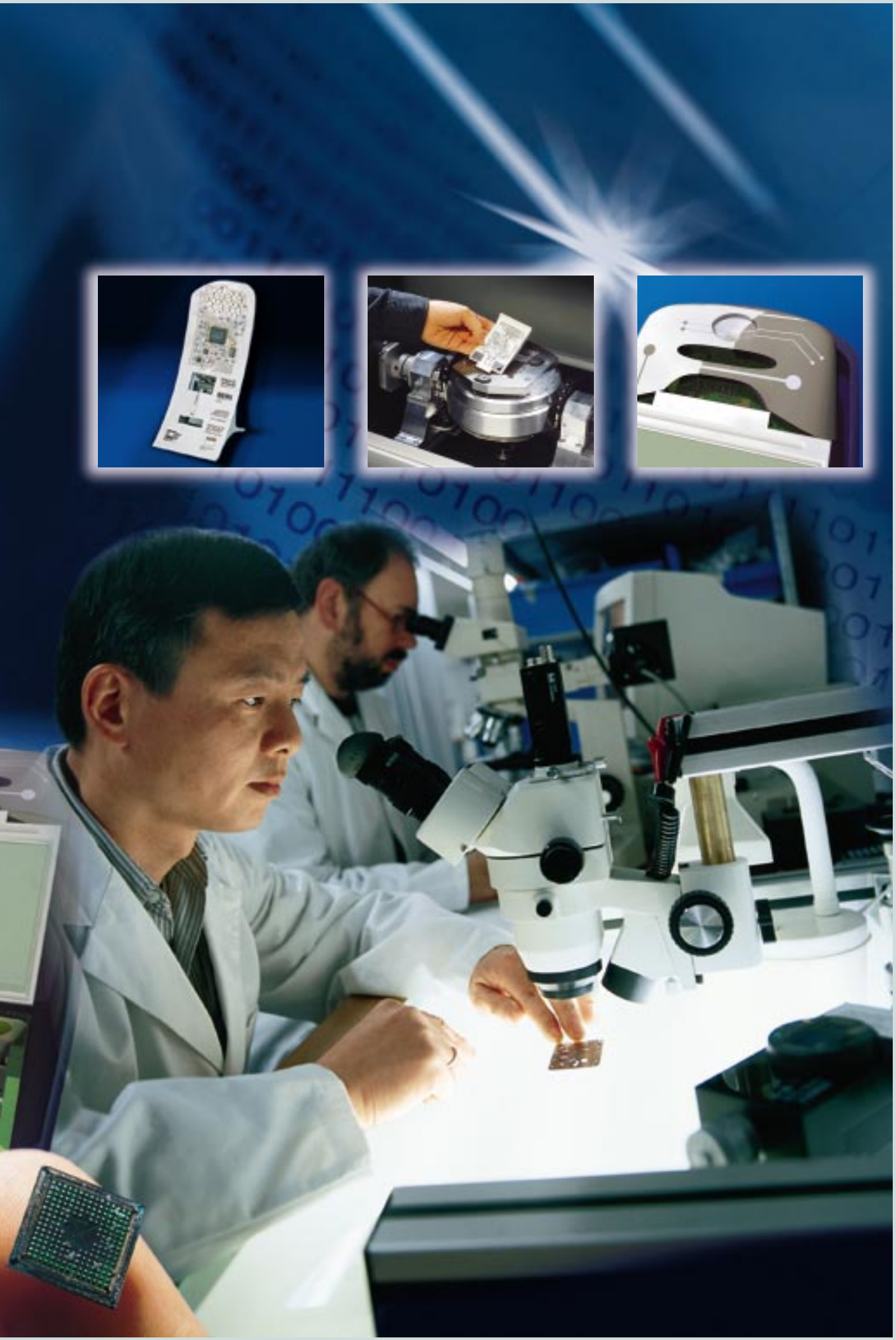
The Supervisory Board
Klaus Sülter · Chairman
Dr. Heino Büsching · Deputy Chairman
Udo B. Hartmann

The Board of Directors
Bernd Hildebrandt · Chairman
Dipl. Ing. Bernd Hackmann
Dr. Jörg Kickelhain





Key technologies for the future ...



Success lies in the detail ...

Electronics growth market

The electronics market – opportunities and challenges

2000 was the most successful year ever for the electronics industry. The total volume of the world's largest market exceeded US $ 1,000 billion for the first time. This figure marks the latest milestone in a success story going back more than twenty years.

For more than two decades the average growth rate for electronic appliances and equipment has been more than eleven per cent.
If this trend continues, the value of produced goods in 2005 will reach the record figure of US $ 2,000 billion (source: VDMA-Market Information Productronic/ Economic Report 09/2000). This development is also associated with much stricter production conditions. This involves two trends in particular which have to be tackled by manufacturers and designers: increasing miniaturisation and considerably faster development speeds.

Because of the increasing competition, the life cycles of electronic products in recent years have been dramatically shortened. Development periods of several months which were normal until recently are no longer acceptable. Time-to-market and time-to-profit are becoming the factors that determine success or failure for designers and producers. This consequently means that the production numbers of each product are also lower. As a result, new technologies are required which make it possible on the one hand to accelerate the development process, and on the other hand, to manufacture small and average series at an economical price.

This pressure is intensified by the trend towards increasingly smaller and lighter devices with a higher output. Because more and more functions have to be integrated in smaller and smaller spaces, conventional methods soon reach their limits when it comes to printed circuit board production. The need to turn to technologies appears to be unavoidable.

Shaping new markets with know-how

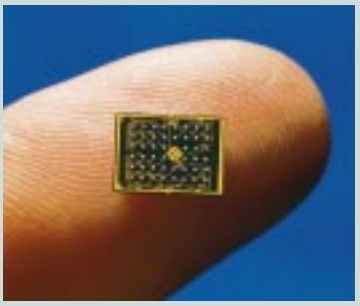
As a designer and distributor of systems and processes for electronics production and circuit production in particular, LPKF Laser & Electronics already identified these trends some years ago. The company searches for the optimal technical solutions – often by working closely with its clients – with the aim of satisfying the challenges facing a strongly growing market. One of the principles of LPKF's corporate philosophy in this regard is not to jump on to "moving trains" but rather to look for new and innovative processes. The goal of this corporate policy is: identify new markets, establish, expand and maintain supremacy.

One of LPKF's recipes for success has always been to develop all of the key components itself where possible: from software to mechanics, right through to control technology and in-house laser technology. This ensures perfect harmonisation and supports the provision of very simple and rapid service. Our clients, which include a number of multinational electronics companies in addition to small and medium-sized producers, recognise and appreciate these advantages. The market supremacy which LPKF has established for most of its products also places the company in a position to set benchmark prices itself and to generate optimal value-added.

Laser technology revolutionises electronics production

The experts are unanimous: laser technologies are increasingly gaining in importance for future production processes in the electronics industry. According to the sector, the world market for laser material processing systems will grow to around DM 13 billion by 2004 and therefore double from today's figure (source: Optech Consulting PK 04/00). A key role is played by laser systems in the miniaturisation of electronic components in particular. Another important aspect here is the ultra-fine structuring of circuit boards with high integration densities or HDIs (High Density Interconnects) that are used today in mobile telephones, camcorders, organisers and digital cameras.

The putting into practice of innovative concepts for installation and connection technology (packaging) would be either not possible or only incomplete without the application of laser technology.



CSP on a finger

Key technology for the next chip generation

One of the main fields of application for laser technology at LPKF is the StencilLaser family. The quality of laser-cut stencils for solder paste printing is a key factor in minimising the reject rate during the mass production of electronic components. It guarantees the economical and precise application of solder paste on circuit carriers. With the introduction of laser-cut metal stencils, LPKF was already able to establish a reliable and environmentally friendly alternative to the previously conventional etching technology. A further step forward was made with the launch of the LPKF Polymer StencilLaser that now makes it possible for the first time to create stencils from thin polyimide films. In addition to reducing the reject rate even further, this material also makes it possible to create considerably finer structures using the solder paste printing method (down to 50 µm). With this future-oriented technology, which e.g. is indispensable for connecting the next chip generation to circuit boards, LPKF further consolidates its leading position in the growth market for StencilLasers.

The future is called MicroLine

It is now already clear that conventional structuring processes will soon reach their limits in HDI boards. The standard structure widths in this sector are already expected to be approx. 30 µm in 2003 and even down to 20 µm in 2006 (source: The Board Authority 10/99). With the MicroLine Laser, LPKF has created a tool that already fulfils these standards today. The term CSP (Chip Size Packaging) is inseparably linked with the change of technology in the printed circuit board sector. CSP involves a revolutionary packaging variant for semi-conductors which makes it possible to reduce the component size of future electronic component generations to a minimum.

The share of chips in CSP is currently US $ 1.6 trillion It is forecast that this market will have a share of more than US $ 8.6 trillion by 2005 (source: TechSearch International). Realising the extremely fine conductor paths and insulation channels required is currently only achievable with the help of MicroLine technology combined with environmentally friendly metal-coating technologies.

In co-operation with Atotech Deutschland GmbH, LPKF succeeded in integrating MicroLine technology with conventional etching methods to create a new method for the mass production of high-resolution printed circuit boards. This technology makes it possible to create ultra-fine structures of up to 30 µm by combining chemical etching and laser technology. This combination enables the etching process to be more effective. Board manufacturers use etching methods for around 98 percent of their production today. MicroLine technology enables them to make the move to HDI technology in an economical way largely without the need to become involved in expensive upgrading.

3D circuits – from housing to carrier

The integration of mechanical and electronic components is a quantum jump in the miniaturisation of electronic assemblies. This “3D-MID” technology involves the housing becoming a type of three-dimensional circuit board, and thus the circuit carrier. Rational production, new freedom for component design, and shorter processing chains are the most important advantages of this technology that is creating more and more interest in the circuit board industry. LPKF is able to modify plastic granulates in a special way so that they can be activated by laser light. Conductor path structures can then be metallized out on these activated areas in chemical baths. This method is now ready-for-market and is currently being adapted for several materials of interest to the electronics industry. LPKF has thus again played a major role in developing a market that promises enormous growth potential.

LPKF ScanCheck (AOI system)

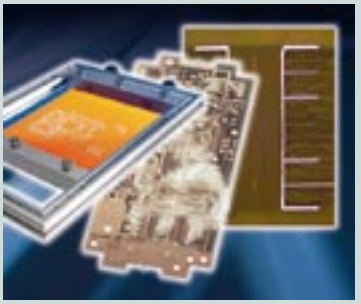
Process control at an extremely high level

Quality assurance is gaining in importance amongst industrial companies not least because of ISO 9000 certification. Manufacturers and users of stencils in particular cannot and will not any longer do without a reliable method for testing their products. LPKF therefore provides a system for the optimal process control of stencil fabrication. The LPKF ScanCheck testing system rapidly and reliably identifies a wide range of faults in solder paste stencils from production defects to processing faults right through to "damage during use". With the extended LPKF QuickMeasure inspection and measuring system, it is also possible to measure stencils in a highly precise way. For instance, this equipment enables the random sampling and measurement of particularly critical zones. The printed inspection reports are valid test certificates and also an effective marketing tool. The introduction of the two systems has enabled LPKF to set new standards for the quality control of solder paste stencils.


LPKF ProtoMats (circuit board plotters)

In-house prototyping boosted

The rapid development of the electronics market also represents a new situation for development laboratories. There was clear evidence last year of the extremely tight time budgets now involved in the development of new products. The complete production of printed circuit board prototypes increasingly needs to be carried out on site independently of external service providers. Designers are therefore more than ever dependent on technologies that enable them to fulfil all of the conditions required for the production of a fully functioning prototype in their own laboratories. LPKF is the only company in the world that supplies this market with complete solutions and the necessary processing expertise. Moreover, the increase in sales, particularly in the USA, as well as the rise in demand for high-quality equipment, highlights that in-house prototyping is now on the way to becoming an industry-wide standard.


Rapid Prototyping application examples

LPKF sets new benchmarks for prototype production by its pioneering combination of conventional plotting technology and laser technology. Technical excellence in these two core business areas are synergised here into a future-oriented technology that also enables laboratories to advance into the field of ultra-fine structuring. LPKF's innovative work thus supports the development sector in equipping itself for the next important trend: the miniaturisation of assemblies.

Drilling and structuring ...

First LPKF MicroLine Drill installed at a client's factory
Ernst-Christoph Grüter, managing director
Korsten & Goossens GmbH

A world's first in six months

Last year's introduction of a laser drilling machine based on unique technology was a superb example of the company's customer-oriented development work. The development was initiated by considerable pressure from the market that already required printed circuit board (PCB) manufacturers to equip their production technology for the production of high density interconnects (HDIs). Many are therefore compelled to invest in the indispensable laser drilling technology and micro structuring which this demands. The high investment costs were previously an insurmountable barrier for medium-sized PCB manufacturers. The launch of the LPKF MicroLine Drill now also enables these printed circuit board manufacturers to produce HDIs. Our product is a combined system for structuring ultra-fine circuits and drilling micro vias (micro vias that connect various layers of multilayer circuits). The system is based on a technology that LPKF had already partially developed. This enabled the development time to be reduced to an incredibly short period and made it possible to keep down the price.

Diary of an innovation

Agenda:

April 2000

Several printed circuit board manufacturers inform LPKF of their interest in a combined laser system that integrates the possibility of microvia drilling and ultra-fine structuring. The appliance required has to be able to drill microvias for multilayer circuits as well as to generate ultra-fine structures between 30 to 50 µm (as required for HDI circuit boards). Such a solution is commercially interesting for small and medium-sized producers in particular. LPKF was identified as a company that by combining both technologies has the potential to provide this customer group with a dual device at a reasonable price.

Korsten & Goossens GmbH with its headquarters in Haan near Düsseldorf has been manufacturing printed circuit boards for more than thirty years.

May 2000

A market survey and competitor analysis is carried out and reveals that microvia drilling currently enjoys extremely high growth rates. In the next few years, this sector alone is forecast to require 4.000 new devices (source: CircuiTree 12/00). The sales potential for a device that is also capable of micro structuring could therefore be concluded to be well above average.

June 2000

The first feasibility studies are carried out in cooperation with LPKF d.o.o. in Slovenia. Basis is the use of an already existing in-house laser system developed using the experience gained in the StencilLaser field. Tests carried out on the usual circuit board materials used in the market generate very promising results. The system is then specifically further developed and optimised after proving its feasibility in principle in several test runs.

August 2000

The first samples of microvias and structures are sent to potential clients. These clients are able to evaluate the samples in their own applications and further process them to test various aspects, including compatibility with the etching media and standard chemicals that they use. These tests all reveal that the system can be fully integrated into each of these companies' in-house production lines, and that this application can be put into practice without any delay. This information initiates further development in close collaboration with future users.

September/October 2000

The first prototype is ready after a development period of only three months. More samples with further optimised microvias and structure quality are sent to clients. The further development of the system now increasingly takes into consideration suggestions for improvements with respect to the quality of results and special customer demands.
The throughput capacity of the appliance is considerably increased. An operating software concept is elaborated.

LPKF MicroLine Drill

November 2000

The MicroLine Drill is presented to the public for the first time at electronica2000 in Munich, the world's most important electronics trade fair. There is enormous interest in the latest LPKF product which combines for the first time the technical options of microvia drilling and ultra-fine structuring. This interest clearly underlines the pressure that manufacturers are now under to equip their production chains with HDI-compatible technology. It also shows that the LPKF MicroLine Drill perfectly fulfils this need. The first system is already sold during the trade fair.

December 2000/January 2001

Another system is sold to a printed circuit board manufacturer. The equipment is installed. LPKF implements the software. Additional system optimisations are carried out in co-operation with the client.

February/March 2001

LPKF initiates a worldwide marketing campaign for the MicroLine Drill.

Growth engine – electronics ...


Die Hauptversammlung
Der Aufsichtsrat
Klaus Sülter · Vorsitzender
Dr. Heino Büsching · stellvertretender Vorsitzender
Udo B. Hartmann

Contents

Statement of income

	Notes	01.01.-31.12.2000 KDM	01.01.-31.12.1999 KDM
Sales	(1)	54,761	38,619
Increase in finished goods and work-in-process		2,001	3,631
Own work capitalised	(2)	2,832	2,950
Other operating income	(3)	2,728	2,017
		62,322	47,217
Cost of materials	(4)	17,172	12,099
Personnel expenses	(5)	15,590	11,388
Depreciation and amortization	(6)	4,202	3,016
Other operating expenses	(7)	13,061	11,390
Operating profit		12,297	9,324
Financial result	(8)	-205	-275
Result from ordinary activities		12,092	9,049
Taxes on income	(9)	5,508	4,429
Group result before minority interest		6,584	4,620
Minority interest		-358	-212
Net result		6,226	4,408
Earnings per share - undiluted - DM	(27)	0.59	0.42
Earnings per share - diluted - DM	(27)	0.57	0.40

Consolidated statement of the changes in shareholders' equity for the financial year ended December 31, 2000 (previous year in brackets)

	As at 1.1.2000 KDM	Not affecting net income adaptation of the opening balance sheet figures KDM	Capital increase out of company funds KDM	Payments resulting from the capital increase KDM	Dividend payment to shareholders KDM	Net result KDM	Foreign currency translation adjustment KDM	As at 31.12.2000 KDM
Subscribed capital	10,500	-	10,036	-	-	-	-	20,536
	(10,500)	(-)	(-)	(-)	(-)	(-)	(-)	(10,500)
Capital reserve	17,121	-	-10,036	-	-	-	-	7,085
	(17,100)	(-)	(-)	(21)	(-)	(-)	(-)	(17,121)
Revenue reserves	-	-	-	-	-	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Legal reserves	-	-	-	-	-	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Reserves from own shares	-	-	-	-	-	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Statutory reserves	-	-	-	-	-	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Other revenue reserves	-	-	-	-	-	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Unappropriated retained earnings	8,660	-180	-	-	-1,050	6,226	-	13,656
	(4,252)	(-)	(-)	(-)	(-)	(4,408)	(-)	(8,660)
Foreign currency translation adjustment	334	-	-	-	-	-	195	529
	(-159)	(-)	(-)	(-)	(-)	(-)	(493)	(334)
Total	36,615	-180	-	-	-1,050	6,226	195	41,806
	(31,693)	(-)	(-)	(21)	(-)	(4,408)	(493)	(36,615)

The not-affecting net income adaptation of the opening balance sheet figures concerns the valuation of deferred taxes (cf. Note 9). The capital reserve encompasses the equity interest of the convertible bond totalling KDM 21.

Balance sheet: Assets

Assets	Notes	31.12.2000 KDM	31.12.1999 KDM
Fixed assets			
Intangible assets	(10)		
Software		131	91
Goodwill		1,089	1,397
Development costs		5,034	3,146
Rights to use		941	1,115
		7,195	5,749
Tangible assets	(10)		
Land and buildings		11,842	5,431
Technical equipment and machinery		1,855	2,605
Other equipment, factory and office equipment		3,681	3,191
Prepayments and construction in process		0	1,804
		17,378	13,031
Financial assets	(10)		
Shares in affiliated companies		36	36
Associated companies		22	0
Participations		5	0
Other loans		6	7
		69	43
Total fixed assets		***24,642***	***18,823***
Current assets			
Inventories	(11)		
(System) components		2,170	2,151
Work in process		340	820
Finished goods and merchandise		11,919	9,831
Prepayments		315	269
		14,744	13,071
Accounts receivables and other assets			
Trade accounts receivables	(12)	14,493	6,076
Other assets	(13)	1,020	1,665
		15,513	7,741
Securities	(14)	120	117
Cash on hand, bank balances	(14)	7,349	12,875
Total current assets		***37,726***	***33,804***
Deferred charges and prepaid expenses	(15)	233	67
Deferred tax assets	(16)	823	375
Total assets		***63,424***	***53,069***

Balance sheet: Liabilities and shareholders' equity

		31.12.2000	31.12.1999
Liabilities and shareholders' equity	Notes	KDM	KDM
Shareholders' equity			
Subscribed capital	(17)	20,536	10,500
Capital reserve	(18)	7,085	17,121
Retained earnings		7,430	4,252
Net result		6,226	4,408
Foreign currency translation adjustment		529	334
Minority interests	(20)	2,553	2,163
		44,359	38,778
Provisions			
Provisions for pensions	(21)	374	362
Tax provisions	(22)	2,717	1,589
Other provisions	(22)	1,812	1,330
		4,903	3,281
Liabilities			
Bonds	(24)	485	482
Liabilities due to banks	(23)	6,226	3,310
Payments received on account of orders		35	0
Trade accounts payables		2,538	2,094
Payables to companies in which participations are held		5	0
Payables associated companies		22	0
Other liabilities		1,761	3,844
		11,072	9,730
Deferred income		127	62
Deferred grants	(3)	1,036	274
Deferred tax liabilities	(25)	1,927	944
Total liabilities		***63,424***	***53,069***

Cash flow statements

	Notes	31.12.2000 KDM	31.12.1999 KDM
Operating activities			
Net result for the year		6,584	4,620
Depreciation and amortization of fixed assets		4,202	3,016
Other non-payment income/expenses		142	-3
Changes in inventories and accounts receivables and other assets		-10,062	-2,669
Changes in liabilities and deferred income		630	576
Changes in provisions and accrued liabilities		1,545	1,802
Cash flows from operating activities	(26)	3,041	7,342
Investing activities			
Investments in tangible and intangible assets and intangible fixed assets		-10,273	-8,950
Investments in affiliated companies		0	1,545
Cash proceeds from disposal of tangible and intangible fixed assets		45	40
Cash flows from investing activities		-10,228	-7,365
Financing activities			
Dividends paid		-1,050	0
Dividends paid to minority interest		-94	0
Equity portion of convertible bond		0	21
Change in long-term bank borrowings		3,669	-4,701
Cash flows from financing activities		2,525	-4,680
Changes in cash and cash equivalents			
Change in cash and cash equivalents due to exchange rates		-111	37
Changes in cash and cash equivalents		-4,662	-4,703
Cash and cash equivalents as at 1.1.2000		12,122	16,788
Cash and cash equivalents as at 31.12.2000		7,349	12,122
Composition of cash and cash equivalents			
Cash		7,349	12,875
Bank overdraft		0	-753
Cash and cash equivalents		7,349	12,122

Notes to the consolidated financial statements

Basis of preparation

The consolidated financial statements of LPKF Laser & Electronics AG, Garbsen, for the year ended December 31, 2000 have been prepared using uniform accounting policies. The adaptation of deferred taxes in accordance with the revised IAS 12 was incorporated for 2000. IAS 39 was not adopted in advance of its effective date. In all other respects, the standards of the International Accounting Standards Committee (IASC) were applied as valid on the balance sheet date.

The fiscal year corresponds to the calendar year. The consolidated financial statements have been prepared in German Marks.

Consolidated group

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

Name	*Domicile*	*Holding %*	*Acquired*
Full consolidation			
ELASER Gesellschaft für Elektronik, Laser und Automation GmbH	Suhl/Thuringia	100.0	1989
LPKF d.o.o.	Kranj/Slovenia	75.0	1995
LPKF Franklin Industries N.V.	Mechelen/Belgium	100.0	1999
LPKF Laser & Electronics Inc.	Wilsonville/USA	60.0	1999
A-Laser Inc.	Beaverton/USA	100.0	1999
LPKF Motion & Control GmbH	Suhl/Thuringia	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/Lower Saxony	80.0	1999
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0	2000

LPKF (Tianjin) Co. Ltd. was acquired for 1,125 KDM. The contribution involves cash and a contribution in kind. KDM 117 have been paid so far in cash. The contribution in kind has still to be made. Other Group companies which are not controlled by LPKF Laser & Electronics AG and have therefore not been fully consolidated are:

Name	*Domicile*	*Holding %*	*Acquired*
Laserquipment AG	Erlangen/Bavaria	19.99	2000
PhotonicNet GmbH	Hannover/Lower Saxony	9.09	2000

Laserquipment AG was still in foundation on the balance sheet date. The payment of KDM 22 for a holding of 19.99 % was not made in the 2000 financial year.

The consolidated group in 2000 has changed as follows: two start-ups were added at the end of the year. LPKF (Tianjin) Co. Ltd. in China has been consolidated in accordance with IAS 27. Because the group has the power to participate in the financial and operating policy making processes (significant influence), Laserquipment AG has been consolidated according to the equity method.

Notes to the consolidated financial statements

Principles of consolidation

Basis for the consolidated financial statement are the financial statements of those companies included in the consolidated financial statement. The individual financial statements have been prepared using uniform accounting policies.

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

Any difference which arises is 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.

Intercompany profits and losses, expenses and income, accounts receivables and accounts payable between the group companies have been eliminated. Intercompany profit and losses with associated companies have been eliminated on a proportional basis.

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.

Financial instruments

The reported financial instruments comprise cash and cash equivalents, investments, trade accounts receivables, trade accounts payables and other external financing and financial assets. The various accounting methods are explained under the relevant entries.

Reference to the financial debts are made in Note 23. No derivatives were held at the balance sheet date. However, forward exchange deals during the financial year were transacted to hedge US $ transactions.

Other recognition and evaluation methods

The assets are stated at cost.

Development costs are capitalized if they met the criteria according to IAS 38, and valued in accordance with their material and personnel costs.

Foreign currency translation

The translation of the foreign companies' financial statements is effected according to the functional currency method. In effecting this translation into German Marks, the assets and debts were translated at a middle 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 DM	*Reporting date rate*		*Average rate*	
	31.12.2000	31.12.1999	31.12.2000	31.12.1999
100 French Francs	29.81640	29.81640	29.81640	29.81640
100 Belgian Francs	4.84838	4.84838	4.84838	4.84838
10,000 Slovenian Tolar	91.6508	98.5702	94.6930	100.6223
1 US-Dollar	2.10124	1.94881	2.12240	1.8357
1 Chinese Renminbi Yuan	0.25382		0.255680	

Notes to the consolidated financial statements: Statement of income

1. Sales

Sales are recognised when the service has been rendered or when the goods and products have been delivered. The breakdown of sales according to product groups and regional markets is presented in the following segment reporting.

Segment reporting

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

The business segments comprise the following activities:

- Rapid Prototyping involves the further development, production and marketing of circuit board plotters for the world market.
- Laser Systems includes all systems such as the StencilLaser, MicrolineLaser and other new laser technologies.
- The Stencils business segment includes all the activities carried out by Elaser and A-Laser which manufacture stencils for conductor path printing.
- The Others segment involves all of the smaller activities such as marketing special software packages in Belgium etc.

Individual activities 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 were determined as follows:

- The segment results were determined taking into consideration goodwill depreciation, but without taking into consideration the financial results or taxes.
- The investments and depreciations 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 Prototyping	Stencils	Others	Not distributed	Total
External sales	2000 KDM	27,785	20,836	3,939	2,201	0	54,761
	1999 KDM	17,178	17,058	3,431	952	0	38,619
Results	2000 KDM	5,342	4,879	1,216	478	382	12,297
	1999 KDM	3,935	3,012	1,214	194	969	9,324
Assets	2000 KDM	23,835	23,258	1,845	0	14,486	63,424
	1999 KDM	16,283	18,467	2,182	0	16,137	53,069
Liabilities	2000 KDM	2,589	2,315	160	174	16,909	22,147
	1999 KDM	1,215	2,247	2,657	274	10,395	16,788
Investments	2000 KDM	6,494	3,633	35	0	111	10,273
	1999 KDM	2,890	2,607	2,404	0	2,595	10,496
Depreciations	2000 KDM	2,027	1,362	474	0	339	4,202
	1999 KDM	990	494	539	0	993	3,016
Non-cash expenses	2000 KDM	0	0	0	0	-142	-142
	1999 KDM	0	0	0	0	3	3

		Germany	Rest of Europe	North America	South America	Asia	Other	Total
External sales	2000 KDM	13,978	9,675	15,503	85	14,045	1,475	54,761
	1999 KDM	8,484	8,119	11,386	284	10,065	281	38,619
Assets	2000 KDM	46,556	6,947	9,821	0	100	0	63,424
	1999 KDM	40,018	5,685	7,366	0	0	0	53,069
Investments	2000 KDM	9,453	653	159	0	8	0	10,273
	1999 KDM	5,692	718	4.086	0	0	0	10,496

The previous year's figures were adapted to the current allocation-method to facilitate comparability.

2. Own work capitalised

In connection with eight projects involving laser development (KDM 2,458) and three development projects in the Rapid Prototyping Division (KDM 184), development costs were capitalized during the financial year in accordance with IAS 38 because the conditions of IAS 38 were cumulatively met. Depreciation based on the probable useful life of five years. The remaining own work capitalised items shown on the assets side (KDM 190) involved services within the group regarding to the building.

3. Other operating income (in KDM)	*2000*	*1999*
Grants for research and development	929	1.107
Allocation to the deferred item for grants	0	-298
Reversal of deferred item for grants	88	24
Exchange gains	1,028	578
Leasing and rental income	0	114
Utilization of warranty reserves	255	190
Gains from reversal other provisions	7	0
Investment grants	123	0
Others	298	302
	2,728	2,017

The grants for research and development concerns government grants for costs incurred in the financial year. The reversal of the deferred item for grants based on the useful life of the associated capitalized development costs. The same accounting treatment was applied to a grant for building costs in Suhl totalling KDM 808.

4. Cost of materials (in KDM)	*2000*	*1999*
Cost of (system) components and of purchased merchandise	15,765	8,379
Cost of purchased services	1,407	940
	17,172	9,319

For consolidation reasons, various companies reclassified cost of materials into increase/decrease in finished/unfinished goods. This provides a better presentation of the inventories finished and unfinished goods at a Group level. This not affecting net income reclassification causes a numerical increase in the material input ratio.

The previous year's figures were adapted to simplify comparison.

5. Personnel expenses (in KDM) and employees	*2000*	*1999*
Wages and salaries		
Salaries	11,521	8,901
Wages	1,522	715
Other	185	142
	13,228	9,758
Social security and pension costs		
Employer's contribution to social security	2,110	1,420
Workmen's compensation board	50	66
Pension costs	202	144
	2,362	1,630
	15,590	11,388

The breakdown of the employees is as follows at 31 December:	*2000*	*1999*
Production	53	34
Distribution	34	29
Research and development	34	22
Engineering and administration	65	37
	186	122

Ten part-time employees and five trainees also continued to be employed by LPKF Laser & Electronics AG as at 31.12.2000

6. Depreciation and amortization of intangible and tangible fixed assets

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

Notes to the consolidated financial statements

7. Other operating expenses (in KDM)	*2000*	*1999*
Investor relations	592	380
Advertising and distribution expenditure	3,425	3,535
Supervisory board remunerations including expenditure reimbursement	92	90
Research and development	746	803
Services	723	1,021
Real estate and building costs	55	11
Vehicle costs	230	195
Insurance, contributions, levies	392	245
Postage, telephone, facsimile	421	374
Office materials, books, software	225	190
Legal and consultancy costs	472	162
Financial statements and auditing fees	299	86
Patents and licences	286	258
Rent, leasing	519	622
Bank charges	277	267
Exchange losses	1,137	243
Losses for disposal of assets	76	56
Business gifts, entertainment expenses, travel	1,568	821
Allocation provisions for trade accounts receivable	110	0
Others	1,416	2,031
	13,061	11,390

Existing leasing agreements entered into by the company are classified as operate leases. The leasing payments are expensed in the statement of income. Significant agreements reported under leasing mainly include leasing agreements for vehicles and a telephone system, whereby the latter agreement ended in the 2000 financial year. The terms of the other significant contracts are still between 20-24 months.

8. Financial results (in KDM)	*2000*	*1999*
Income from associated companies	0	201
Other interest and similar income	368	524
Interest and similar expenses	-545	-979
Interest on convertible bond		
Changes in present value	-3	-4
Payment to subscribers	-25	-17
	-205	-275

9. Taxes on income (in KDM)	*2000*	*1999*
Corporate tax and solidarity surcharge	4,002	3,112
Trade tax	1,311	936
Deferred taxes	195	381
	5,508	4,429

The corporate tax of the parent company for 2000 was calculated on the basis retention of earnings because no resolution on distribution of profits had been passed when the financial statement was prepared. For the preparation the consolidated financial statements, the individual corporate tax rates in the countries were used for the calculation of the deferred taxes. The deferred taxes were adjusted for the first time on 01.01.2000 in line with the benchmark method to the standard tax rates for each country according to IAS 8. The adjustment was carried out by reducing the opening retained earnings.

Reconciliation between anticipated and effective expenses (in KDM)	*2000*	*1999*
Consolidated net income for the year before income taxes	12,092	9,049
Anticipated tax expense 39 % · (previous year: 38 %)	4,716	3,439
Taxation increase as a result of retention of earnings	776	329
Tax expenses unrelated to the accounting period	0	550
Tax rate variances amongst the subsidiaries	18	112
Other variances	-2	-1
Effective tax expense	5,508	4,429

Because of the early application of IAS 12 (revised 2000) the tax expenses have to be computed with the retention rate in the absence of a profit appropriation resolution.

Notes to the consolidated financial statements: balance sheet assets

10. Fixed assets

Consolidated fixed asset movement schedule of LPFK Laser & Electronics AG, Garbsen, for the period from 1 January to 31 December 2000. The following schedule shows the development of the individual fixed asset items:

	Acquisition/manufacturing costs					
	Balance 1.1.2000 KDM	Currency differences KDM	Additions KDM	Reclassification KDM	Disposals KDM	as at 31.12.2000 KDM
Fixed assets						
I. Intangible assets						
1. Software	720	0	148	0	76	792
2. Goodwill	1,722	0	31	0	0	1,753
3. Development costs	3,368	0	2,642	0	0	6,010
4. Rights to use	1,542	34	170	0	44	1,702
5. Prepayments	0	0	0	0	0	0
	7,352	34	2,991	0	120	10,257
II. Tangible assets						
1. Land and buildings	6,346	123	3,508	3,073	0	13,050
2. Technical equipment and machinery	6,378	112	94	859	1,003	6,440
3. Other equipment, factory and office	8,729	78	2,404	-868	918	9,425
4. Prepayments and construction in process	1,804	0	1,277	-3,064	17	0
	23,257	313	7,283	0	1,938	28,915
III. Financial assets						
1. Shares in affiliated companies	36	0	0	0	0	36
2. Associated companies	0	0	22	0	0	22
3. Participations	0	0	5	0	0	5
4. Other loans	7	0	0	0	1	6
	43	0	27	0	1	69
	30,652	347	10,301	0	2,059	39,241

The goodwill arising from company acquisitions (capitalised differences arising from capital consolidation) were reported on the assets' side in preceding periods and are reduced by scheduled straight-line amortization over the probable useful life. The amortization of goodwill from the acquisition of companies is reported in the "depreciations" 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 for eight laser developments and three rapid prototyping developments are evaluated according to the personnel costs and material costs involved and reduced by straight-line depreciation.

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 costs reduced by scheduled straight-line depreciation. Land is not depreciated.

The production costs cover the costs of direct materials and material overheads and the manufacturing costs and manufacturing overheads, as well as production-related pro rata administration costs.

	Accumulated depreciation						*Net book value*	
	As at 1.1.2000 KDM	Currency KDM	Additions KDM	Reclassifications KDM	Disposals KDM	as at 31.12.2000 KDM	as at 31.12.2000 KDM	previous year 31.12.1999 KDM
	629	0	83	0	51	661	131	91
	325	0	339	0	0	664	1,089	1,397
	222	0	754	0	0	976	5,034	3,146
	427	30	310	0	6	761	941	1,115
	0	0	0	0	0	0	0	0
	1,603	30	1,486	0	57	3,062	7,195	5,749
	915	1	292	0	0	1,208	11,842	5,431
	3,773	55	965	571	779	4,585	1,855	2,605
	5,538	70	1,459	-571	752	5,744	3,681	3,191
	0	0	0	0	0	0	0	1.804
	10,226	126	2,716	0	1,531	11,537	17,378	13,031
	0	0	0	0	0	0	36	36
	0	0	0	0	0	0	22	0
	0	0	0	0	0	0	5	0
	0	0	0	0	0	0	6	7
	0	0	0	0	0	0	69	43
	11,829	156	4,202	0	1,588	14,599	24,642	18,823

The following probable useful lives are assumed:	years
Software	3
Goodwill	5
Development costs	5
Rights to use	5
Buildings	25
Outside facilities	10
Technical equipment and machinery	3-10
Other equipment, factory and office	3-10

The interest in Franklin Industries B.V., Netherlands, which is shown under the financial investments, is to be sold/liquidated and has thus not been included in the consolidation in accordance with IAS 27.13 (a).

11. Inventories

The (system) components as well as the goods are valued at their acquisition costs or the lower net realisable values on the balance sheet date. The manufacturing costs for finished goods and work-in-process include manufacturing costs, manufacturing overheads, direct material costs and material overheads, as well as production-related proportional administration costs. In line with the benchmark method, borrowing costs were not capitalized.

12. Trade accounts receivables (in KDM)	2000	1999
Nominal amount of accounts receivables	14,611	6,118
Provision for doubtful accounts	./. 11	./. 11
Lump-sum allowance	./. 107	./. 31
Accounts receivables after provisions	14,493	6,076

The trade accounts receivables are shown in the balance sheet at the nominal value. Adequate provision has been made for concrete and latent risks of non-payment.

13. Other assets (in KDM)	2000	1999
Short-term loans	0	208
Input VAT refund	279	445
Income tax refund	111	258
Reinsurance	182	150
Outstanding investment grants	57	410
Others	391	194
	1,020	1,665

KDM 182 fall due after more than one year.

14. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand of KDM 41 (previous year: KDM 18) as well as cash in other banking accounts of KDM 7,308 (previous year: KDM 12,857).

Cash and cash equivalents for the purposes of statement of cash flows encompass cash on hand and cash in banking accounts reduced by short-term liabilities due to banks. The balance sheet contains separate entries for assets and debts.

In the case of the securities, this is a money market fund from Dresdner Bank. Measurement was based on the rate at year end on the financial statement closing date.

15. Prepaid expenses

The deferred charges and prepaid expenses primarily comprise prepaid insurance premiums totalling KDM 233 (previous year KDM 67).

16. Deferred tax asset

The capitalised deferred tax asset encompasses deferred taxes primarily on the basis of tax losses 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. The deferred taxes were solely set up with respect to capitalised development cost. The development of the deferred taxes is as follows:

Deferred tax cost assets (in KDM)	2000	1999
Tax loss carry forwards	155	116
Special item for grants	87	82
Inter-company profit elimination and other deductible temporary differences	581	177
	823	375

Deferred tax liabilities (in KDM)	2000	1999
Capitalised development costs	1,927	944
	1,927	944

Notes to the consolidated financial statements: Balance sheet liabilities

17. Subscribed capital

In accordance with the resolutions passed by the annual general meeting on 15.06.2000, the share capital and other DM amounts was converted to EUROs; there was also a capital increase from company funds; a reclassification of the share capital; as well as an adaptation and modification of the contingent capital, which was also associated with a change in the memorandum and articles of association.

In addition, the authorization of the Board of Directors in the period to October 13, 2003 to increase the share capital with the authorization of the Supervisory Board (authorized capital) was annulled. Instead, the Board of Directors was authorized, with the approval of the Supervisory Board, to increase the share capital by up to EUR 5,250,000 (authorized capital) by one or more issues of up to 5,250,000 new shares for cash or contributions in kind up to June 14, 2005.

The share capital of the company after the share split at a ratio of 1:4, and the capital increase of DM 10,036,215.00 from the capital surplus is DM 20,536,215.00 (EUR 10,500,000) and is divided up into 10,500,000 shares with a numeracy value of EUR 1.00 each.

The resolution at the annual general meeting of 15.06.2000 allows the Board of Directors of LPKF Laser & Electronics AG the option to repurchase its shares via the stock market. The repurchase of shares has the purpose of financing an employee share participation scheme with the aim of binding experienced employees even stronger to the company. The company is authorized to repurchase its own shares on the stock market by 14.11.2001 amounting to up to 10 % of the current share capital of the company. The purchase price per share shall not exceed or undercut the standard stock market price by more than 5 %. The standard stock market price in the sense of this regulation is the average value of the final price of the shares in Xetra trading at the Frankfurt Stock Exchange over the last five trading days prior to acquisition of the shares.

18. Capital reserve

The capital reserve amounting to DM 10,036,215.00 was used to carry out the conversion of the share capital and the associated capital increase approved by the annual general meeting on 15.06.2000. The capital reserve results from the premium paid from the issue of shares in the parent company in the year of the initial public offering as well as the option price of the convertible bond in the previous year.

19. Authorized capital/conditional capital

The conditional capital was adapted in accordance with § 218 Stock Corporation Law to enable the share capital to be contingently raised by up to EUR 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 October 13, 1998, exercise their conversion rights to convert the bond for new shares. 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 DM 5.00 nominal value bonds entitle their owners to exercise a conversion right to acquire five new shares in LPKF Laser & Electronics AG with a numeracy share of the share capital of LPKF Laser & Electronics AG of EUR 5.00. The conversion price for the acquisition of such a share will be calculated on the basis of a formula reflecting a comparison of the increase in value of LPKF's shares compared to the German share index (DAX). When exercising the conversion right to acquire a share, a cash payment must be made corresponding to the amount the conversion price exceeds the proportional nominal amount of a bond being converted. The term of the convertible bond is five years (maturity date December 29, 2003) with an annual interest rate of 5 %. The earliest possible conversion time is after the ordinary annual general meeting in the 2001 financial year. The net present value concept was used to determine the share capital.

20. Minority interests (in KDM)	*2000*	*1999*
The minority interest with respect to shares in subsidiaries has developed as follows:		
As at 1 January	2,163	902
Additions/disposals	390	1,261
As at 31 December	2,553	2,163

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

21. Provisions for pensions

Germany has a statutory contribution-orientated basic pension system for employees which pays out pensions dependent on income and effected contributions. In other countries, there are performance-orientated pension obligations dependent on the legal, taxation and economic conditions in each country in question, and which are normally based on the length of the period of employment and the salary of the employee. The provisions for pensions have been established exclusively for the pension commitments relating to the executive board members of the parent company.

In addition, performance related pensions relating to foreign subsidiaries are also reported. Calculation has been effected in accordance with the standard international method (projected unit credit method).

The calculation of the pension obligation of the German parent company has been effected on the basis of the "guidelines" issued by Dr. Klaus Heubeck, allowing for future pension adjustments at the rate of 2 %.
The discount factor stands at 7 %.

22. Tax provisions and other provisions

Provisions are set up for legal or effective obligations which arose in the past when it appears 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 obligation.

Tax provisions and other provisions (in KDM)	*2000*	*1999*
Corporation tax and solidarity surcharge	1,752	1,337
Trade tax	845	252
Other taxes	120	0
	2,717	1,589
Bonuses	625	549
Guarantees	234	358
Vacation	316	244
Annual financial statements costs	245	78
Legal and consulting fees	152	0
Workers' compensations board	44	44
Others	196	57
	1,812	1,330

Provisions chart

Provisions in KDM	as at 01.01.2000	Utilization	Releases	Additions	as at 31.12.2000
Provisions for pensions	362	-	-	12	374
Accrued taxes	1,589	1,337	-	2,465	2,717
Bonuses	549	549	-	625	625
Vacations	244	244	-	316	316
Guarantees	358	255	103	234	234
Other	179	179	-	637	637
Total	3,281	2,564	103	4,289	4,903

Notes to the consolidated financial statements

23. Liabilities

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

Summary of liabilities (in KDM) with a remaining term of:

Type of liability	Total amount	up to 1 year	1 to 5 years	more than 5 years	secured amount	type of security
Liabilities due to banks	6,226 (3,310)	658 (287)	2,018 (780)	3,550 (2,243)	6,095 (3,057)	* (*)
Convertible bond	485 (482)	485 (-)	- (482)	- (-)	- (-)	- (-)
Trade accounts payable	2,538 (2,094)	2,538 (2,094)	- (-)	- (-)	- (-)	- (-)
Prepayments received on orders	35 (-)	35 (-)	- (-)	- (-)	- (-)	- (-)
Liabilities with respect to participations	27 (-)	27 (-)	- (-)	- (-)	- (-)	- (-)
Other liabilities	1,761 (3,844)	1,761 (3,844)	- (-)	- (-)	- (-)	- (-)
	11,072 (9,730)	5,504 (6,225)	2,018 (1,262)	3,550 (2,243)	6,095 (3,057)	

* Land charge

Further note on liabilities: The amount due to banks includes long-term borrowings to the amount of KDM 6,226 which are subject to interest at a rate of 3.75 % p.a. to 6.25 % p.a.

Original loan in KDM	*Interest rate p.a.*	*Term*
113	6.25 %	01/98 – 12/01
121	4.50 %	09/99 – 09/04
1,286	3.75 %	09/99 – 09/14
2,250	5.85 %	09/99 – 09/09
3,100	5.41 %	01/00 – 09/09

24. Bonds

The debenture loan involves a convertible bond discussed in Note 19. 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.

25. Deferred taxes

Deferred tax liablility 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

26. Cash flow statement

The cash flow from operating activities include tax payments to the amount of KDM 2,790 (previous year: KDM 2,961) as well as interest paid totalling KDM 525 (previous year: KDM 999) and interest received of KDM 368 (previous year: KDM 523).

27. Earnings per share

The undiluted earnings per share is determined according to IAS 33 as a quotient of the consolidated net income attributable to the shareholders of LPKF Laser & Electronics AG and the number of shares in circulation in the financial year. Dilution of the earnings per share applies when the average number of shares in circulation is increased by including the issue of potential shares in connection with the LPKF Laser & Electronics AG convertible bond issue. Convertible bonds always dilute the earnings.

	2000	*1999*
Number of shares, undiluted	10,500,000	10,500,000 *)
Number of shares, diluted	11,000,000	11,000,000 *)
Consolidated earnings (in KDM)	6,226	4,408
Elimination of the interest expense for the convertible bond	25	17
Elimination of the taxation effect on the interest expenditure for the convertible bond	-10	-7
Undiluted earnings per share (in DM)	0.59	0.42
Diluted earnings per share (in DM	0.57	0.40

*) for reason of comparison, a corresponding option right was assumed for the previous year for the number of shares in circulation.

28. Dividend per share

Dividends are only taken into consideration after resolution on profit appropriation by the annual general meeting. A dividend of DM 0.12 per share will be proposed at the annual general meeting on 17.05.2001. This dividend will be taken into consideration in the 2001 annual financial statements as an appropriation of profits.

29. Related parties transactions

Related parties	*KDM*
Zeltra Naklo d.o.o., Slovenia, purchased deliveries and services	203
PMV d.o.o., Slovenia, purchased services	521

The managing director and shareholder of a subsidiary owns 80 % of Zeltra Naklo d.o.o. shares. The remaining 20 % of the shares are owned by an executive of a subsidiary. Materials and equipment, merchandise and services to the sum of KDM 203 were purchased from this related party in 1999.

The managing director and shareholder of a subsidiary has a 50 % shareholding in PMV d.o.o.
In 2000, business relations with this company covered development and production services and rentals to the amount of KDM 521.

A member of the Supervisory Board provided legal advice in 2000 totalling KDM 55.In addition, two close relatives of the management in the parent company were also employed as salaried employees.

30. Other disclosures

Other financial commitments

Laserquipment AG was issued a loan totalling DM 117,600.00 at the beginning of the 2001 financial year. In line with our business plan obligations, further payments totalling DM 705,530.00 are planned which shall be converted into share capital after reaching pre-determined milestones.

Other

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 Union guidelines on consolidated accounting (directive 83/349/EU). They include the following variances from the German commercial code regulations with respect to accounting methods, valuation methods and consolidation methods:

- capitalisation of development costs
- accounting the convertible bond at present value
- capitalisation of deferred taxes on tax loss carry forwards

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

Notes to the consolidated financial statements

The Board of Directors consists of:
Bernd Hildebrandt · Chairman ·
Dipl.-Ing. Bernd Hackmann
Dr.-Ing. Jörg Kickelhain

The members of the Supervisory Board are:
Klaus Sülter
Power of attorney for Cura Consult GmbH
· Chairman ·

Dr. Heino Büsching
Lawyer/tax advisor
ISR AG, Braunschweig, Chairman of the Supervisory Board
· Deputy Chairman ·

Udo B. Hartmann
Businessman

The remuneration of the Board of Directors totalled KDM 1,936 (previous year: KDM 1,845). As at 31.12.2000, the members of the Board of Directors held 1,142,100 (1,327,500) shares.

The remuneration of the Supervisory Board totalled KDM 92 (previous year: KDM 90). As at 31.12.2000, the members of the Supervisory Board held 924,500 (1,039,500) shares.

The Board of Directors and the Supervisory Board of the parent company proposed a payment of a dividend totalling DM 0.12 per share and to carry forward the remaining net income for the year. The profit appropriation proposal has not yet become an obligation.

31. Events after the balance sheet date

For the realisation of its employee share participation scheme, LPKF Laser & Electronics AG repurchase 5,000 of its own shares with a value of DM 260,125.39.

LPFK Laser & Electronics AG - Garbsen/Hannover, February 16, 2001


sgn. Bernd Hildebrandt


sgn. Bernd Hackmann


sgn. Dr. Jörg Kickelhain

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 1st January to 31st December 2000. 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 Wirtschafts-prüfer 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 bases 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 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 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 1st January to 31st December 2000, 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 risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1st January to 31st December 2000 satisfy the conditions required for the Company's exemption from it's duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Hannover, March 2, 2001
SOCIETÄTS TREUHAND GRUPPE GMBH
Wirtschaftsprüfungsgesellschaft

T. Stieve	Dr. M. Schellhorn
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Accountant)	(German Public Accountant)

Annual financial statements of LPKF Laser & Electronics AG

	31.12.2000	31.12.1999
Assets	KDM	KDM
Fixed assets		
Intangible assets		
Software	75	43
Rights to use	105	140
	180	183
Tangible assets		
Land and buildings	7,826	3,744
Technical equipment, plant and machinery	756	1,411
Other equipment, factory and office equipment	2,156	1,700
Prepayments and construction in process	0	781
	10,738	7,636
Financial assets		
Shares in affiliated companies	2,428	1,303
Loans to affiliated companies	1,024	769
Participations	27	0
	3,479	2,072
Total fixed assets	***14,397***	***9,891***
Current assets		
Inventories		
(System) components	77	40
Finished goods	9,608	8,947
Prepayments	1,640	670
	11,325	9,657
Accounts receivables and other assets		
Trade accounts receivables	11,514	3,711
Accounts due from affiliated companies	6,063	2,805
Other assets	241	1,042
	17,818	7,558
Cash on hand, Cash in other banking accounts	3,383	10,424
Total current assets	***32,526***	***27,639***
Prepaid expenses	124	25
Total assets	***47,047***	***37,555***

Annual financial statements of LPKF Laser & Electronics AG

	31.12.2000	31.12.1999
Liability and shareholder's equity	KDM	KDM
Shareholder's equity		
Subscribed capital	20,536	10,500
Capital surplus	7,085	17,121
Retained earnings	3,204	1,534
Net income	3,857	2,720
	34,682	31,875
Provisions and accrued liabilities		
Provisions for pensions	380	345
Tax provisions	1,692	399
Other provisions and accrued liabilities	1,482	983
	3,554	1,727
Liabilities		
Bonds (of which convertible KDM 499)	499	500
Liabilities due to banks	4,793	1,937
Trade accounts payables	942	631
Accounts due to affiliated companies	2,096	423
Accounts due to other Group companies	27	0
Other liabilities	454	462
Thereof for taxes (KDM 170)		
Thereof for social security (KDM 203)		
	8,811	3,953
Total liabilities	***47,047***	***37,555***

Annual financial statements of LPKF Laser & Electronics AG

	01.01.-31.12.2000	01.01.-31.12.1999
Statement of income	KDM	KDM
Sales	44,649	32,140
Increase in finished goods and work-in-process	-936	756
Own work capitalised	0	133
Other operating income	1,838	2,032
	45,551	35,061
Cost of materials	18,337	13,656
Personnel expenses	9,292	8,095
Depreciation and amortisation	1,640	1,380
Depreciation and amortisation costs and other write-offs on current assets	0	3
Other operating expenses	9,135	7,585
Operating result	7,147	4,342
Income from investments	171	175
Income from profit and loss transfer agreements	143	444
Municipal trade tax participation passed on to a subsidiary	34	109
Other interest and similar income	346	451
Interest and similar expenses	-314	-352
Profit/loss from ordinary operations	7,527	5,169
Taxes on income	3,533	2,436
Other taxes	137	13
Net income	3,857	2,720
Retained earnings brought forward from the previous year	3,204	1,534
Net income for the year	7,061	4,254

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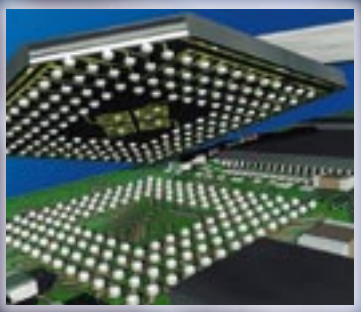

One step ahead ...

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Laser & Electronics

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