LASER TECHNOLOGIES

PATENTLY GOOD SOLUTIONS

ANNUAL REPORT 2015

LPKF LASER & ELECTRONICS AG AT A GLANCE

CONSOLIDATED REVENUE AS OF 31 DECEMBER

		2011	2012	2013	2014	2015
Revenue	EUR million	91.1	115.1	129.7	119.7	87.3
Revenue by region						
Germany	EUR million	13.3	13.2	11.7	12.2	12.6
Other Europe	EUR million	10.3	14.5	17.7	14.9	17.3
North America	EUR million	22.0	22.2	21.3	25.6	19.0
Asia	EUR million	43.2	63.3	77.4	63.4	35.6
Other	EUR million	2.3	1.9	1.6	3.6	2.8
Revenue by segments[1]						
Electronics Development Equipment	EUR million	18.1	19.4	20.9	25.1	25.5
Electronics Production Equipment	EUR million	45.2	56.4	75.7	51.2	29.9
Other Production Equipment	EUR million	25.5	38.9	32.6	42.8	30.8
All other segments	EUR million	2.3	0.4	0.5	0.6	1.0

1 The figures prior to 2013 were adjusted.

CONSOLIDATED FINANCIAL KEY FIGURES AS OF 31 DECEMBER

		2011	2012	2013	2014	2015
EBIT	EUR million	15.2	20.4	23.2	12.7	-3.7
EBIT margin	%	16.7	17.7	17.9	10.6	-4.3
Consolidated net profit after non-controlling interests	EUR million	9.9	13.5	15.1	8.5	-3.5
Net margin before non-controlling interests	%	11.4	12.4	12.1	7.1	-4.0
ROCE (Return on Capital Employed)	%	23.4	26.5	26.4	12.1	-3.6
Cash and cash equivalents	EUR million	5.6	2.5	12.5	6.0	-0.9
Equity ratio	%	55.6	58.0	56.5	53.5	53.4
Cash flow from operating activities	EUR million	3.3	17.1	34.2	1.8	10.1
Investments in property, plant and equipment and intangible assets	EUR million	14.9	12.8	21.3	15.0	13.7
Earnings per share, diluted[1]	EUR	0.45	0.61	0.68	0.38	-0.16
Dividend per share[1,2]	EUR	0.20	0.25	0.25	0.12	0.00
Orders on hand	EUR million	25.2	34.3	17.7	17.7	13.3
Incoming orders	EUR million	104.0	124.1	113.1	119.7	82.8
Employees[3]	Number	602	690	752	795	778

1 The figures prior to 2013 were adjusted retroactively to account for the capital increase from Company funds.

2 2015: AGM proposal

3 excl. trainees and workers in minor employment

ENABLING MINIATURIZATION

LPKF Laser & Electronics AG is a highly specialized mechanical engineering company. It designs and manufactures laser systems. A typical application for these systems is in the production of electronic components. Since these components need to be built into smaller and more compact devices – such as smartphones – the utilization of high-precision laser beams as tools is becoming increasingly relevant.

LPKF has pioneered the use of lasers in micro material processing. Since its formation in 1976, the Company has created entirely new markets with its innovative ideas. Today, technology from LPKF is deployed in a wide range of industries – such as in the electronics sector, where LPKF systems are used to design or separate circuit boards. The automotive industry uses LPKF lasers for particulate-free welding of sensors or taillights. Solar cell manufacturers boost the efficiency of their modules by deploying LPKF laser scribers. In many areas, the superior precision offered by laser technology is supplanting traditional manufacturing techniques, and thus enabling the further miniaturization of electronic equipment.

LPKF has used its knowledge and experience in the field of laser technology to acquire leadership in all of its markets and firmly intends to maintain this market dominance into the long term. That's why the Company invests around 10% of its revenue into research and development every single year.

LPKF is headquartered in Garbsen near Hannover, Germany. The Company maintains a broad-based global presence, with a workforce of 778 based at sites in Europe, Asia and the US. The export share was around 86% in the 2015 financial year. The shares of LPKF Laser & Electronics AG are listed on the Prime Standard segment of Deutsche Börse.

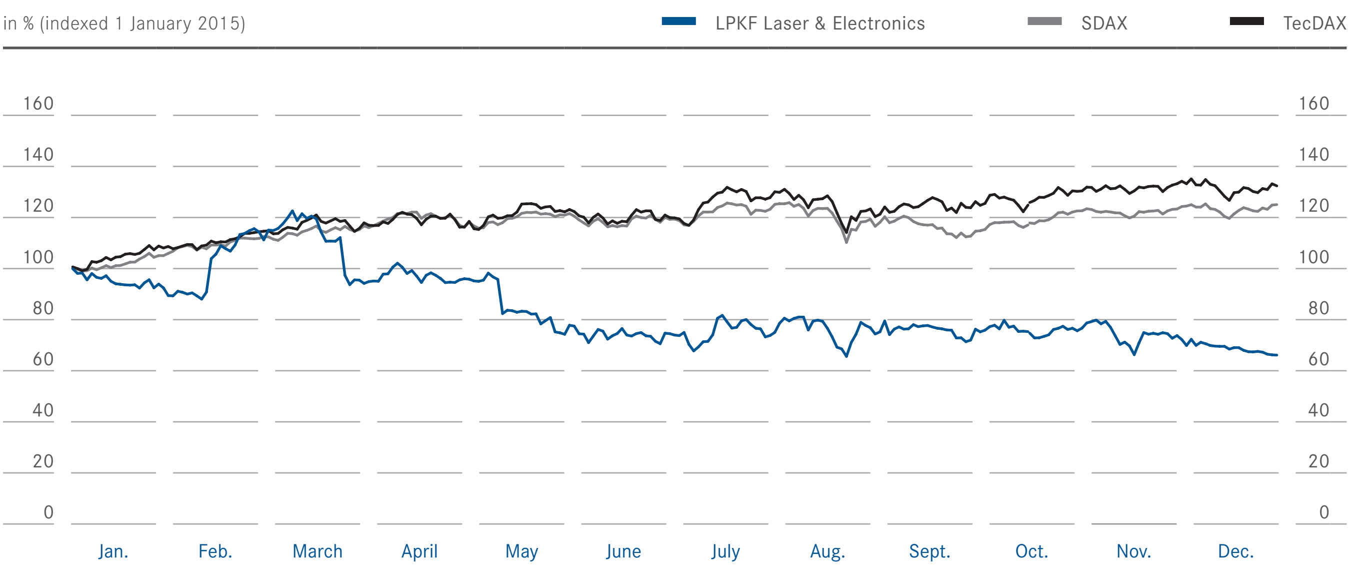
LPKF
Laser & Electronics

LPKF LASER & ELECTRONICS AG AT A GLANCE

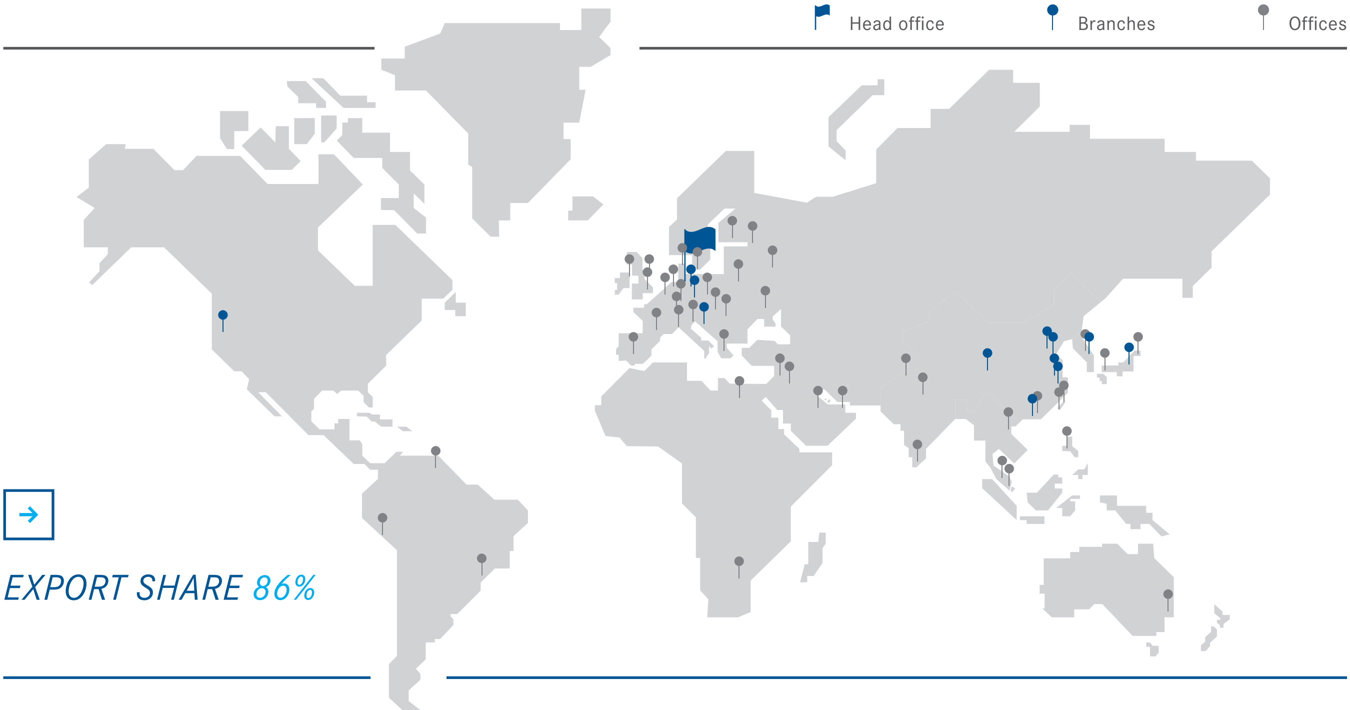
MARKETS, SEGMENTS AND PRODUCT GROUPS

MARKETS	Electronics				Plastics	Solar
SEGMENTS	Electronics Development Equipment	Electronics Production Equipment			Other Production Equipment	
PRODUCT GROUPS	Rapid Prototyping Equipment	StencilLaser Equipment	PCB Production Equipment	LDS Production Equipment	Welding Equipment	Solar Module Equipment

PERFORMANCE OF THE LPKF SHARE IN 2015



LPKF SITES WORLDWIDE



EXPORT SHARE 86%

REVENUE AND EBIT

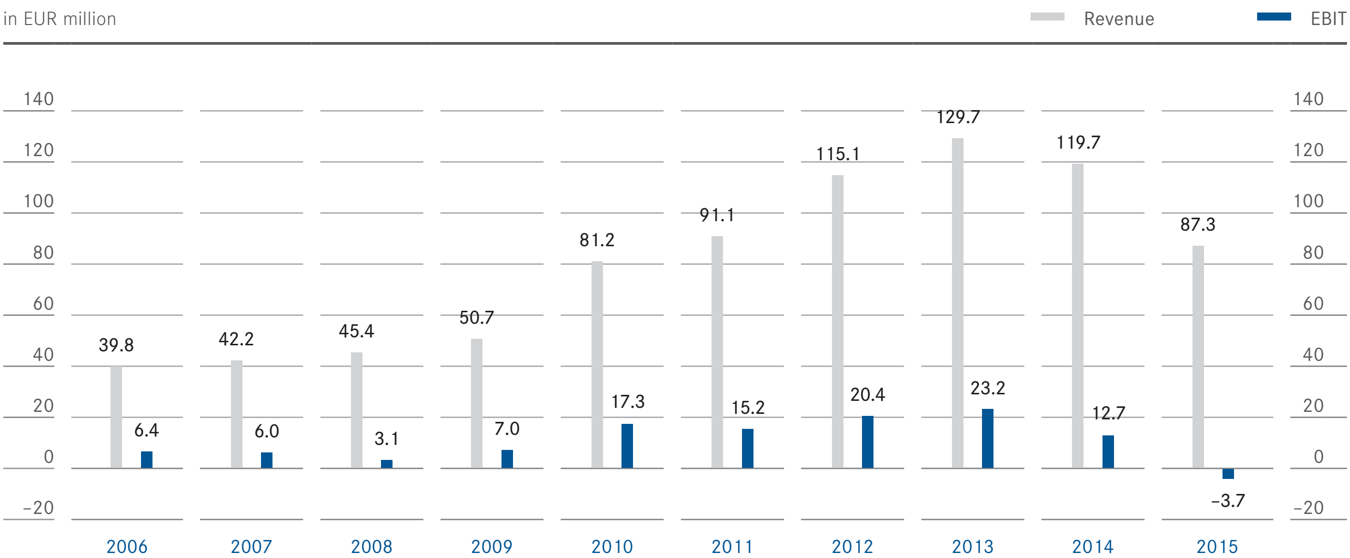


TABLE OF CONTENTS

TO OUR SHAREHOLDERS

COMBINED MANAGEMENT REPORT 2015

P. 18

PUSHING FORWARD – FULL STEAM AHEAD FOR RESEARCH AND DEVELOPMENT

Especially when times are hard, a technology company like LPKF is reliant on continually developing new products. On pages 18–25, we sketch out the path from the concept to a production-ready machine through to deployment of this machine at the customer.

P. 20

EXPANDING IDEAS

CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS

FURTHER INFORMATION

P. 22

REFINING DESIGNS

P. 24

DELIVERING BENEFITS

CHAIRMAN'S STATEMENT

DR. INGO BRETTHAUER
Chief Executive Officer

Ladies and Gentlemen,

While the LDS business had been our largest growth driver in recent years, this trend came to an abrupt halt in 2015. The situation failed to improve even in the fourth quarter. It is by far the main reason why we were unable to meet our original targets for 2015. However, with total revenue of slightly over EUR 87 million, we at least reached our revised forecast. Yet despite the progress made in our cost reduction program, this level of revenue was not enough to close the year in profitable territory, which led to us finishing the 2015 financial year with a loss (EBIT) of EUR 3.7 million.

The negative result is particularly frustrating for us because it makes 2015 the first year in LPKF's almost 40-year history in which the Group had to take a loss. But in spite of the decrease in revenue we achieved our long-term target of average revenue growth of 10% every year since 2009. 2015 showed us one further time that LPKF as a high-tech company is active in what are at times extremely volatile markets. That we will also have our ups and downs in the future is something we must accept. However, in our eyes what is critical for success is our long-term business performance.

In spite of the low revenue in 2015, the LDS business on the whole remains a resounding success, because in recent years this product line in particular generated very high profits for us. How LDS will develop in the coming years is difficult to predict at present, but we are confident that LDS has by no means reached the end of the road. New applications for this outstanding technology are continuously emerging, and there is still no better process for flexible production of molded interconnect devices. We will continue to offer LDS solutions in the future, but our growth expectations will be met first and foremost by other product segments.

For example, we will expand our range of services for 2016 by adding two completely new product lines. At the end of the year, we delivered the first machine for our new Through Glass Via (TGV) process – used to create ultrafine holes in glass – to a key customer in Asia. In the first half of 2016, the first system for the digital printing of pastes (LTP: Laser Transfer Printing) will also be delivered to a European customer. We expect that in the medium term these two product lines will have similar potential for growth as the LDS business. The question will be how fast these two new laser technologies can become established in the market. Our experience shows that this takes time, which is why we have projected only moderate revenue for these products in 2016.

In the Other Production Equipment segment, 2015 the solar business closed down considerably on the previous year's level, which had been strongly influenced by a major order. This drop in revenue in 2015 had been projected, however, and is therefore unsurprising. In the end, our SolarQuipment business matched its revenue projection almost exactly. We expect to see an uptrend in the solar segment once again in 2016. Initial smaller orders have already been placed and other interesting projects are currently on the negotiating table, so this segment should also contribute to the projected growth in 2016.

The plastic welding business, another part of the Other Production Equipment segment, continued to grow in 2015, as in previous years. This business improved at an above-average rate, particularly in terms of earnings. Most of the extraordinary expenditures connected with relocating the entire division from Erlangen to Fürth and the changes in the management level had already been made by the end of 2015, which means that here we are starting 2016 largely free of these extraordinary items. At the end of 2015, orders on hand were very robust, and the projects being negotiated are a clear sign that this business will grow further in 2016.

Our Development Equipment business also performed encouragingly in 2015. This segment likewise boosted its revenue and further increased its earnings. In 2016, we will launch several new products in this segment, so we expect to be able to continue this segment's long-running success story in 2016.

Overall, all product lines with the exception of the LDS business developed more or less as expected in 2015. Based on the above-mentioned trends in the individual segments and the completely new product lines TGV and LTP, we are therefore projecting growth once again for 2016. In accordance with our current forecast, we want to generate revenue in the range of EUR 100 million to EUR 120 million. This in turn would lead to positive, single-digit percentage EBIT.

Right now, we are naturally concerned about how the Chinese economy will develop – which is difficult to predict – and the anticipated negative impact on the global economy. In this respect, 2016 will remain beset by uncertainty for the time being. Nevertheless, we are confident about our prospects for the future. Laser technology still has considerable potential, and we will continue to work hard on making the production methods in the electronics industry more efficient through laser-based processes.

The key to our future success lies in continuous innovation. Only if we succeed in developing new markets again and again with entirely new laser-based methods will we be able to grow profitably in the long term. For this reason, we fired on all cylinders in the area of development in 2015 – in spite of all of the cost-cutting measures. This is why we are upbeat about our prospects for the future.

Ladies and Gentlemen, the 2015 financial year was a challenge – not only for our shareholders but also for our staff. To reduce our costs, we made substantial cutbacks in many areas. Then there was the large fire at our Garbsen site at the beginning of the year, which led to considerable delays in a number of development projects.

Together with the Supervisory Board and our staff we did everything in our power to learn from the experiences in 2015 and to position ourselves more flexibly and efficiently for the future. I would like to thank the shareholders who remained loyal to us during this time. Thanks also to our entire workforce and especially the Works Council and our Supervisory Board for their constructive cooperation during this difficult year.

Yours sincerely,

DR. INGO BRETTHAUER
Chief Executive Officer

THE MANAGEMENT BOARD

DR. INGO BRETTHAUER

Chief Executive Officer (CEO)
Strategy, Marketing and Sales

Born 1955, member of the Management Board since 2009 – Ingo Bretthauer studied engineering and economics in Germany and business administration in the USA. After gaining a doctorate at the University of Gießen, he worked for a number of different German and international companies.

DR. CHRISTIAN BIENIEK

Chief Operating Officer (COO)
Production, ERP and Administration

Born 1967, member of the Management Board since 2012 – Christian Bieniek studied mechanical engineering (with a focus on manufacturing technology) before completing his doctorate at TU Braunschweig. He then worked in a number of companies and joined the LPKF Management in December 2012.

KAI BENTZ

Chief Financial Officer (CFO)
Finance, Human Resources and Organization

Born 1971, member of the Management Board since 2007 – Upon completion of his degree in economics at the University of Hannover, Kai Bentz worked for a large international accounting and auditing firm. After qualifying as a tax advisor, he joined the LPKF Group in 2002.

BERND LANGE

Chief Technology Officer (CTO)
Technology, Research and Development

Born 1961, member of the Management Board since 2004 – Bernd Lange studied electrical engineering at the University of Odessa and has worked in a variety of companies in the fields of electrical engineering and scientific instrumentation.
He joined the LPKF Group in 2000.

QUESTIONS FOR THE MANAGEMENT BOARD

QUESTION 1

Dr. Bretthauer, in 2015 LPKF has in again been short on good news for shareholders. You revised your guidance downwards twice in the course of the year. How do you propose to regain investors' confidence?

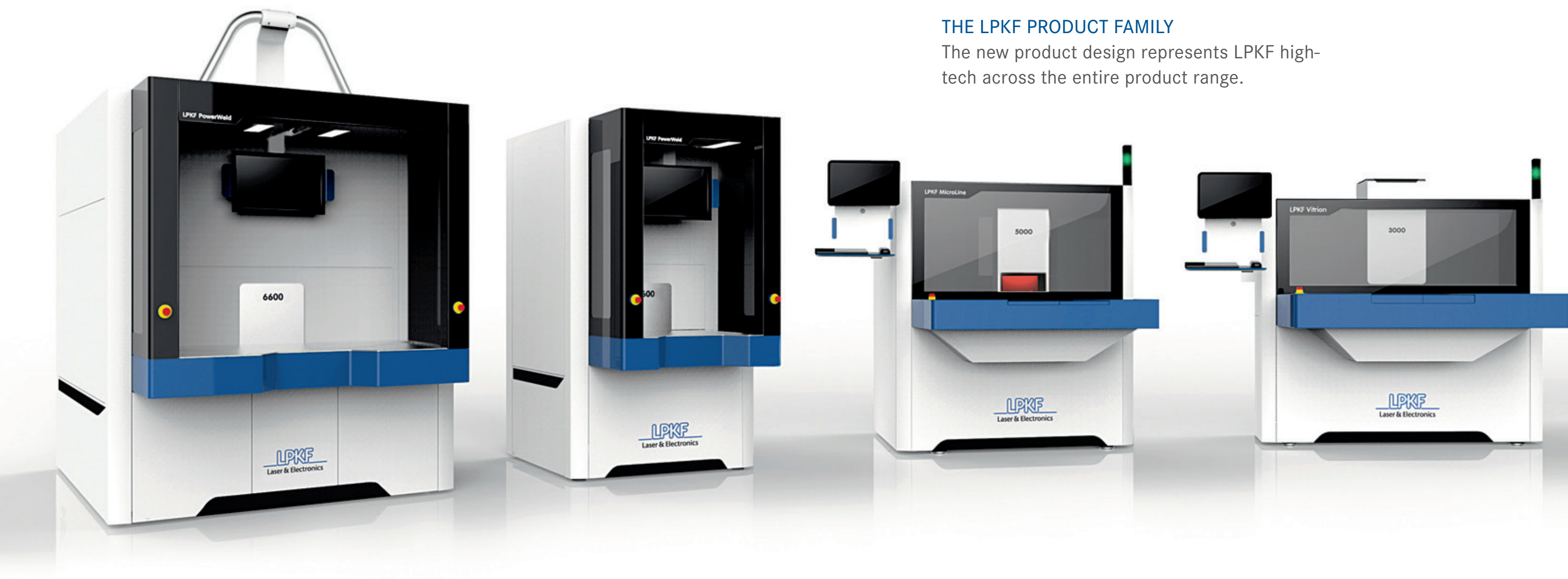
BRETTHAUER: In 2015, our LDS business, which had been so successful in previous years, came to an abrupt halt, so to speak. Although we had in previous years been able to repeatedly correct our earnings forecasts upwards, revenue followed a drastically different trajectory in 2015. A change of this magnitude could not have been foreseen. For 2016, we plan to ensure growth across the whole Group. We will do everything in our power to achieve our goals in 2016, and our success in this endeavor will also ensure that we regain shareholder confidence.

QUESTION 2

In 2015, LPKF made the first loss in the Company's history. Does this mean saying farewell to the solid EBIT margin of recent years?

BRETTHAUER: Markets have certainly become more competitive. But we believe that we will once again be able to achieve good margins with our new, patent-protected technologies. It will be especially interesting to see how quickly our TGV and LTP processes can make their mark on the market. Our 2016 planning in this area is still conservative. We therefore need a little bit more time until we can regain our previous form. We do plan to achieve a double-digit EBIT margin in 2017, however.

THE LPKF PRODUCT FAMILY
The new product design represents LPKF high-tech across the entire product range.



QUESTION 3

A small initial acquisition was completed in 2015 and others were announced. What role will external growth play in 2016?

BRETTHAUER: Our first priority continues to be internal – i.e. organic – growth. That said, we will naturally continue to keep an eye out for promising acquisition options that complement our know-how and are able to contribute to the achievement of our growth goals.

QUESTION 4

Mr. Bentz, despite numerous cost-cutting measures, you were unable to stay in the black in 2015. What does your budget planning for 2016 look like?

BENTZ: We will continue to keep costs low for the 2016 financial year. However, we will check each measure to ensure it doesn't endanger future revenue opportunities. In the Management Board, we will of course be keeping a weather eye on business development. The severity of our cost-cutting interventions will depend on how closely actual earnings track planned earnings. Our actions will therefore always be situation-dependent.

QUESTION 5

Mr. Bentz, in terms of dividend payments, LPKF's shareholders will presumably be left empty-handed this year. Do you intend to make dividend payments in the future?

BENTZ: Absolutely! We want to be able to make dividend payments in the future and we will maintain our current dividend payment policy, whereby 30–50% of earnings per share are distributed to shareholders.

QUESTION 6

Capital expenditure has been high at LPKF in recent years. What is your planned investment volume for the next few years?

BENTZ: Capital spending has indeed been significant in recent years as part of our growth strategy. With our site expansion work now complete, we plan to maintain a much lower level of spending at about 10% of revenue on average for the foreseeable future. One focal point here will be the development and refinement of products and processes. Other capital expenditure will always be approved on the basis of business performance.

QUESTIONS FOR THE MANAGEMENT BOARD

QUESTION 7

Mr. Lange, LPKF completed work on the TGV process, a brand-new glass drilling technology, in 2015. The first system has already been sold. What potential do you see for this new product group?

LANGE: The short-term target market is microelectronics. The TGV process now makes it possible to replace expensive silicon with low-cost glass for certain components. If the market is able to put the associated benefits into widespread practice, then TGV may develop into a key pillar for LPKF. In addition, there is a whole series of other applications for scribed and drilled glass for which TGV can offer a potential solution. Our further development work in TGV is focusing on such applications.

QUESTION 8

The LTP process is another new technology being launched in 2016. LTP comprises a digital printing process for functional pastes. What opportunities and risks do you see in this product group?

LANGE: At the moment, viscous and high-filled pastes and paints are almost always printed using a time-consuming, analogue screen-printing or stencil method. With LTP, these materials can now be printed digitally, with all the benefits digital printing has to offer. LTP requires the use of compatible paste printing systems. Accordingly, we have to construct a new kind of printer while also modifying the paints and pastes to be printed to the new printing process. This is a new challenge, and we are therefore working closely with partners here.

QUESTION 9

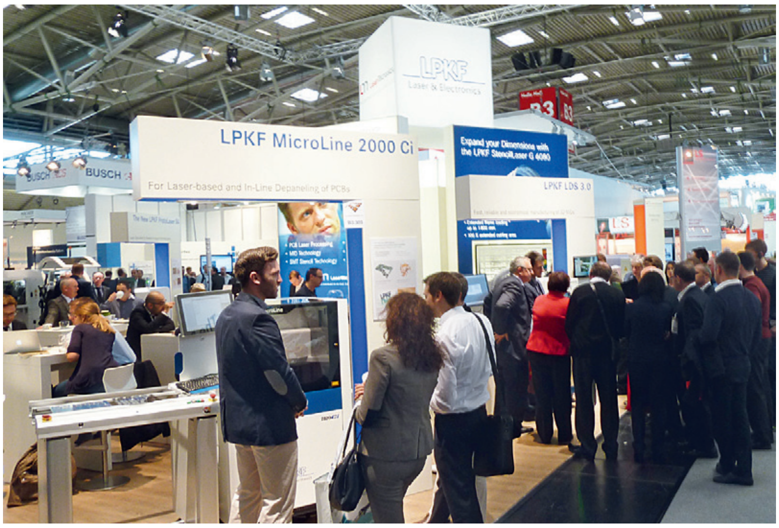
LPKF is a technology leader in a number of segments. What approach must be taken to maintain this status?

LANGE: Technological change is triggered not only by developments in the target markets but also by events affecting industry suppliers and advances in materials science. For us, it is important that we grasp new opportunities – as created in laser technology, for example – proactively and in good time, so we can develop new solutions for current challenges and those still on the horizon. In the process, we concentrate on new developments that offer real value to our customers.

QUESTION 10

Dr. Bieniek, looking back, LPKF has had a very difficult year in 2015. How will you prepare the Company to face similar sales fluctuations in the future?

BIENIEK: To ensure we can better handle fluctuations even as severe as these, we have developed our "Breathing Organization" mission statement. This means we will attempt to internally compensate revenue weaknesses in specific business segments by exchanging capacity with other business segments. This will not only require flexibility from our employees and production facilities but is also conditional on standardizations to processes, master data and systems. In this context, we achieved a significant milestone in 2015 by rolling out a shared IT system for



TRADE FAIR HIGHLIGHT
LPKF innovations are attracting trade fair visitors at productronica 2015 in Munich.

production planning and control at all of our production and development sites. In the future, the expansion potential present in new business segments should further reduce dependency on specific product lines.

Aside from relocating capacity between our sites, we will also make every effort to keep our capacities – and thus our costs – as flexible as possible at each of our production sites. Incidents of peak capacity can be covered by using flexible working hour models, out-/in-sourcing of work packages and temp work, for example, while also reducing costs in the event of a slump in new orders.

QUESTION 11 →

The rapid availability of systems has a decisive role to play in your industry. How can you guarantee quick delivery turnaround? How is working capital likely to develop in 2016?

BIENIEK: Short delivery times are indeed increasingly important for some of our business segments, as are products that are customer-specific and offer a wide choice of variants. To ensure this rapidity and flexibility for our customers isn't bought by maintaining expensive inventories, LPKF's products increasingly follow a modular model. The intelligent combination of just a few hardware and software modules can quickly generate many product variants, for example. This not only helps in production and procurement but, following an initial period of extra effort in design, also leads to shorter timeframes for development and testing.

QUESTION 12 →

Dr. Bieniek, as a high-tech company, LPKF constantly faces the pressure of having to bring a stream of technological innovations to market. What kinds of competencies will be needed to stay successful in this kind of highly dynamic environment?

BIENIEK: In the case of our most successful products, we've not only made a standard product simply better and more cheaply than the competition – we've actually used real innovation to set entirely new standards. For me, the ability to turn an innovative idea into a marketable product more quickly than the competition is therefore the most important ability of all. And I don't view this as a topic only for the development unit, but one that affects the entire company: only the agile collaboration of sales, predevelopment, design, sourcing and production is able to handle these increasingly shorter product lifecycles in the first place. I see this as one of LPKF's strengths that we can work together to improve still further.

REPORT OF THE SUPERVISORY BOARD

DR. HEINO BÜSCHING
Chairman

Born 1964, Chairman since 2012 – Heino Büsching studied law and is a partner of CMS Hasche Sigle Partnerschaft von Rechtsanwälten und Steuerberatern mbB, Hamburg.

Ladies and Gentlemen,

LPKF Laser & Electronics AG was forced to report a major decline in revenue for the 2015 financial year. It was a difficult year for business and presented management with special challenges. Consolidated revenue totaled EUR 87.3 million, coming in within the adjusted guidance for the 2015 financial year. The EBIT margin of –4.3% primarily reflects a slump in orders in the Laser Direct Structuring (LDS) product group within the Electronics Production Equipment segment.

Brighter prospects are being opened up by newly developed technologies that address completely new markets. These include laser systems for the computer chip industry, for digitally printing functional pastes and for research.

Monitoring and advising

In the 2015 financial year, the Supervisory Board closely monitored the performance of LPKF Laser & Electronics AG and fulfilled its duties pursuant to the law and Articles of Incorporation. Last financial year, the Supervisory Board held 13 meetings, six of which were not regularly scheduled. With one exception, all three members of the Supervisory Board attended all meetings personally.

At the start of each meeting, the Supervisory Board customarily meets without the Management Board. In other words, the initial agenda items are reserved for internal Supervisory Board discussions.

The Supervisory Board passed resolutions after considering the opportunities and risks where required by the law, the Articles of Incorporation or the rules of procedure.

The Management Board presented to the Supervisory Board proposals requiring its approval in accordance with the Articles of Incorporation and rules of procedure of the Management Board, and the Supervisory Board approved them, if necessary after amending the proposals submitted. In addition, the Supervisory Board monitored the legality, propriety and fitness for purpose of the Management Board's actions.

The Supervisory Board regularly monitored the Company's management and advised the Management Board with regard to managing the Company at the Supervisory Board meetings and in a multitude of discussions with the Chairman of the Management Board as well as the members of the Management Board and the Supervisory Board members.

The Management Board informed the Supervisory Board without delay and comprehensively of all issues with regard to strategy, planning, business development, risk situation, risk management and compliance. In doing so, it addressed any deviations in the Company's development from plans and targets, stating the reasons for such differences (for more details see the section "Main focus of the discussions"). The Supervisory Board was always involved at an early stage in all decisions of importance to the Group. The Management Board reports monthly in writing to the Supervisory Board at the level of the parent company about the statement of financial position, income statement, liquidity planning, business situation, product quality, status of development projects, risk management and the Company's risk situation. Such reports on the Group are submitted once a quarter.

Main focus of the discussions

At the beginning of 2015, the Supervisory Board consulted with the Management Board to discuss issues concerning the practical application of the new remuneration system for the Management Board. The new system for Management Board remuneration is based on defined targets and is performance-related. Some targets are designed to be short-term (short-term incentives, especially consolidated EBIT) and others long-term (long-term incentives quality and phantom stocks).

The Supervisory Board focused on questions of Group organization, and its structure under corporate law in particular, in early 2015 – also in the run-up to the 2015 Annual General Meeting.

Particular attention was paid to the fire at the Garbsen site in the first quarter of 2015. The Management Board reported to the Supervisory Board on this topic in each session that followed. Questions about occupational safety were once again discussed in light of this event.

The main topic of the 2015 financial year was the economic situation. The Management Board communicated key figures to the Supervisory Board regularly, particularly orders on hand, incoming orders, working capital, cash flow and the profit/loss situation. The Supervisory Board also monitored the situation with subsidiaries in Japan and South Korea, and discussed both short- and long-term measures for improving efficiency at individual Group sites with the Management Board.

The Supervisory Board and Management Board agreed to hold sessions at monthly intervals from June 2015. These extraordinary sessions were primarily used to update the Supervisory Board on the current economic situation in the course of a single session. In light of the unexpectedly low level of incoming orders and orders on hand, the Management Board developed a package of measures designed to save on non-essential costs. The Management Board kept the Supervisory Board informed about progress in implementing the agreed measures both during the sessions and also between sessions. It is the continued opinion of the Supervisory Board and Management Board that the workforce has a key role to play in the further development of the Group.

In an organizational/HR context, the Supervisory Board discussed the legal requirements for a quota of women at Board (Supervisory and Management) and first/second-tier management level, and the implications that such a quota would have.

A significant and permanent part of Supervisory Board meetings every year is the Supervisory Board's strategy meeting. This meeting is held along with the Management Board, heads of divisions, and the head of Group strategy. In the course of a two-day session, the Supervisory Board first addressed strategy proposals from Management Board members for their various divisions, followed by strategy items for the business units and, lastly, the overall strategy for the LPKF Group. The presentations and discussions culminated in a revised strategy paper, which the Supervisory Board and Management Board approved following the strategy meeting.

As in previous years, the trend toward an increase in legal disputes involving patents held by LPKF Laser & Electronics AG continued in financial year 2015. The patent situation at LDS is therefore a regular agenda item.

Internal auditing issues are also a fixture in Supervisory Board meetings. Internal auditing at LPKF Laser & Electronics AG has been outsourced to an auditing firm hired for this purpose, which is reviewing all units of the Company according to a set schedule and action plan. During this agenda item, the Management Board reported on the internal audit findings. In each case, the Supervisory Board duly noted the report and approved the measures proposed for improving internal workflows.

Corporate governance and Declaration of Compliance

In 2015, the Supervisory Board also intensively discussed the implementation of corporate governance standards in the Company. LPKF Laser & Electronics AG reports extensively on corporate governance in the Corporate Governance Report. On 22 March 2016, the Management Board and Supervisory Board issued the annual Declaration of Compliance in accordance with Section 161 German Stock Corporation Act (Aktiengesetz) which reports deviations from the recommendations and outlines the Supervisory Board's objectives for its composition. The declarations are also reproduced in the Corporate Governance Report. Additionally, the Declaration of Compliance is publicly available on the Internet at http://www.lpkf.com/investor-relations. LPKF Laser & Electronics AG fulfills nearly all of the recommendations and is committed to the Corporate Governance Code as an integral part of its corporate governance activities. No conflicts of interest arose in the reporting year (see "Potential conflicts of interest"); the independence of the members of the Supervisory Board was ensured.

Audit of the parent company's annual financial statements and of the consolidated financial statements

As resolved by the Company's Annual General Meeting, the Supervisory Board engaged PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) to audit the 2015 annual and consolidated financial statements and defined the focal points of the audit at its meeting on 10 November 2015. Both the annual and consolidated financial statements were audited by the auditors and issued with an unqualified auditors' report. The auditor participated in the Supervisory Board meetings on 29 February 2016 and 22 March 2016 and reported on the audits of the annual and consolidated financial statements. Furthermore, after reviewing the risk early warning system, the auditor of the financial statements confirmed that the Management Board executed the measures required by the German Stock Corporation Act to identify risks that could endanger the continued existence of the Company as a going concern.

The documents concerning the annual financial statements of the parent and the consolidated financial statements as well as the reports prepared by PwC were submitted to the members of the Supervisory Board for inspection and review in a timely manner. The representatives of the auditor reported on the main findings of their audit at the relevant Supervisory Board financial meetings, especially providing explanations on the financial position, cash flows and profit or loss of the Company and the Group as well as further information. There were no circumstances that cast doubt on the impartiality of the auditor. The auditor reported on these activities along with the auditing of the financial statements to the Supervisory Board as agreed.

The Supervisory Board discussed PwC's audit reports and the documents relating to the financial statements at length with the representatives of the auditor and examined them meticulously. The Supervisory Board reached the conclusion that the reports comply with the legal requirements of Sections 317 and 323 of the German Commercial Code (Handelsgesetzbuch) in particular. At its meetings on 29 February and 22 March 2016, the Supervisory Board agreed with result of the auditor's audit and approved the annual financial statements of the parent and the consolidated financial statements prepared by the Management Board. The annual financial statements of LPKF Laser & Electronics AG are thereby adopted.

Given the business performance in the reporting year and the outlook for 2016, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 2 June 2016 not to pay a dividend.

Potential conflicts of interest

The Supervisory Board gave approval for Mr. Bernd Hackmann to consult for LPKF customer Becktronic GmbH. Mr. Hackmann advises this customer on occasional questions regarding the production of a new type of print stencils, currently two to three days per year. The Management Board of LPKF AG does not believe that this constitutes a conflict of interest with the activities of LPKF Laser & Electronics AG's Supervisory Board.

Staffing

After the recent amendment to the Stock Corporation Act (AktG), the general legal requirement that the number of Supervisory Board members must be divisible by three is no longer applicable from 2016 (section 95 (1) sentence 3 AktG). In its meeting on 26 January 2016, the Supervisory Board resolved to expand the Board to a total of four members. The Supervisory Board intends to use this expansion to accommodate requirements for a higher quota of women while expanding the Board's expertise in the areas of finance and/or marketing. Should the Supervisory Board identify a suitable female candidate in time, she will be proposed for election at the Annual General Meeting on 2 June 2016.

Thanks

The Supervisory Board would like to thank the Management Board, our division heads, the members of the executive management of the subsidiaries as well as all of the LPKF Group's employees worldwide for their valuable contributions and commitment to the Company in financial year 2015.

Garbsen, Germany, March 2016

DR. HEINO BÜSCHING
Chairman of the Supervisory Board

PRODUCT GROUP PROFILES

LPKF offers a broad portfolio of products for a diverse range of applications and markets. This broad-based approach makes the Company less dependent on cycles within individual markets. Notwithstanding the various product groups, (almost) everything at LPKF revolves around micro material processing with lasers.

ELECTRONICS PRODUCTION EQUIPMENT

Precision, speed and versatility: three core requirements of the electronics industry in the production of high-quality electronic components. The Electronics Production Equipment segment of LPKF meets these industry requirements while setting its own benchmarks. Laser systems in this segment are increasingly replacing mechanical systems with high-precision laser technology. Customers benefit from more flexible and efficient laser processes. The Electronics Production Equipment segment brings together three product lines from the field of electronics production under one roof.

StencilLaser Equipment

StencilLaser G6080

To connect electronic parts securely to the circuit board, solder is deposited on the board using solder paste printing. This process requires high-precision print stencils, featuring cutouts at the places to be printed. The LPKF StencilLaser cuts these stencils precisely to the micrometer. New methods like extended stencils with a length of up to 1,600 millimeters offer customers new product options.

Only LPKF can do this: cutting stencils of up to 1.60 meters in length, for example for LED lighting

LPKF StencilLasers make up some 75% of the global market, and have a reputation of being especially reliable, fast and precise.

PCB Production Equipment

MicroLine 2820 P

The ultimate in compact precision: MicroLine laser systems separate flexible, rigid-flexible and rigid circuit boards from large-format panels without mechanical stress.

Precision, flexibility and gentle substrate processing with LPKF PCB systems

The high-precision laser process cuts close to the edge of sensitive circuit traces or components, cuts complex contures from flexible materials and offers impressive cost-efficiency. More powerful laser sources, tracking options and new designs open up new fields of application – and enable LPKF customers to produce sophisticated electronics components economically and reliably.

LDS Production Equipment

Fusion3D 1200

The LDS (Laser Direct Structuring) product line showcases LPKF's innovative capacity. A laser is used to create conductive paths on 3D plastic substrates. Metallized circuit traces are then formed along these tracks. This saves space, weight and assembly effort.

The LDS case houses the sensors and electronics in this air pressure gauge.

With production-ready solutions, an impressive prototyping process and an LDS powder coating for metal substrates, LDS technology drives new applications in LED lighting and the automotive sector.

At LPKF, expertise and experience make their mark in the fields of precision drive systems, laser technology, optics and materials engineering. An in-house software development unit works to create powerful, user-friendly interfaces between the production environment, laser systems and demanding operators.

ELECTRONICS DEVELOPMENT EQUIPMENT

In-house prototyping solutions at LPKF smooth the path to market entry for customer projects, creating prototypes ready for mass production at short notice.

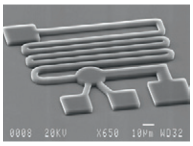
OTHER PRODUCTION EQUIPMENT

Two further segments expand the LPKF portfolio beyond electronics production: products from WeldingQuipment are used to securely bond the plastic parts used in automotive, medical and electronics markets, while the LaserScribers from the SolarQuipment business boost the performance of thin-film solar cells.

Rapid PCB Prototyping

ProtoLaser

LPKF leads the market in non-chemical processes for PCB prototype production. Instead of etching, boards are structured by a mechanical or laser system.

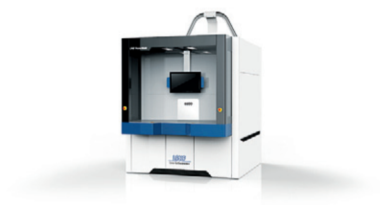


The ProtoLaser LDI: one-step ultrafine scribing.

LPKF's innovative lab lasers collectively address the "scientific prototyping" segment. They permit laser plastic welding, the microstructuring of resists and the scribing of 3D LDS circuit boards in the in-house lab, and significantly accelerate the time-to-market for technically ambitious products. No less than three new laser systems were launched in early 2016.

The LPKF systems are indispensable tools in the prototyping lab. LPKF is continuously expanding this business with new processes and systems.

LPKF WeldingQuipment



LPKF PowerWeld 6600

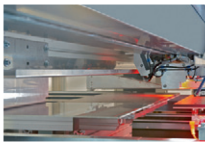
In laser plastic welding, the laser beam penetrates the upper joining partner and is absorbed by the lower component to finally create a reliable and visually appealing weld seam. The systems and methods offered by LPKF are increasingly supplanting conventional joining techniques. A broad product portfolio offers laser systems suited to the automotive, medical and consumer markets.

Fine channels on a microfluidic substrate created by laser plastic welding

LPKF SolarQuipment

Allegro

In the solar sector, success or failure is decided by the production costs of solar modules and their energy output under real-world conditions.



High-precision module machining = more solar power.

LPKF is setting new standards globally with its „Allegro“ laser scribers: The systems maximize the active module surface and thus the yield from a thin-film solar module. The combination of rapid processing and on-the-fly glass feeding minimizes unit costs while maximizing cost-efficiency.

PUSHING FORWARD

2015 – FULL STEAM AHEAD FOR RESEARCH AND DEVELOPMENT

THE R&D COORDINATOR OPTIMIZES DEVELOPMENT ACTIVITIES WITHIN THE GROUP.

A well-run project management system is like a relay triathlon: the specialist swimmer passes the baton – and the responsibility – to the biker, who in turn passes it on to the runner. The baton carrier bears responsibility within his or her discipline before passing it on to another specialist.

Especially when times are hard, a technology company like LPKF is reliant on continually developing innovative products that grant its entry into new markets. Creativity, courage and patience are required: the journey from the laser machine blueprint to the final product is long and hard. Seamless interplay between the various departments in the Company is also an essential factor for success here.

For this reason, LPKF has introduced a product development process. This process defines clear phases for new development and refining development work. It specifies who is assigned which tasks and when and can be applied to all of the product groups within the Group. On the following pages, we have sketched out the path from the concept to a production-ready machine, through to deployment of this machine at the customer.

EXPANDING IDEAS

It all starts with an idea for a new technology. But where does this idea come from? What makes it what it is? How can this idea prevail against others and what is left of the idea afterwards?

REFINING DESIGNS

Product Development interprets the new process to design an industry-capable machine that, constructed as a prototype, is first subjected to extensive testing.

DELIVERING BENEFITS

Product development is successful if it benefits the customer. Customers only invest in laser technology if they believe that it can give them a clear competitive advantage.

EXPANDING IDEAS

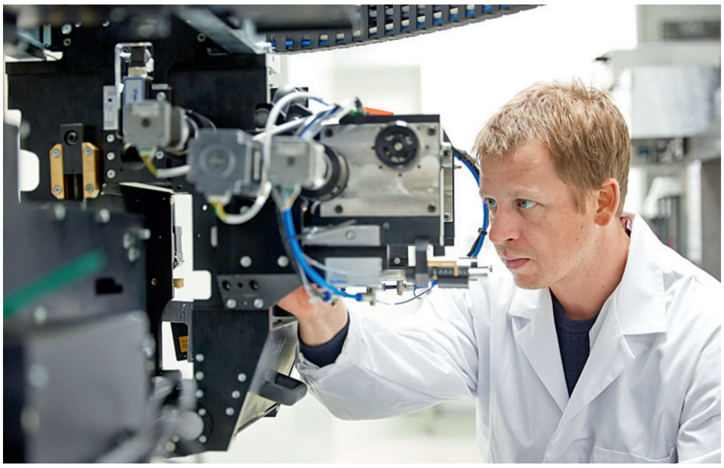
It all starts with an idea for a new technology. But where does this idea come from? What makes it what it is? How can this idea prevail against others and what is left of the idea afterwards? It is LPKF's declared goal to introduce laser technology into entirely new areas within electronics production. We are therefore following a *blue ocean strategy*, i.e. we want to be in a position where we can create uncontested market space. As a technology leader in micro material processing with lasers, we certainly have what it takes. We do not lack in *experience as pioneers*.

FOCUS ON CUSTOMER BENEFIT

The challenge is to anticipate the issues our customers will face in the future and generate appropriate solution strategies.

CREATIVE SPACE

Creativity, openness and courage are needed if we want our ideas and actions to be truly innovative. Our employees in Innovation Management therefore need the creative space to develop and test their ideas and lines of thought – no matter how bizarre they might seem.



The Technical Product Manager LTP Technology
tests the new LTP system.

FOCUS PHASE

The focus phase is used to separate the wheat from the chaff. Ideas are followed only if they manage to satisfy all of the criteria and requirements. This means saying no, in many cases. At the end of this phase, we obtain a reproducible process that not only meets the requirements identified for the market but also those applicable to our in-house product development and production.

The Ramp-up Manager coordinates work between Development and Production

REFINING DESIGNS

Product development interprets the new process to design an *industry-capable machine* that, constructed as a prototype, is first subjected to extensive testing. The machine, now *fully specified*, is then handed over to *high-volume production*. For existing products, the unit also regularly works on enhancements and optimizations or the creation of variants for other applications.

THE BUILDING-BLOCK SYSTEM

Like a construction set, product development uses a system with as many standardized functional modules as possible, which can be combined in accordance with requirements. This considerably reduces overall development time, while making machine production both leaner and more flexible.

HANDOVER FROM DEVELOPMENT TO PRODUCTION

Ramp-up management coordinates all of the ramp-up activities between the manufacturing of the first prototypes and subsequent volume production. The aim here is to ensure that components are available in time for volume production while also reducing the time taken to get the machine to the customer.

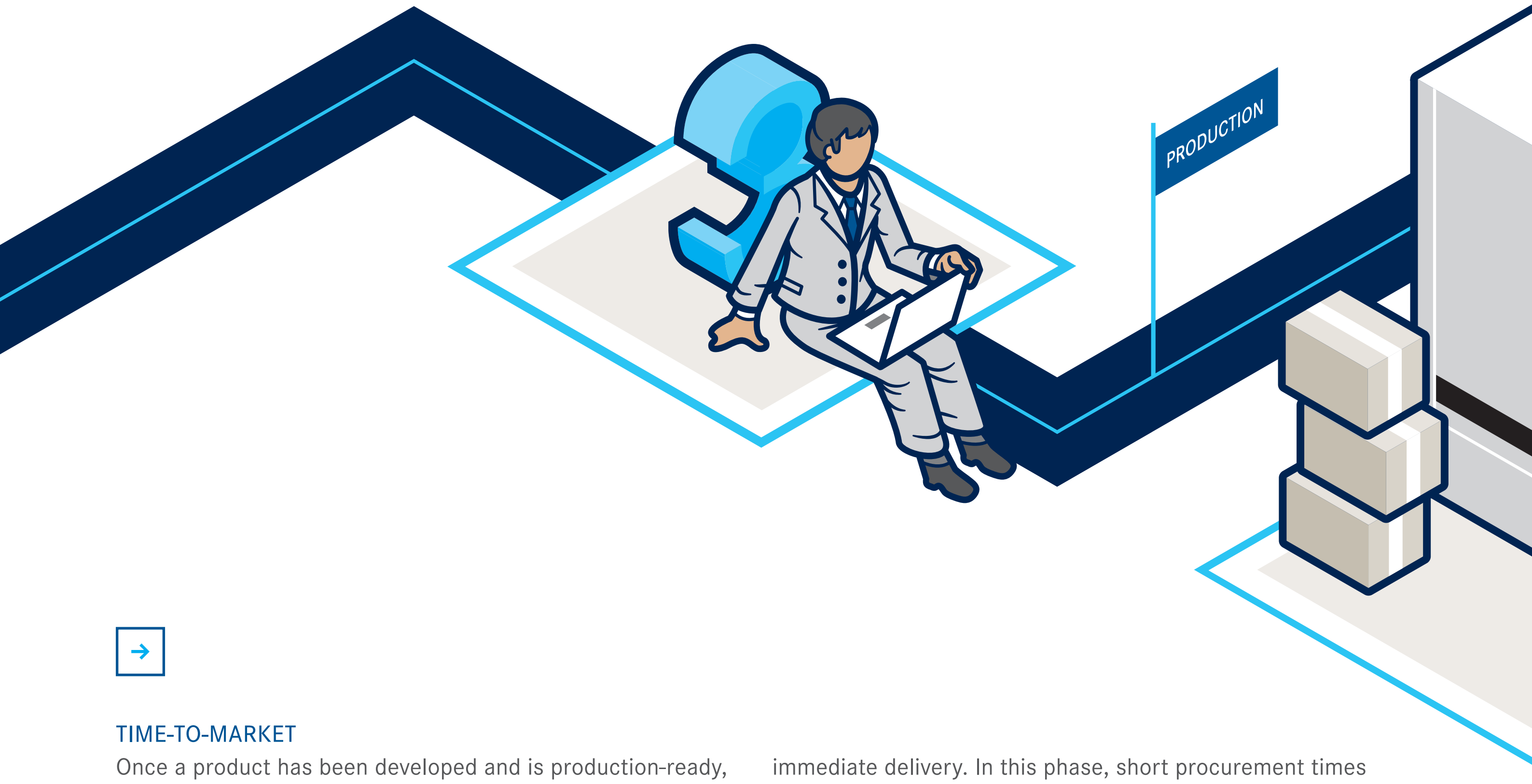
GET THE CUSTOMER ON BOARD

As with all phases, the customer benefit is central here. Both the software and hardware development teams work using agile methods. This ensures that development teams can respond much more quickly to changes in requirements and rapidly modify the solution accordingly. The customer perspective is integrated into development from the outset and already used as a benchmark for interim results. The final result is a product ready for both volume production and short-term delivery to the customer.

DELIVERING BENEFITS

Product development is successful if it benefits the customer. Customers only invest in laser technology if they believe that it can give them a clear *competitive advantage*.

This benefit may be a *boost to efficiency*, for example. Alternatively, the customer may be able to deploy our technology to *solve a technical problem* – such as being able to use LDS technology to integrate an even lower-profile camera module into a smartphone.



TIME-TO-MARKET

Once a product has been developed and is production-ready, what counts is the speed with which systems can be finished and delivered. LPKF's production keeps vertical integration to a minimum. High-quality components are provided by a range of industry suppliers with which we have developed long-standing partnerships. Once customers have decided to deploy one or more laser systems from LPKF, they almost always need immediate delivery. In this phase, short procurement times and a mature logistics network are critical to LPKF's success. The system is then installed by our service & support team on-site at the customer. A site acceptance test is then performed. Only when this test is completed to the customer's satisfaction is the system "ready to use." The machine must now prove its worth in volume production.

The site acceptance test (SAT) takes place at the customer.

COMPETITIVE ADVANTAGE FOR THE CUSTOMER

The result is a scalable, tangible benefit for the customer. By deploying high-precision laser technology, the customer can achieve new dimensions in miniaturization or make in-house production more efficient. At all times, customers can ask for help from our global support and service.

THE LPKF SHARE

FALLING SHARE PRICES

LPKF's shares came under pressure again in 2015. After starting the year at EUR 10.99, LPKF's share price slid to EUR 7.20 at the end of the year. The high for the year of EUR 13.53 was reached on 9 March, while the share's lowest price, EUR 7.14, was recorded on 24 August.

The trend in the shares price that had already begun in the previous year could not be stopped. The unsatisfactory figures and two downward revisions of revenue and profit forecasts caused the share price for the full year to drop by over 30%.

The share price performance also impacted on demand for LPKF's shares. The trading volume tapered off in the 2015 financial year after increasing in the preceding year. On Xetra, an average of 100,182 shares changed hands daily, putting our company in 30th place on the TecDax list. The bad share price performance in the 2015 financial year did have an effect on LPKF's TecDAX listing. On 3 March 2016, Deutsche Börse decided on the composition of its stock exchange indexes effective 21 March 2016. LPKF will leave the TecDAX. LPKF will, of course, do everything in its power to return to the TecDAX based on a positive development of its business and a corresponding performance of its share.

STOCK MARKETS

The TecDAX technology index gained 32.46%

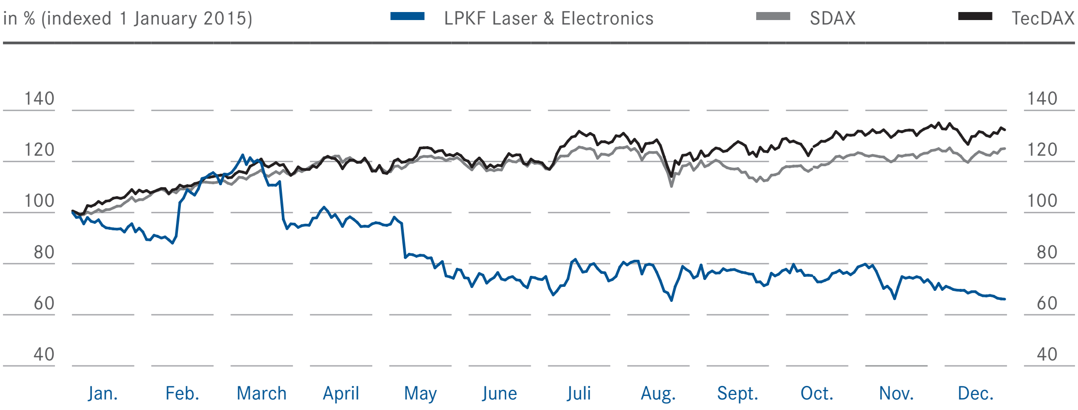
Following a chequered 2014 – a year in which the DAX, MDAX and SDAX recorded only minor gains of between 2.2% and 5.9% – economic experts and analysts had been banking on better performance in 2015. Their expectations were in fact exceeded. After witnessing considerable volatility in share prices, Germany's benchmark index, the DAX, ultimately grew 10.01% to close out the year at 10,743 points, achieving gains for the fourth year in a row. The MDAX was up 22.7%. The small-cap index SDAX delivered a surprise performance, closing out the year up 22.54%. The technology index TecDAX, which thanks to the strength of various stocks had topped the list of successes in the previous year with growth of 17%, outdid itself once more with gains of 32.46%.

In contrast, the major international stock exchanges developed unevenly. While the EuroStoxx 50, which lists the euro zone's blue chip stocks, gained 4.07%, the US Dow Jones index posted losses of 2.3%. The Nasdaq was up 5.9%. The Nikkei performed exceedingly well, reaching its highest level at year-end since 1996 with gains of 9.33%.

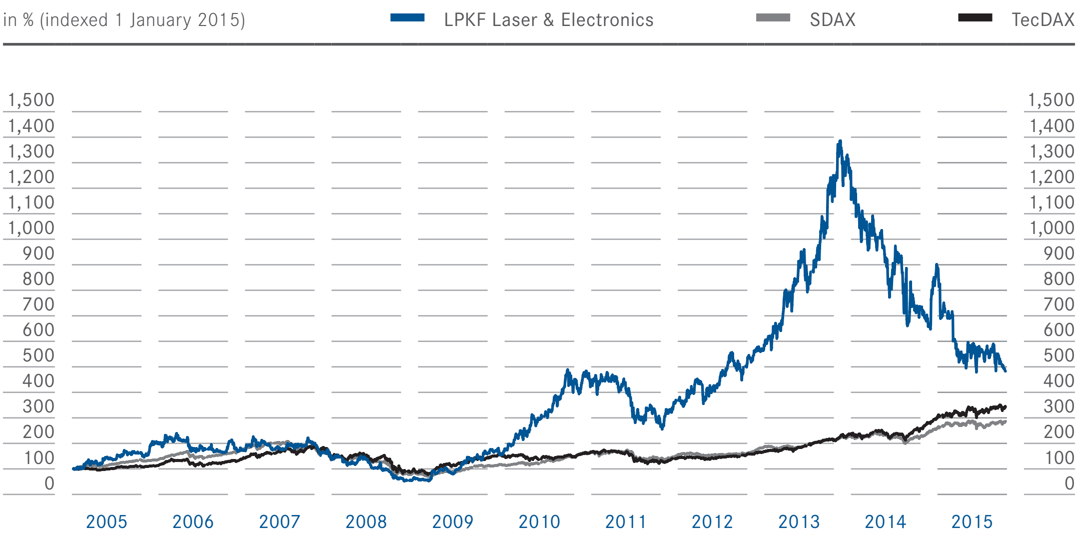
The reactions of the stock exchanges to the national and international developments were very mixed. In many countries, the numerous terrorist attacks in particular put a strain on the stock markets, even overshadowing the concerns about Greece's financial development.

In Germany, many large corporations shocked investors with poor operating figures. Moreover, the scandal relating to automaker VW dragged the whole industry down. The European Central Bank's announcement to continue its bond-buying program had an extremely positive effect on the markets, but the US Federal Reserve's decision to raise its key rate dampened sentiment. The devaluation of the Chinese currency, which market observers saw as a sign that the global economy was weakening, had major repercussions for the international equity markets.

PERFORMANCE OF THE LPKF SHARE IN 2015



PERFORMANCE OF THE LPKF SHARE 2005 – 2015



STOCK MARKET OUTLOOK ON 2016

Analysts expect 2016 to be a good trading year in Germany. They estimate that the DAX will close at a further record high. Optimists forecast that the index will top 12,500 points. The buoyant economy and falling oil prices are encouraging private investment. Europe will most likely continue to benefit from the monetary policy incentives provided by the European Central Bank. There is disagreement about the effects the inflows of refugees will have on stock market developments. Further tension within the political union is nonetheless anticipated at any rate.

In the United States, low oil prices will also stimulate consumption. Yet, at the same time, they will adversely affect the domestic oil and gas industry, which in recent years has focused heavily on fracking. The Federal Reserve's future decisions on whether to raise or lower key interest rates will be game-changing. Diminishing company profits at the end of 2015 have caused market experts to express fears of falling share prices.

In China, economic experts expect economic growth to weaken further. Declining figures are also expected in many emerging economies. However, it is unclear how the tensions in the Middle East will affect the region and other parts of the world.

MARKET CAPITALIZATION AND SHAREHOLDER STRUCTURE

All of LPKF's shares are in free float.

The subscribed capital of LPKF Laser & Electronics AG amounts to EUR 22,269,588.00. The corresponding number of ordinary shares are admitted to trading on the Prime Standard segment of the Frankfurt Stock Exchange's Regulated Market. According to Deutsche Börse AG's definition, all of LPKF's shares are in free float. Investors who hold more than 3% of voting rights are listed at http://www.lpkf.com/investor-relations/share/shareholder_structure.htm. The unsatisfactory stock price performance was also reflected in LPKF's market capitalization. LPKF closed the year with a market value of EUR 160.34 million as of 30 December 2015.

DIVIDEND POLICY AS PART OF CORPORATE STRATEGY

LPKF AG wants to increase the Company's enterprise value and attractiveness in the long term. After successful financial years, shareholders should also participate directly in the positive performance through dividend payments. Our dividend policy is based on continuity and reliability. As a rule, the Company aims to propose to the Annual General Meeting that between 30% and 50% of LPKF's earnings per share be distributed as a dividend. LPKF will only deviate from this aim if it faces an uncertain future due to circumstances such as an economic downturn, or if paying a dividend would jeopardize its ability to finance investments or dilute the financial position of LPKF AG or the Group.

Its weak operating performance in the 2015 financial year required LPKF to make a difficult decision. The Management Board and the Supervisory Board will propose to the Annual General Meeting on 2 June 2016 that a dividend not be paid. Dividend payments will be resumed as quickly as possible, however.

The focus of management is on solid financing of the Company. Ensuring a high equity ratio of at least 40% (currently: 53.4%) is one of the key prerequisites.

KEY FIGURES ON THE LPKF SHARE

	2015	2014	2013
Number of shares as of 31 December	22,269,588	22,269,588	22,269,588
High (XETRA)	EUR 13.53	EUR 20.80	EUR 18.92
Low (XETRA)	EUR 7.14	EUR 9.90	EUR 8.10
Closing price at year's end (XETRA)	EUR 7.20	EUR 10.83	EUR 18.58
Market capitalization at year's end	EUR 160.34 million	EUR 241.2 million	EUR 413.8 million
Average daily trading volume (shares)	100,182	159,169	130,364
Earnings per share, diluted	EUR –0.16	EUR 0.38	EUR 0.68
Dividend per share[1]	EUR 0.00	EUR 0.12	EUR 0.25

1 2015: Proposal at Annual General Meeting

DIALOGUE WITH SHAREHOLDERS, ANALYSTS, AND THE BUSINESS MEDIA

Nine banks analyze LPKF's shares.

In the 2015 financial year, LPKF continued its open communication with the capital markets and held a total of 153 meetings with institutional investors. CEO Dr. Ingo Bretthauer and CFO Kai Bentz spoke with investors and analysts at 17 road shows. Nine of these were held in Germany, the remaining eight abroad. Nine banks analyze LPKF's shares.

Small shareholders are still keenly interested in the Company. Over 300 shareholders accepted the invitation to the Annual General Meeting held in Hannover on 28 May 2015. In direct discussions with the members of the Management Board and Supervisory Board, investors acquired knowledge of the Company's economic situation as well as its short- and long-term prospects.

The 2015 financial year was disappointing for LPKF's shareholders and investors. As the Management Board explains in its interview on page 8 – 11, LPKF will do everything in its power to win back the trust of shareholders. This can only succeed if business picks up again and the targets for 2016 are reached. LPKF is gratified by the level of support from all of the shareholders who have remained loyal to the Company even in difficult times. Some have been with LPKF AG for many years. Even investing clubs regularly visit LPKF to provide shareholders with a better insight into the Company.

LPKF also maintains a high level of contact with journalists from financial and business publications. Many regional and national media regularly reported on developments at the Company and the performance of its shares. Individual interviews by the Management Board members, for example with Euro am Sonntag or ARD Börse, completed the picture.

IR CONTACT

LPKF's website is an important platform for providing shareholders with comprehensive and transparent information. Existing and potential shareholders can also contact LPKF personally with their questions.

All information on the Company is available online at www.lpkf.com. In addition, the Investor Relations department can be contacted at the following address:

LPKF Laser & Electronics AG
Bettina Schäfer
Investor Relations Manager
Tel.: +49 5131 7095-1382
investorrelations@lpkf.com

CORPORATE GOVERNANCE REPORT

SUSTAINABLE VALUE CREATION AND EFFICIENT COLLABORATION

Corporate governance stands for responsible corporate leadership and management aimed at increasing the shareholder value in the long term; purposeful and efficient collaboration between the Management Board and the Supervisory Board; consideration for the interests of shareholders and employees; transparency and responsibility in all corporate decision making; as well as appropriate risk treatment. LPKF follows the German Corporate Governance Code.

The actions of the LPKF Group's management and supervisory bodies are guided by the principles of responsible and good corporate governance. The Management Board reports on issues of corporate governance in this chapter – also on behalf of the Supervisory Board – pursuant to both Article 3.10 of the German Corporate Governance Code and Article 289a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). This chapter also contains the statement on corporate governance pursuant to Section 289a HGB. For the remuneration report, please see page 55 of the combined management report.

CORPORATE GOVERNANCE DECLARATION

1. PROCEDURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Management Board and Supervisory Board work together closely and trustfully.

LPKF AG is an enterprise incorporated according to German law, on which the German Corporate Governance Code is based. The dual management system comprising the Management Board and the Supervisory Board as corporate bodies, both of which have distinct responsibilities, is a fundamental element of German corporate law. The Management Board and the Supervisory Board of LPKF AG work together closely and in an atmosphere of trust in managing and supervising the Company. The Management Board of LPKF AG consists of four members. They are responsible for managing the Company's business in the interests of the Company and with the aim of creating sustainable value. The Supervisory Board set a target of 0% for the share of women on the Management Board to be fulfilled by 30 June 2017 since no changes in the composition of the Management Board are planned at present.

In accordance with the German Act on the Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector, the Management Board also laid down a target for the share of women in the two management levels below the Management Board: 17% in each case. The deadline set for achievement of this target is 30 June 2017.

The Supervisory Board advises and monitors the Executive Management Board with regard to its management of the Company.

The Supervisory Board advises and monitors the Executive Management Board with regard to its management of the Company. The Supervisory Board is integrated in corporate strategy and planning, as well as all aspects of fundamental importance to the Company. The rules of procedure require the Management Board to obtain the approval of the Supervisory Board for significant business transactions. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents the Supervisory Board externally.

The Management Board informs the Supervisory Board in a timely and comprehensive manner – both in writing and at regular meetings – of the Group's planning, performance and situation, including risk management and compliance. Extraordinary Supervisory Board meetings are convened as necessary in connection with material events. The Supervisory Board adopted rules of procedure for its own work.

For all members of its Management Board and Supervisory Board, LPKF AG has taken out a D&O insurance policy subject to a deductible corresponding to 10% of the damage but no more than one-and-a-half times the fixed annual remuneration.

The Supervisory Board of LPKF AG consists of three members. At the most recent Supervisory Board election during the Annual General Meeting on 5 June 2014, the Supervisory Board members were elected individually as recommended by the German Corporate Governance Code. The term of office of the Supervisory Board members runs until the 2019 Annual General Meeting. All election proposals concerning potential Supervisory Board members shall consider the expertise, abilities and professional experience that are required for carrying out the respective tasks as well as issues of diversity. For its proposals to the Annual General Meeting for the election of new Supervisory Board members, the Supervisory Board makes sure that the candidates in question can devote the requisite amount of time to the Company.

According to Article 5.4.1 GCGC, the corporate governance report shall disclose the specific objectives of the Supervisory Board with regard to its composition in view of the Company's international activities, potential conflicts of interest, an age limit to be specified for Supervisory Board members, a regular limit of length of membership to be specified for the members of the Supervisory Board, the independence of Supervisory Board members and diversity, the latter particularly in terms of an adequate proportion of women, and the status of implementation.

The Supervisory Board formulated objectives regarding its composition.

To this end, the Supervisory Board formulated the following objectives regarding its composition:

a) Addressing the international nature of the Company's activities

The international activities of LPKF Laser & Electronics AG have been reflected to date in the participation of shareholder representatives in the Supervisory Board and will continue to be addressed in the future in nominations of candidates by the Supervisory Board to the Annual General Meeting. In addition to the ability to speak and write English, the measure here is the professional experience acquired in other German and foreign companies with international operations, whether in management or supervisory bodies, and the understanding of global economic issues. The criterion of internationality does not stipulate that the Supervisory Board's composition include one or more Supervisory Board members holding foreign citizenship. Instead, German citizens can also contribute this desired experience.

b) Avoiding potential conflicts of interest

Potential conflicts of interest should be avoided as early as when the Supervisory Board nominates candidates to the Annual General Meeting. With the exception of the Supervisory Board's Deputy Chairman, who was Chairman of the Management Board of LPKF AG until December 2008, no former LPKF Management Board members sit on the Supervisory Board. In addition, when candidates are proposed to the Annual General Meeting, attention is paid to ensuring that the relevant candidate does not hold a management or advisory position or a position on the supervisory body of competitor companies, suppliers, creditors or clients in order to prevent conflicts of interest from the start. If conflicts of interest arise during a Supervisory Board member's term, the respective Supervisory Board member must disclose this to the Supervisory Board to the attention of the Chairman. In the event of material, not just temporary, conflicts of interest, the member must step down from his or her position.

c) Specifying an age limit
The age limit for members of the Supervisory Board was set at under 70 years at the time of election by resolution of the Supervisory Board on 22 January 2014.

d) Specifying a regular limit of length of membership for the members of the Supervisory Board
To ensure a balanced mix of experience and new members on the Supervisory Board, the Supervisory Board specified a regular limit of 10 years for the average length of membership for the members of the Supervisory Board based on the date of their election.

e) Independence of Supervisory Board members
The Supervisory Board, currently with three members, must have at least two members who are independent within the meaning of the German Corporate Governance Code.

f) Diversity
The composition of the Supervisory Board of LPKF Laser & Electronics AG should reflect as broad as possible a spectrum of professional expertise and experience in various areas relevant to the Company. Against the backdrop of the 2016 amendment of the German Stock Corporation Act, the Supervisory Board resolved at its meeting on 26 January 2016 to specify a target for the share of women on the Supervisory Board of 25% to be fulfilled by 30 June 2017. This target is to be achieved through a corresponding amendment of the Articles of Incorporation, leading to the expansion of the Supervisory Board from three to four members and the search for a suitable female candidate who should preferably have expertise in the areas of finance and/or marketing.

The Management Board and the Supervisory Board are obliged to observe the corporate interests of LPKF AG.

Both the Management Board and the Supervisory Board are obliged to observe the corporate interests of LPKF AG. There were no conflicts of interest in the financial year just ended that would have had to be disclosed to the Supervisory Board without delay. No member of the Management Board held more than three appointments to the supervisory boards of listed stock corporations not belonging to the Group.

The status of implementation of the objectives regarding the composition of the Supervisory Board outlined in a) to f) above is as follows:

The objectives relating to a) "Addressing the international nature of the Company's activities", b) "Avoiding potential conflicts of interest", c) "Specifying an age limit", d) "Specifying a regular limit of length of membership for the members of the Supervisory Board", and e) "Independence of Supervisory Board members" have already been achieved. The Supervisory Board will take objective f) "Diversity (including an acceptable proportion of women on the Supervisory Board)" into account when nominating candidates to replace Supervisory Board members whose terms are ending or for newly created Supervisory Board posts and step up the search for suitable female candidates. The term of office of the Supervisory Board members is five years, and the current term ends with the Annual General Meeting in 2019.

2. CORPORATE GOVERNANCE REPORT

LPKF implements the recommendations and suggestions of the German Corporate Governance Code (GCGC) apart from a few exceptions. The Management Board and the Supervisory Board jointly issued the 2016 Declaration of Compliance on 22 March 2016 pursuant to Section 161 German Stock Corporation Act (Aktiengesetz). The Declaration is permanently made public on LPKF AG's website.

Declaration of Compliance of LPKF Laser & Electronics AG for the 2016 financial year with the Corporate Governance Code in accordance with Section 161 German Stock Corporation Act (Aktiengesetz)

The Management Board and the Supervisory Board declare that the recommendations of the Government Commission on the German Corporate Governance Code have been observed.

The Management Board and the Supervisory Board of LPKF Laser & Electronics AG declare that since the most recent Declaration of Compliance dated 23 March 2015 the recommendations of the Government Commission on the German Corporate Governance Code (GCGC) as amended on 24 June 2014 and as amended on 5 May 2015, have been observed. LPKF will continue to comply with these recommendations. The following exceptions apply:

No severance pay cap agreed for Directors' contracts in case of premature termination of a Director's contract (Article 4.2.3 (4) and (5) GCGC).

Because they only run for three years, the Directors' contracts do not contain a cap on severance pay. If a Director's contract is terminated prematurely without cause, remuneration is limited to no more than the remaining contractual period. The Supervisory Board therefore considers it unnecessary to include in the Directors' contracts a cap on severance pay amounting to two years remuneration.

Formation of Supervisory Board committees (Article 5.3.1 and 5.3.2 GCGC)

Given that it currently has three members, the Supervisory Board of LPKF Laser & Electronics AG does not form any committees.

3. SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of LPKF AG exercise their co-determination and control rights at the General Meeting, which takes place at least once per year. It resolves all matters determined by law with binding effect on all shareholders and the Company. Each share grants one vote at the Annual General Meeting.

Every shareholder who registers in due time has the right to participate in the Annual General Meeting. Shareholders who cannot or do not want to attend in person have the option of appointing a bank, a shareholders' association, the proxies appointed by LPKF AG who are bound by instructions, or any other agent as their proxy to exercise their voting right.

The notice of the Annual General Meeting as well as the reports and information required for the resolutions are published in accordance with the requirements of German corporate law and are also made available on LPKF AG's website in both German and English.

4. RISK MANAGEMENT

The responsible handling of business risks is an integral part of all good corporate governance. The Management Board of LPKF AG is supported in its work by a comprehensive Group-wide reporting and control system that makes it possible to record, assess and manage risks of this kind. This system is continuously refined, adjusted to changing parameters, and audited by the auditors of the financial statements. The Management Board informs the Supervisory Board on a regular basis of existing risks and their development. The risk report contains details of the LPKF Group's risk management. The risk report is part of the Group management report and contains the report on the accounting-related internal control and risk management system pursuant to the German Commercial Code.

5. TRANSPARENCY

LPKF regularly, immediately and simultaneously informs the participants in the financial markets and interested members of the public about the commercial situation of the Group and any new facts. The annual report, the half-yearly financial report and the quarterly financial reports are published within the specified deadlines. Press releases, and ad hoc announcements where stipulated, provide information on current events and new developments. All of the information is published in printed form and via suitable electronic media such as email and the Internet. The www.lpkf.com website also provides comprehensive information on the LPKF Group and LPKF shares.

A financial calendar lists the scheduled dates for the most important regular events and publications such as the Annual General Meeting, annual report, quarterly financial reports, financials press conference and analyst conferences. The calendar is published well in advance of the scheduled events and is made available permanently on the LPKF AG website.

6. SHARE TRANSACTIONS OF MEMBERS OF THE COMPANY'S CORPORATE BODIES

Reportable directors' dealings involving the sale or purchase of the Company's shares by members of LPKF AG's corporate bodies were published on the Company's website and reported to the competent supervisory authorities. A listing of the shares held by members of the Company's corporate bodies is shown in the remuneration report.

7. ACCOUNTING AND AUDITING

The consolidated and annual financial statements were audited by PwC.

LPKF AG prepares its consolidated financial statements and its interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statements of LPKF AG are prepared in accordance with the German Commercial Code. The consolidated financial statements are prepared by the Management Board, audited by the auditor of the financial statements and reviewed by the Supervisory Board. The interim reports and the half-yearly financial reports are discussed by the Supervisory Board and the Management Board before publication. The consolidated financial statements and the annual financial statements of LPKF AG were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, the auditor elected by the 2015 Annual General Meeting. The audit reports were signed by German public auditors Helmuth Schäfer (since the 2009 annual financial statements) and Prof. Dr. Mathias Schellhorn (since the 2013 annual financial statements). The audits were conducted in accordance with German auditing standards and taking the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors (IDW) into account. The International Standards on Auditing were also taken into account. The audits also assessed the risk management and compliance with the reporting obligations defined for proper corporate governance pursuant to Section 161 German Stock Corporation Act.

LPKF AG also entered into a contract with the auditor pursuant to which they must notify the Supervisory Board immediately, while the audit is in progress, of any grounds for excluding them, any partiality on their part as well as any material findings and events. Nothing of this nature arose in the course of the audit covering the 2015 financial year.

8. COMPLIANCE – PRINCIPLES GOVERNING CORPORATE ACTIONS AND BUSINESS ACTIVITIES

LPKF employees worldwide are bound by the compliance code.

Acting in compliance with the principles of corporate, environmental and social sustainability in accordance with applicable law is an indispensable element of LPKF's corporate culture. This includes trust, respect and integrity in interactions with other people, values expressed in exemplary behavior vis-à-vis employees, business partners, shareholders and the public. LPKF's understanding of compliance includes observing all laws, statutes and the Articles of Incorporation, complying with internal regulations, and honoring voluntary obligations.

LPKF AG considers it particularly important to raise the awareness of compliance among all of the Group's employees, to entrench compliance in the internal processes (for example, through adherence to the principle of dual control) and to build a compliance structure for the Group that makes compliance guidelines binding on all LPKF employees worldwide and is suitable for effectively preventing compliance violations for the benefit of the Group as a whole.

Training for employees was offered in connection with the Group-wide compliance code to familiarize employees with the goal of this code of conduct and to guarantee uniform ethical and legal standards throughout the entire Group.

The Compliance Office holds regular meetings to discuss current topics, some times in the presence of the technical officers.

In 2015, the managing directors of the global sites were contacted to take steps to prevent corruption and asked to report any cases of corruption that arose, including the countermeasures taken, to the compliance manager. No such incidents came to attention.

In addition, a compliance inventory was performed that involved talking to the compliance officers at the German sites about incidents, current and organizational issues and implementation of changes in the law. The managing directors of the subsidiaries around the world were asked about any incidents and about existing assignments within the organizational unit they manage. The most important outcome of this inventory was that no compliance-related violations/incidents were ascertained. Any assignments to be performed under local law were performed.

Internal auditing, which is performed by an international audit firm functioning as a third-party service provider, plays a key role in the compliance organization. The relevant audits are also used to update the internal control system.

Dr. Ingo Bretthauer — Bernd Lange — Kai Bentz — Dr.-Ing. Christian Bieniek

LPKF AS AN EMPLOYER

ATTRACTIVE JOBS IN THE LASER INDUSTRY

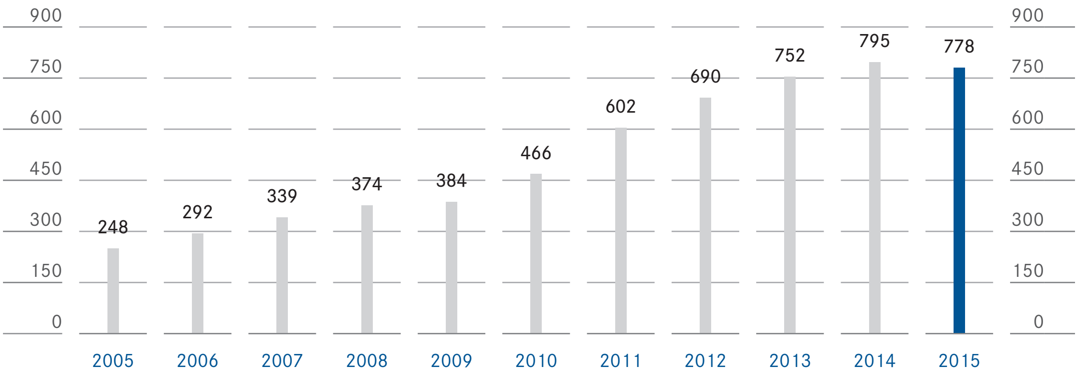
The fascination of laser technology continues to attract many engineers and technical specialists.

The trend of previous years was corrected slightly in the 2015 financial year: we did not take on any new staff and our headcount decreased slightly from 795 in the previous year to 778. We now feel that we are well positioned to return to a growth trajectory in the long term. As before, the pioneering power of laser technology is our major selling point, offering plenty of future potential and attracting a great many specialists and executives to our company.

We have continued to make targeted improvements to our HR development work and implemented a range of programs for both training and CPD.

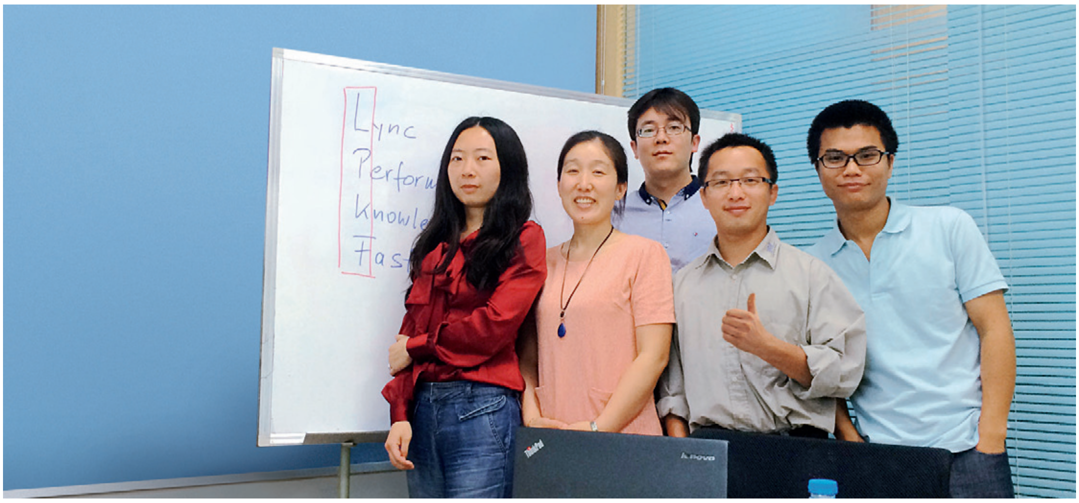
NUMBER OF EMPLOYEES IN THE LPKF GROUP BETWEEN 2005 AND 2015

At 778, the Group's headcount is slightly lower than the previous year.



EMPLOYEES CAN DEVELOP TO THEIR FULL POTENTIAL

Continuing professional development is a key aspect of HR development in general. We have codified our CPD work in the form of a recently published Course Catalog. The Catalog provides details of standard training courses that employees can attend as required. These may include foreign language courses or training in compliance, for example. Other training courses are aimed at management staff and are designed to offer them support for their leadership roles. This remained a priority for training in 2015.



LPKF employees at an IT training course in Shenzhen.

In this way, all of our employees get the chance to fully develop their potential at LPKF.

For capable, dedicated and high-achieving staff, we offer a wide range of career prospects and options for professional development. In addition to our standard programs, we offer especially dedicated and talented staff additional professional development options, which are discussed in regular appraisal meetings held between the employee and their supervisor. Goals agreed here may include project work, a personal training plan or career-integrated courses of study. In this way, all of our employees get the chance to fully develop their potential at LPKF. Our employees are the focal point of our business: after all, the wealth of cultures, competencies and potential offered by our workforce is the origin of long-term global success at LPKF. Our Company has premises in six countries. This gives us a broad international base and a workforce operating from sites all over the world. Since members of staff often work with colleagues from different regions, they get the chance to experience life in other countries and gain intercultural skills. This often proves useful when liaising with foreign clients.

The considerable diversity of LPKF's cultural base is matched by the balanced nature of our age structure: the sound experience contributed by our longtime employees is enhanced by the bold ideas of our junior high-flyers. This results in a healthy mix of younger and older employees, also showing that we offer attractive options for career development and are well prepared to meet the challenges of demographic change.

THE PROFESSIONAL MANAGEMENT OF SUCCESS

The constant development of leadership skills is a key requirement for LPKF's success.

Employees need professional leadership. Accordingly, the constant development of leadership skills is a key requirement for us – and for LPKF's success. To give our management staff a frame of reference for their actions while supporting them in performing their duties, a number of management principles have been developed at LPKF and set down in ten principles. These points cover topics such as the professional handling of conflicts or staff motivation. Management training courses help to ensure compliance with the principles, with trainees learning how to find lasting solutions to various conflicts, for example.

Career starters and high potentials are given the very best preparation for later management duties. This enables us to offer talented employees a fast track to management responsibilities, supporting their development of leadership skills at an early stage. In a growing and learning organization, demands on employees also change continually. We want to address this issue with Group-wide staff development programs and thus ensure that all employees worldwide have the capabilities they require in the future for their jobs. Talent is being identified and promoted in a lasting way. This includes international employee exchanges within the Group, which we support and promote.

All executives at LPKF perform an important role model function. We will hold training sessions to familiarize them throughout the Group with our Group objectives and Group results as the primary goal, and also develop target agreements and compensation models to this end.

ALWAYS ON THE LOOKOUT

LPKF faces the challenge of finding suitably-qualified personnel by employing a number of strategies.

A successful company needs quality employees. We too have to face the challenge of finding suitably-qualified personnel, and we do so by employing a number of strategies. The high standards we set for our company in the technological and financial realms also apply to selecting our employees. LPKF is a highly attractive employer – which is reflected in our applicant numbers. But for us, that's not nearly enough. In order to attract and retain good employees, we work tirelessly on further improving our reputation as an attractive employer among small- and medium-sized mechanical engineering firms.

Young professionals are a crucial investment for the future – We train a constant stream of young people across a range of professions, including mechatronics, industrial management and applied IT systems. In the long term, industry will see a shortage of MINT qualifications (mathematics, information technology, natural sciences, technology). This bottleneck is essentially a structural problem that must be considered an impediment to growth and innovation. At LPKF, we address this bottleneck with solid vocational training. Trainees are the backbone of our company, and since we offer people the prospect of an interesting vocational traineeship we are fit for the future. We are particularly interested in the level of commitment and motivation shown by our trainees. And trainees also have every chance of being hired full-time after completing their apprenticeship. Our scholarship program helps college graduates with qualifications in both technical and commercial subjects complete their academic training. We also offer graduates a wide range of internships designed to help them gain some initial work experience.

Team-building at the trainee field trip in Fürth

THE FEEL-GOOD FACTOR COMPANY

We want our employees to feel well-cared for at LPKF. We therefore supplement our options for personal development by emphasizing a strong sense of community – even over regional boundaries. This is constantly renewed by our regular group activities – a motorcycle tour in Southern Germany, a skiing event attended by colleagues from all over the world or Christmas parties at the different sites. Time and again, there are chances to get to know one another and share experiences across national borders. For ten years, LPKF has also had its very own dragon boat crew, whose enthusiasm and team spirit has brought it success in competitive racing. Activities such as these help develop a healthy corporate culture and make integration easier for new employees.

Employee health is another area to which we devote our attention at LPKF. We use various programs here to promote our employees' well-being, motivation and general health and fitness. In 2015, several health awareness days and events were held where management and other staff were able to attend workshops and presentations. The primary focus here was stress prevention and a healthy lifestyle. Such events are supplemented by a range of medical check-ups by our company physician that are offered to each and every member of staff.

Once a year, the LPKF employees from Portland organize a golf tournament.

The LPKF Laser Dragons successfully take part in competitions.

SUSTAINABILITY REPORT

KEY BUILDING BLOCK OF THE CORPORATE STRATEGY

At LPKF Laser & Electronics AG, sustainability is more than just a buzzword. We take our duty of corporate responsibility seriously and supplement our commercial analysis of business by considering its environmental, ethical and social impact. In our updated 2016+ Strategy Paper, increasing the long-term value of our company has top priority as our overarching, fundamental corporate goal. All other goals are subordinate to this goal – and thus to our focus on long-term planning. This is how LPKF lays the groundwork for sustainability as part of its corporate strategy.

LASER TECHNOLOGY – EFFICIENT AND RESOURCE-FRIENDLY

LPKF makes an active contribution to reducing the volume of scrap and waste.

As a technology leader and pioneering innovator, our work naturally prioritizes product development. Our laser-driven technology is displacing chemical processes in many industries and making an active contribution to reducing the volume of scrap and waste at our customers. One such area is PCB prototyping, which LPKF systems can now handle as a zero-chemical process. The copper swarf produced is removed with air extraction systems that incorporate filters to avoid polluting the environment.

In another process, PCB depaneling, LPKF technology is reducing the mechanical loads to which work parts are subjected. This substantially reduces the volume of scrap – especially for soft or flexible materials. Our patented LDS (Laser Direct Structuring) method creates circuit traces on pre-existing plastic component parts. This makes additional interconnect parts unnecessary and means the components produced are 100% recyclable. Laser plastic welding is another technology that is enabling cost-effective, resource-friendly production. This is made possible by a process that avoids the use of adhesives or other additives, merely requiring a set of simple workpiece clamps. LPKF is also active in the solar technology sector. Use of our laser scribers has made it possible to significantly increase the conversion efficiency of thin-film solar modules. Laser technology generally involves lower tool costs and more energy-efficient operations. It enables flexible, resource-friendly production processes and the economical manufacturing of electronic components.

OCCUPATIONAL SAFETY AND QUALITY ASSURANCE IN THE SPOTLIGHT

Sustainability in product development is not the only major topic at LPKF: social engagement and employee safety are intensively promoted as well.

It is particularly important to us to ensure the health and safety of our employees as they carry out their work. In 2015, for example, a program for implementing occupational health and safety objectives was introduced. This program defined the following objectives:

Social engagement and worker safety are given high priority.

1. Reduce the number of serious industrial accidents
2. Increase managers' psychosocial skills
3. Diminish the consequences of employees' mental stress
4. Enhance emergency management
5. Improve fire prevention measures
6. Reduce absenteeism due to illness

Specific measures were taken to achieve these six objectives (for example, introduction of accident analyses, also for critical near-accidents; seminars for managers on psychosocial stress in the workplace; training in emergency situations, thermographic studies of control cabinets, etc.), all of which were successfully implemented in 2015. In 2016, a program will be introduced for the reintegration of staff following a period of absence due to illness. The purpose of this is to check whether the cause of the illness may lie in the work. Employment at LPKF needs to be ruled out as a factor that makes employees ill.

In the area of quality management, standardization of processes at the sites was advanced in 2015, further reducing the number of individual processes. This is making the ISO 9001- and OHSAS 18001-compliant management systems leaner, easier to understand and more acceptable. To be able to work more effectively in less time, in 2015 we began to design a shared intranet platform for all sites with uniform processes. This will enable us to safeguard the quality of our products and create the basis for long-term job security.

NURTURING OUR WORKFORCE: FROM STAFF TO MANAGEMENT

But we do not neglect our social responsibilities as a company, either: LPKF engages strongly with the community by means of charitable donations, scholarship programs and a wide range of leisure activities and employee events. We also take an active interest in our employees' social welfare. Examples include family days out, a broad program of sports activities – such as ski trips, dragon boat races or running events – and celebrating staff service anniversaries.

As an innovator, LPKF devotes particular attention to the targeted development of its employees and management staff.

Staff training and continuing professional development also form part of our policy of sustainability. As a major innovator, LPKF devotes particular attention to the targeted development of its employees and management staff. The new training catalog compiled in 2015 specifically for executive development will be expanded in 2016 through the addition of seminars offered by external suppliers. Although the economic situation in the second half of 2015 forced us to increasingly tighten our belts, which meant that, for example, the general training offering was trimmed, vacant positions were not filled and expired temporary positions were not extended, no redundancies for operational reasons were required.

Our efforts to recruit and nurture young talent led to the signing of a cooperation agreement with the robot studying group of a local cooperative comprehensive school. In addition to funding school activities, we will take on student interns with a view to possibly offering them a vocational traineeship later on. The tried-and-tested award of university scholarships will also be continued in 2016. Some of the scholarship holders, who in the past wrote their bachelor's or master's thesis at LPKF, have already received permanent contracts. Furthermore, a Group-wide personnel controlling department was established in 2015 that is currently being developed further with the aim of improving international comparability.

While LPKF has a relatively young workforce – the average age is just 39 – we are nonetheless proud to have offered many of our employees continuous job security for several decades or more. Our employee turnover rate is 9.4%. And we can also offer the vast majority of our trainees a permanent position at the end of their training period. Our overall goal is to employ our well-qualified staff and technicians at our company for as long as possible.

COMBINED MANAGEMENT REPORT 2015

OF LPKF GROUP AND LPKF AG

I. FUNDAMENTAL INFORMATION ABOUT THE GROUP

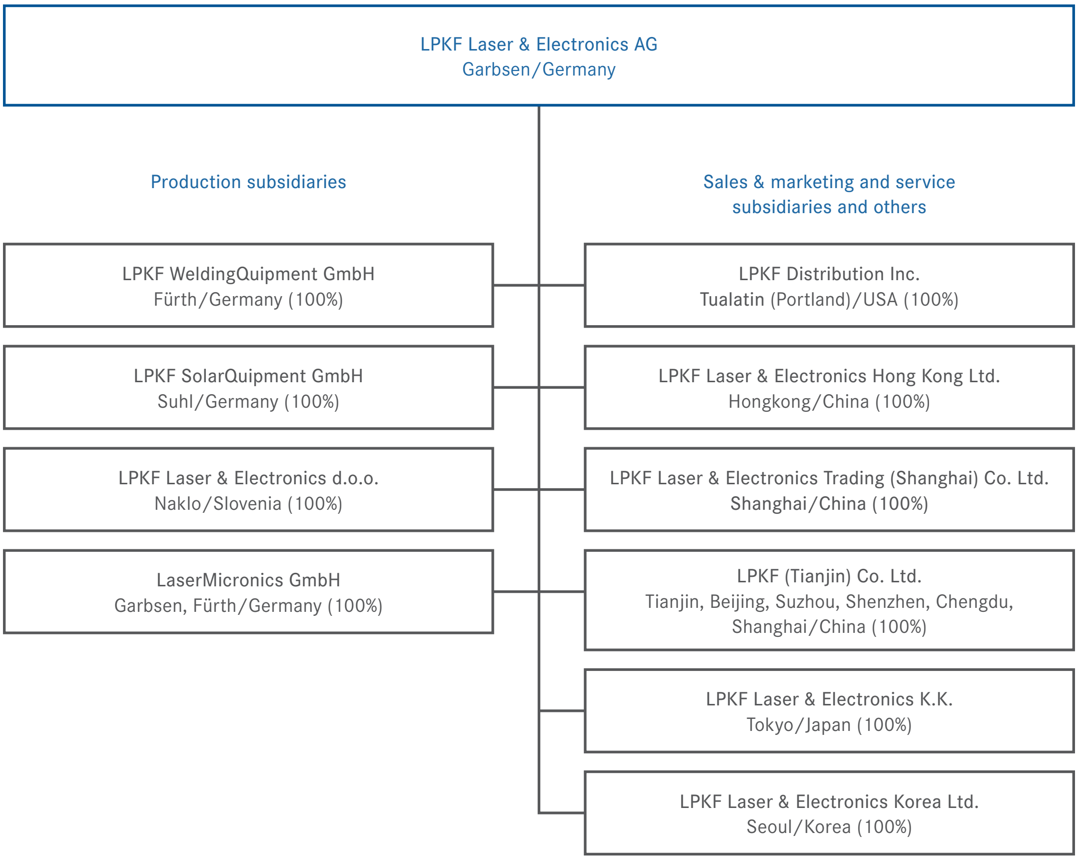
1.1 GROUP STRUCTURE AND BUSINESS MODEL

The LPKF Group develops and produces material processing systems. The mechanical engineering company has become one of the world's leading laser technology providers on the strength of its technical leadership in a number of areas of laser micro material processing. The LPKF Group has specialist know-how in the fields of laser technology, optics, precision drive systems, control technology and software as well as materials engineering. LPKF's laser systems are used primarily in the electronics industry, in polymer technology applications and for the manufacture of solar panels. In many sectors, the innovative processes developed by LPKF replace established conventional techniques. The Group generates 85% of its revenue abroad. LPKF Laser & Electronics AG (LPKF AG) was listed in the TecDax segment of the German Stock Exchange until 21 March 2016. The Group had 778 employees worldwide on the reporting date.

1.1.1 Legal structure of the Group

The legal structure of the LPKF Group did not change in the 2015 financial year. The parent company leased the Welding Equipment segment to LPKF WeldingQuipment GmbH as part of a leasing of operations. As of 31 December 2015, LPKF AG had ten subsidiaries, which together with the parent company form the basis of consolidation.

GROUP STRUCTURE



1.1.2 Operating segments

Electronics Development Equipment

In the Electronics Development Equipment segment, LPKF supplies almost everything required by developers of electronic equipment to manufacture and assemble printed circuit board prototypes largely without the use of chemicals. In addition to the development departments of industrial customers, the Company primarily supplies public organizations such as research institutes, universities and schools. Customers in this segment mainly make their purchasing decisions on the basis of their available budgets.

Electronics Production Equipment

The following product groups comprise the Electronics Production Equipment segment: The LDS product group of LPKF offers laser systems and process expertise for the production of molded interconnect devices (MIDs) using the LDS method patented by LPKF. The Company's StencilLaser Equipment product group is the market leader in the production of laser systems for cutting print stencils. These stencils are used in production processes to print solder paste onto printed circuit boards.

Through its PCB Production Equipment product group, LPKF serves the electronics market with specialized UV laser systems, mainly for cutting printed circuit boards and flexible circuit carriers. As in the other laser product groups, customers' purchasing decisions in this segment are primarily made on the basis of return-on-investment calculations.

Other Production Equipment
This segment combines the Welding Equipment and Solar Module Equipment product groups. Welding Equipment comprises standardized and customized laser systems for welding plastic components. These systems are primarily used by the automotive supply industry, medical technology and in the production of consumer electronics. Solar Module Equipment comprises LaserScribers for structuring thin film solar panels. Its customers are mainly solar cell manufacturers.

All other segments
The all other segments category mainly includes undistributed costs and income.

1.1.3 Competitive position

LPKF strives to become at least the number two in all markets.

In the segments in which it is active, the Group either is already market and technology leader or number two in the market. As a rule, LPKF strives to become at least the number two in new markets.

1.1.4 Sites

Garbsen, Germany: Group headquarters, production, development, sales & marketing and services – The activities of LPKF Laser & Electronics AG in Garbsen focus on the Electronics Production Equipment segment. A total of 299 people were employed in Garbsen in the financial year ended.

Fürth, Germany: Production, development, sales & marketing and services – The activities of LPKF WeldingQuipment GmbH focus on the Welding Equipment product group, which is part of the Other Production Equipment segment. The Fürth site employed 164 people in 2015.

Portland, Oregon (USA): Sales & marketing as well as services – LPKF Distribution Inc. is responsible for sales, marketing and service in North America. A total of 39 people were employed in Portland in the financial year ended.

Suhl, Germany: Development, sales & marketing, production and services – The activities of LPKF SolarQuipment GmbH focus on the Solar Module Equipment product group, which is part of the Other Production Equipment segment. This site employed 84 people in 2015.

Naklo, Slovenia: Production, development, services and sales & marketing – The Slovenian subsidiary concentrates on the manufacturing of products for the Electronics Development Equipment segment and on the development and production of laser sources. LPKF Laser & Electronics d.o.o. employed 96 people.

Hongkong, China: Services – Because a large portion of revenue is generated in Asia, it is very important for LPKF to maintain competent and timely services in the region. The Hong Kong office thus continues to be a significant local hub for services and their coordination in the whole of Asia. LPKF Laser & Electronics Hong Kong Ltd. employed 7 in the financial year ended.

Shanghai, China: Sales & marketing as well as services – LPKF (Tianjin) Co. Ltd. supports sales, marketing and services in the greater Shanghai area, which has evolved into a regional center for electronics production. This site employed 24 people in 2015.

The Japanese market possesses great significance owing to its technological position.

Tokyo, Japan: Sales & marketing as well as services – LPKF Laser & Electronics K.K., which was established in 2010, provides sales support to local distributors and is in the process of establishing its own customer base in both the Electronics Production Equipment segment and the Other Production Equipment segment. The Japanese market possesses great significance for LPKF owing to its technological position. In 2015, a total of 6 people were employed at the Tokyo site.

Seoul, Korea: Sales & marketing as well as services – Besides China and Taiwan, South Korea is one of the most important markets for laser technology. In order to secure direct market access, LPKF established a subsidiary in Seoul in 2013, which began operating in April 2014. A total of 9 people were employed in Seoul in the financial year ended.

There are further, smaller sites in China (Beijing, Shenzhen, Suzhou, Chengdu and Tianjin), Malaysia (Penang) and Germany (Mainz).

1.1.5 Production and procurement

Rapid Prototyping Equipment and other equipment for the Development Equipment segment, as well as some of the laser sources used within the Group, are supplied by LPKF Laser & Electronics d.o.o. in Slovenia. Electronics Production Equipment is mainly manufactured in Garbsen. Welding equipment is produced in Fürth, Germany. Solar Module Equipment is produced in Suhl. LPKF generally acquires no complete systems from third parties. If system components are purchased from outside the Group, they are mostly sourced from several suppliers. A large portion of the procurement volume involves a relatively small number of suppliers.

1.1.6 Sales & marketing

Global sales & marketing, especially in important regions such as China, Japan and North America are handled by LPKF subsidiaries. Overall, the Group is represented by subsidiaries or distributors in 73 countries. The Garbsen office is mainly responsible for managing the Company's sales & marketing activities as well as the distributors. Within the Other Production Equipment segment, the Fürth site carries out this function for Welding Equipment; from 1 October 2015 this is done by the subsidiary LPKF WeldingQuipment GmbH. For the Solar Module Equipment business, this function rests with the subsidiary LPKF SolarQuipment GmbH in Suhl.

1.1.7 Management and control

Organization of management and control

The Company is represented by the Management Board. The members of LPKF's Management Board are appointed by the Supervisory Board. The Supervisory Board may withdraw appointments for cause. The Management Board is responsible for running the Company. The Supervisory Board determined that certain transactions may only be executed subject to its approval. The Annual General Meeting may only decide on management issues if requested to do so by the Management Board. Any amendment to the Articles of Incorporation requires a resolution by the Annual General Meeting to be passed with a majority of the share capital represented at the adoption of the resolution. Article 25 (1) of the Company's Articles of Incorporation stipulates that in cases where the law requires that a resolution be passed by a majority of the share capital represented, a simple majority of the share capital represented is sufficient, unless the law mandates a larger majority.

The following persons were members of the Management Board of LPKF AG in financial year 2015:

- Dr. Ingo Bretthauer, Chairman of the Management Board and Chief Executive Officer (CEO)
- Kai Bentz (CFO)
- Dr.-Ing. Christian Bieniek (COO)
- Bernd Lange (CTO)

In the 2015 financial year, the Supervisory Board consisted of the following members:

- Dr. Heino Büsching (Chairman)
- Bernd Hackmann (Deputy Chairman)
- Prof. Dr.-Ing. Erich Barke

1.1.8 Legal factors

The Company and each of its segments, including their Group-specific characteristics, are not subject to any special legal requirements in addition to the general legal requirements applicable to listed companies.

1.2 STRATEGY

1.2.1 Strategic framework

Vision

Electronic components are increasingly becoming smaller, more complex and more precise. The complexity of components is increasing due to advances in miniaturization and the growing use of nanoscale materials. This trend of miniaturization necessitates innovative processing methods that enable precision to a degree never before achieved. Laser-based processes will contribute substantially to this development.

Mission

With its products, the LPKF Group wants to help its customers improve the efficiency of their development and production activities. Developing and continually improving laser-based processes and products is intended to replace conventional processes and create new processing options.

Values

All activities of the LPKF Group are geared toward the success of its customers.

All activities of the LPKF Group are geared toward the success of its customers. All activities and decisions are aimed at improving the competitiveness of the Group's customer base through technical advancement and cost savings. Strengthening LPKF in the long term is in the interest of all customers, business partners, employees and shareholders. Management therefore emphasizes strengthening the Group's innovation resources and ensuring profitability.

LPKF is a technology group. It shapes technological progress and gains leading market positions through the strength of its superior technical solutions. LPKF concentrates its efforts on products with the potential to become market leader or at least number two in the market. A sense of professional partnership characterizes relationships with customers, suppliers and representatives as well as the working relationships among employees within the LPKF Group. As an internationally active group, LPKF strives for understanding various cultures and philosophies and always places the common interests of the Group above those of its individual subsidiaries.

The high quality of its products is the key to customer satisfaction. All employees shoulder responsibility for the quality of the work the LPKF Group does for its customers. LPKF promotes the professional qualifications of its employees to sustain the high quality of LPKF products.

With laser-based technology, LPKF helps to reduce the environmental impact generated by chemical waste. It is LPKF's policy to continue on the path of environmental awareness with its eco-friendly product design and sustainable business practices. Health and well-being are the foundation for success. LPKF pays special attention to occupational safety and promoting the health of its employees. As a technology leader, LPKF always strives to optimize its products and the processes necessary for their development. It goes without saying that this requires a corporate culture that is open and encourages learning and constructive criticism. LPKF's responsibility extends to its customers, employees, business partners, shareholders and the public. Being a good corporate citizen includes requiring LPKF employees to obey applicable laws at all times and everywhere, respect ethical principles and pursue sustainability. The LPKF Compliance Code supports the Company's employees in this endeavor.

As a technology leader, LPKF always strives to optimize its products and the processes.

Success factors
LPKF specializes in innovative mechanical engineering solutions, primarily laser-based systems.

The Group's success is based on its understanding of laser microprocessing of different materials. A key factor of success is the LPKF's focus on core competencies and the interplay between them:

Core competencies
→ Laser technology and optics
→ Precision drive systems
→ Control technology and software
→ Materials technology

Other success factors include close relationships with customers and a thorough understanding of the core markets of electronics, automotive, solar and medical technology.

1.2.2 Corporate goals, objectives and action areas

Corporate goals
The Group's fundamental, overarching corporate goal is to increase the value of the Company in the long term. The Group's technical edge must continually be sharpened to achieve this goal. Promoting and expanding LPKF's own research and development activities is therefore a top priority. The sustained ability to pay dividends and ensuring solid financing with a high equity ratio also contribute to achieving the Group's overarching corporate goal. The primary financial goal is profitable growth. LPKF aims for healthy expansion with average annual revenue growth of at least 10% over a five-year period. The focus is on high long-term profitability with an average EBIT margin of no less than 15% over a five-year period.

LPKF aims for expansion with average annual revenue growth of at least 10% over a five-year period.

Strategic objectives
The Company's long-term activity for reaching the top-level corporate goals is mainly grouped into three strategic objectives:

→ Increasing customer benefit
→ Driving innovation
→ Boosting efficiency

Strategic action areas
The interplay of corporate goals and strategic objectives results in the following 12 action areas:

Basically:
1. Group development
The Group's efforts are focused on the welfare of the Group as a whole. In order to ensure and advance the Group's welfare, LPKF implements overarching strategic corporate development initiatives to support the individual strategic objectives.

Increasing customer benefit:
2. Optimizing the existing product portfolio
The product portfolio is continually being reworked and overhauled. In this context, LPKF aligns its efforts with changing customer needs and updates its products and processes to ensure it always offers its customers the best price-performance ratio. Closely networking the Company's development departments with market research, sales and service, and providing an R&D budget averaging 10% of revenue over a five-year period make a significant contribution to reaching this goal.

3. Optimizing product structure
Growth and the increasing complexity of products as well as cooperation across the Group place high demands on the product structure. Using economies of scale and Group-wide best practices is intended to further increase profitability. This applies both to the hardware as well as the software components of LPKF's products.

4. Increasing and guaranteeing quality

Quality is a central value of LPKF products along with cost-efficiency.

Quality is a central value of LPKF products along with cost-efficiency. Rapidly offering customers stable machines suitable for volume production in view of frequently short development cycles requires LPKF to continually improve its ability to avoid defects, detect them, rectify them and learn from them.

5. Enhancing customer proximity
Strengthening key account management will enable the entire Group to respond to the demands of major international customers. The industry-specific expertise of individual segments should also be utilized to an even greater extent across segments.

Driving innovation:
6. Attaining technological leadership
The Company will further strengthen its technology management to systematically manage and coordinate the collective use of its resources. In addition to its own R&D activities, the LPKF Group will develop new processes and products for tomorrow's markets in cooperation with universities and institutes as well as in joint projects with industry partners.

7. Expanding the business base
LPKF will expand its business base in the interest of minimizing its financial dependence on individual product groups and sectors and therefore reducing the risk and effects of economic volatility. This comprises both further penetration of established markets as well as the development of new sectors and areas of application to which the Company can transfer existing processes and products, e.g. through cross-selling activities within the Group.

8. Extending services and products to all development and manufacturing processes
For future products, the Group will try to extend its "product" beyond purely the machine to include and market the process and consumables as well.

Boosting efficiency:
9. Improving the basis for making decisions
At LPKF, decision-making is analytical and structured, and uses standardized ratios as much as possible.

10. Breathing organization and establishment of lean concepts
To avoid activities that do not create value, LPKF institutes a culture of continual improvement and in accordance with lean principles throughout the Group. The organization will be geared more strongly towards basic revenue and increased cost discipline. The Group intends to tackle peaks in revenue and major orders by making greater use of resources across all sites or external service providers. The aim is to add further flexibility to the cost side of upside potential.

11. Reinforcing cooperation across sites
Within the Group, LPKF will network its capacity and potential and thus exploit these optimally. LPKF is focused on harmonizing processes and structures across the Group, thereby creating long-term added-value in all units of the Company.

12. Systematic personnel development
Personnel development is essential for the Company's success in the long term. Continued systematization of key HR processes is a working priority within the LPKF Group.

1.2.3 Corporate management

LPKF manages its business performance using key performance indicators.

LPKF manages its business performance using key performance indicators (KPI) and ratios at various reporting levels. The following section outlines the key figures LPKF uses.

At segment level, the financial indicators and ratios applied are revenue, earnings before interest and taxes (EBIT) and the EBIT margin. At Group level, LPKF also looks at net working capital and the net working capital ratio. LPKF has developed targets for these financial indicators and ratios through strategic and operational planning processes, and these are reviewed annually. The applicable targets for the reporting period are listed along with the time series.

The corporate goal of profitable growth can be best judged by analyzing revenue in conjunction with EBIT. The EBIT margin is also given as a ratio and is calculated using the following formula:
EBIT margin = EBIT/revenue x 100.

Net working capital is yet another KPI. It comprises inventories and current trade receivables less current trade payables and advances received. This KPI reflects the net capital tied up in the reported items. The net working capital ratio is the ratio of net working capital to revenue. Generally, when business grows, net working capital also increases. The objective here is to reduce this ratio.

Another KPI added in 2014 is the error rate, which is calculated as the ratio of error costs to revenue. The aim is to lower the error rate in the Group calculated in the 2013 financial year by 50% within three years. The error rate calculated in the 2013 financial year is indexed at 100, thus establishing an error cost index. This figure improved to around 60 in the 2015 financial year (previous year: 71). There were no other material changes to the Group's internal management system.

The following table presents the changes in the Group's key financial figures over the past five years:

	Target 2015	2011	2012	2013	2014	2015
Revenue (EUR million)	128 – 136	91.1	115.1	129.7	119.7	87.3
EBIT (EUR million)	15 – 20	15.2	20.4	23.2	12.7	–3.7
EBIT margin %	12.0 – 15.0	16.7	17.7	17.9	10.6	–4.3
Net working capital (EUR million)	< 45	39.7	44.6	37.3	50.1	40.3
Net working capital ratio (%)	< 35	43.6	38.8	28.7	41.9	46.2

Target/Actual comparison of planning and realization

At the time of planning for 2015 – in the fall of 2014 – the forecasts for the global economy and in particular the sales markets relevant for the LPKF Group were positive. At the start of the 2015 financial year, the Management Board expected annual revenue of between EUR 128 million and EUR 136 million with an EBIT margin of 12 – 15%. However, this was followed by an unexpectedly sharp decline in revenue in the LDS business during the course of the 2015 financial year. As a result, revenue expectations were lowered to between EUR 90 million and EUR 110 million in July 2015. The Management Board was forced to reduce its revenue guidance once more to between EUR 85 million and EUR 90 million in November 2015 due to persistently weak LDS revenue. Despite comprehensive cost-cutting measures, the business ultimately posted a loss for the full year.

There was an unexpectedly sharp decline in revenue in the LDS business during the course of the 2015 financial year.

At 28.6%, the material cost ratio slightly exceeded the budgets due to the product mix. Although both revenue-related expenses decreased, the decline in revenue could not be compensated for as staff costs remained more or less constant. As a result, the EBIT margin fell to –4.3% and earnings before interest and taxes amounted to EUR –3.7 million. This key figure fell considerably to EUR 40.3 million. This means that the target of EUR 45.0 million was met. As a result of weak business performance and efforts to reduce net working capital, the net working capital ratio rose considerably from 41.9% to 46.2% in conjunction with the declining revenue. Therefore, the goal of a ratio < 35% was missed. The quality costs target, measured by error rate, was surpassed.

1.2.4 Strategic alignment of the segments

The Group operated in three segments with six product groups during the 2015 financial year. Two new product groups are being introduced with the TGV and LTP processes during the current financial year. The Group's basic business currently consists of the StencilLaser, LDS and Rapid Prototyping product groups. Above-average growth is anticipated in the Welding Equipment, Solar and PCB Production Equipment product groups, while the new TGV and LTP technologies are expected to add further growth. They should generate initial revenue in 2016 and contribute significant revenue from 2017 onwards. The StencilLaser Equipment product group is part of the Electronics Production Equipment segment. LPKF has operated in the StencilLaser business for many years now and holds a high market share of around 65% in what is a mature market. Accordingly, the market growth that can be expected here is low. LPKF's goal is to continue expanding its market leadership and to target new customer groups.

The new TGV and LTP technologies are expected to add further growth.

The Electronics Development Equipment segment was initially limited to developing and manufacturing systems for the mechanical or laser-based production of printed circuit board prototypes. The portfolio today also includes laser welding systems for development purposes and machinery for the manufacture of LDS prototypes. These additions enable LPKF to provide suitable development equipment for nearly all production technologies. Additional laser-based systems for developers are to follow in 2016. This should accelerate the proliferation of LPKF technologies in additional areas of application. Despite a large market share of approximately 75%, the Management Board sees further solid growth rates averaging 10% in this segment as a result of new products and applications.

This technology is used in the manufacture of thin, unassembled and relatively large 3D circuit substrates. This requirement profile is met perfectly by antennas. The LDS technology continues to have the potential to make the breakthrough into other applications (e.g., LEDs, sensor packages) and markets (e.g., automotive, medical technology and consumer electronics). LPKF works on steadily improving the process and expanding the range of applications. However, the Management Board expects revenue to remain at its current low level over the medium term.

Laser radiation-based plastic welding has continued to establish itself as a joining technology. This product group is considered to have above-average growth potential. The Group is focusing on improving profitability to further develop this product group, and is also pursuing the medium-term goal of achieving a double-digit EBIT margin. In strategic terms, LPKF Welding Equipment is working on three key objectives: internationalization, improving profitability and expansion into new sales markets. The modularization of the product system will be central to these efforts.

The situation in the solar market has improved, but it still cannot be described as stable. LPKF reported a sharp drop in revenue and a net loss in the Solar Module Equipment segment for the financial year ended. This development was foreseeable and planned accordingly. The outlook for the coming years is positive. LPKF once again anticipates a significant improvement in profit for the Solar Module Equipment product group in the second half of 2016. Business performance depends heavily on individual projects. In addition, LPKF is working intensively to develop new areas of application for core competencies available in this field, some of which are outside the solar market. Details regarding the new technologies can also be found in section 1.3.

In addition to the systematic expansion of existing business segments, the LPKF growth strategy also involves the creation of new segments based on the Company's core expertise.

1.2.5 Group structure, equity investments and financing measures

LPKF's strong equity base provides financial security and stability.

The Group regularly examines whether it is necessary to adapt the Group structure to changing market conditions. LPKF's strong equity base provides financial security and stability and enables the Company to pursue the long-term enhancement of its products and business. As of the reporting date, 100% of LPKF's shares were held as free float in accordance with the definitions of Deutsche Börse AG. Because of LPKF AG's generally good credit rating with its principal banks, the Company has access to various credit lines, which have not yet been utilized. The opportunities for raising equity are also considered quite positive. The Management Board believes that the Company has the financial flexibility required to implement strategic financing measures for large investments, including equity investments.

1.3 RESEARCH AND DEVELOPMENT

1.3.1 Focus of R&D activities

While the LPKF Group has focused on the systematic expansion of its product offering in recent years, its R&D activities in 2015 have concentrated on monetizing the TGV and LTP technologies as quickly as possible amid changing economic conditions. In order to continue providing inspiration for new ideas and technology over the medium and long term, the Group has expanded its activities in this area as part of publicly-funded projects. As a result, the Group was able to increase its R&D support for the fourth successive year.

1.3.2 R&D expenses, investment and ratios

Continuous investment in near-to-market developments are of crucial importance to a technology-oriented Group such as LPKF.

Continuous investment in near-to-market developments are of crucial importance to a technology-oriented Group such as LPKF. Development expenses in 2015 amounted to EUR 9.9 million, with earnings benefiting from the EUR 1.6 million increase in capitalized development costs. Expenses calculated this way correspond to 11.3% of revenue. LPKF capitalized EUR 6.2 million (previous year: EUR 4.5 million) in development expenses as intangible assets in the reporting year. Amortization of capitalized development expenses in 2015 amounted to EUR 1.3 million (previous year: EUR 2.3 million). The decline is due to the fact that major development projects remain unfinished as of the reporting date and therefore are not yet amortized.

Capital expenditure for development in the 2015 financial year focused on the installation of test set-ups, among others.

1.3.3 R&D employees

The number of employees in the Group's R&D departments rose to 179 during the reporting period, up from 171 the previous year.

1.3.4 R&D results

During the financial year under review, development efforts in the Electronics Development Equipment segment focused on laser-based systems in the ProtoLaser series. Together with the all-new ProtoLaser R, a total of seven new products for 2016 were unveiled in fall 2015.

The LPKF TGV process is a new laser-based method for the precision machining of extremely thin glass. During the financial year ended, significant development capacity in the Electronics Production Equipment segment was used to make this process accessible to customers in electronics packaging. The first production line was delivered to a customer at the end of the year.

The LDS laser processing units developed last year significantly enhanced the precision and performance of the modular LDS machines, thereby reacting to the demands of new areas of LDS application at short notice.

Another focus was on enhancing the standard software kernel used in a range of machines.

The following multi-period overview of R&D shows the development of key figures:

	2011	2012	2013	2014	2015
R&D expenses in EUR million [1]	8.7	10.0	13.5	11.1	9.9
in % of revenue	9.6	8.7	10.4	9.3	11.3
R&D employees	114	144	165	171	179

1 This figure shows the effect of R&D expenses on consolidated net profit.

II. REPORT ON ECONOMIC POSITION

2.1 OVERVIEW OF THE COMPANY'S DEVELOPMENT

2.1.1 General economic environment

According to information provided by the Kiel Institute for the World Economy (IfW), global economic growth slowed in 2015. Economic experts estimate that global gross domestic product (GDP) grew by 3.1% last year after increasing by 3.4% the previous year. Developed economies reported only moderate growth, while emerging markets continue to increase slightly. China experienced an economic downturn that triggered a slowdown in GDP growth. According to IfW calculations, the country's economic growth will be around 6.8% for 2015, after a rate of 7.3% in 2014. Dramatic equity market losses have even fueled concerns that the Chinese economy could enter a critical process of adjustment. However, economists do not believe this has happened yet. In terms of global drivers, the IfW believes that terrorist attacks had only a limited impact on the economy in 2015 and cannot discern any stimulating effects on the global economy as a result of declining oil prices. On the other hand, the performance of the euro against the US dollar and other key currencies is positive for the eurozone's export-oriented economy.

With moderate GDP growth of 1.5% in 2015 compared to just 0.9% the previous year, the IfW considers the economic situation in the eurozone to be gradually improving.

With GDP rising by 1.7% according to figures from the German Federal Statistical Office, the economy in Germany once again slightly outperformed the European average in 2015 as a result of private consumption and strong exports, continuing the upturn associated with further positive effects in the labor market.

2.1.2 Sector-specific environment

With its laser technology-based product groups, the business environment of LPKF AG is shaped by both the overall economic situation and developments in several sectors. The Group's high export share means international factors must always be taken into account. Key sectors such as the automotive, electronics – particularly consumer electronics – solar and plastics processing industries are of particular importance for LPKF as a laser equipment manufacturer.

The performance of these industries in 2015 is outlined below.

The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, or VDMA) has confirmed that production stagnated in 2015. In accordance with the Federation's expectations, nominal production volumes reached EUR 199 billion compared to EUR 198 billion in 2014. This modest increase in an extremely export-oriented sector should be viewed in the context of weak global economic growth. China and Russia, key countries for Germany's mechanical and plant engineering sectors, both experienced a significant drop in exports in 2015. Exports to China fell by around 5% in 2015 to approximately EUR 16 billion, while exports to Russia plummeted by around 27% to approximately EUR 3.6 billion.

According to estimates by the German Automotive Industry Association (VDA), the international automobile market sold around 76.9 million vehicles in 2015, a slight increase of 1% compared to the previous year. In the major market of China, vehicle sales increased by 9%, while the US light vehicle market expanded by almost 6%. The market in Western Europe grew by 9%. In contrast, new passenger car registrations fell by 35% in Russia, 25% in Brazil and 10% in Japan.

The photovoltaic market also grew worldwide in 2015. According to provisional figures from GTM Research, solar panels with a combined capacity of around 59 gigawatts (GW) were installed across the globe last year, increasing the worldwide capacity of all photovoltaic systems by 34% to 257 GW. Demand for these systems continues to be highly dependent upon state subsidy programs. China and the USA remain the largest buyers of solar panels.

In the consumer electronics sector, smartphone sales figures rose once again in 2015 while PC sales fell. According to American market research institute International Data Corporation (IDC), the increase in smartphone sales slowed to just under 10% in 2015 after exhibiting double-digit growth in previous years. The primary reason for this was relatively weak demand in Latin America, Western Europe and Asia-Pacific. In contrast to the growth in smartphone sales, PC sales declined by around 10% in 2015. Market observations suggest that PCs have partially been replaced by smartphones.

The plastics processing industry reported a revenue increase of 5% in 2015, exceeding the original 4% forecast issued by the VDMA's specialist association for plastics and rubber machinery. This was caused by an 11% rise in foreign orders.

2.1.3 Effects on the LPKF Group

The overall economic situation for LPKF in 2015 was restrained, while the picture was also mixed for sectors relevant to the Company. The electronics market and smartphone segment in particular appear unsettled by a slowdown in growth and weak figures posted by several major suppliers. Planned investments have been partly canceled or postponed. Although the improving situation in the solar industry is reflected in the growing number of sales projects, the Group was unable to report an increase in incoming orders in 2015. The generally positive performance of the automotive industry contributed to growth in the plastic welding business. The performance of the euro against other key currencies is positive for LPKF.

The performance of the euro against other key currencies is positive for LPKF.

2.2 TAKEOVER-RELATED DISCLOSURES

The takeover-related disclosures required under Section 289 (4) and Section 315 (4) German Commercial Code are shown below.

On 31 December 2015, the share capital of LPKF AG amounted to EUR 22,269,588.00. The share capital is divided into 22,269,588 ordinary shares (no-par shares). No preferred shares have been issued. One no-par share represents a pro-rata interest of EUR 1.00 in the share capital. The rights and duties under the no-par shares comply with the relevant requirements of the German Stock Corporation Act, specifically, in Sections 12, 53a ff., 118 ff. and 186. Both the exercise of voting rights and the transfer of shares are subject solely to statutory limits.

The regulations on appointing and dismissing members of the Management Board, as well as on amending the Articles of Incorporation, comply with the respective requirements of both the German Stock Corporation Act and the Articles of Incorporation. Complementing Sections 84 and 85 of the German Stock Corporation Act, Article 7 of the Company's Articles of Incorporation governs the Management Board's composition as follows: The Management Board shall comprise at least two members. Deputy members of the Management Board may be appointed. They have the same rights as the regular members of the Management Board when representing the Company vis-à-vis third parties. The Supervisory Board shall determine the number of both regular and deputy members of the Management Board and appoint them, enter into director's contracts with them as well as dismiss them. Likewise, the Supervisory Board may also appoint a member of the Management Board to serve as its chairperson or speaker and appoint additional Management Board members to serve as deputy chairpersons or speakers.

Under Sections 133 and 179 German Stock Corporation Act, in conjunction with Article 25 (1) of the Company's Articles of Incorporation, the latter may only be amended by resolution of the Annual General Meeting, which must be adopted by the simple majority of the share capital represented at the Meeting unless larger majorities are required by law. The Supervisory Board is authorized under Article 12 (2) of the Articles of Incorporation to make amendments that affect solely the given wording.

With the resolution adopted by the Annual General Meeting on 5 June 2014, the Management Board is authorized to increase the share capital once or repeatedly until 4 June 2019 with the approval of the Supervisory Board by up to a total of EUR 11,134,794.00 by issuing up to 11,134,794 new no-par value bearer shares in return for contributions in cash or in kind (authorized capital). Please refer to the notes to the consolidated financial statements regarding the details of this resolution.

The Management Board was authorized by resolution of the Annual General Meeting on 28 May 2015, subject to the Supervisory Board's prior approval, to buy back treasury shares until 27 May 2020 corresponding to up to 10% of the Company's share capital either on the date the resolution was adopted or on the date the authorization is exercised, whichever is higher; to use the treasury shares so acquired for all statutory purposes; and, in particular cases, to disapply shareholders' right to tender or subscribe such shares, respectively, in connection with buybacks and subscriptions. This authorization was not utilized as of the reporting date.

The further details are specified in the respective authorization resolution.

2.3 REMUNERATION REPORT

Remuneration of the Management Board

Basic features of the remuneration system

The system of Management Board remuneration at LPKF Laser & Electronics AG is set up to provide an incentive for successful and sustainable corporate management.

The Supervisory Board of LPKF Laser & Electronics AG fixes and regularly reviews the overall structure of the remuneration of the Management Board as well as the key elements of the respective director's contracts. When determining the appropriate amount of remuneration for the members of the Management Board, the Supervisory Board focuses on the Company's size and activities, its economic and financial position as well as on the responsibilities and performance of the respective Management Board member, the success and future prospects of the Company, and the customary level of the remuneration under consideration of the level of executive remuneration at peer companies and the remuneration structure in place in other parts of the Company. The relationship between the remuneration of the Executive Board and that of senior management and the workforce overall is taken into account also in terms of its development over time, whereby the Supervisory Board determines how senior managers and the workforce are to be defined for the purposes of the comparison. The remuneration of the members of the Management Board is based on performance and calculated such that it is both appropriate and competitive, offering an incentive for committed and successful work. The remuneration system was approved by the Annual General Meeting on 5 June 2014 with a majority of 93%.

The overall remuneration of the members of the Management Board comprises a non-performance-based fixed component and variable performance-based components.

Non-performance-based components

The fixed remuneration comprises both the base salary, which is paid in equal monthly installments, and benefits. The incidental benefits include a company car for both official and private use, as well as insurance contributions for individual members of the Management Board, particularly in connection with health and legal insurance.

Performance-based components

For the 2015 financial year, the Management Board members receive variable remuneration components in accordance with the remuneration system developed by the Supervisory Board and approved by the Annual General Meeting on 5 June 2014. This system comprises both long-term incentives (LTI) and short-term incentives (STI).

The remuneration components Quality (LTI 1) and Options (LTI 2) are designed as long-term incentives while EBIT (STI 1) and EBIT per employee (STI 2) are designed as short-term incentives. The LTI 1, STI 1, and STI 2 remuneration components are based on other targets, whose achievement is decisive for the amount of the remuneration component in question.

Short Term Incentives (STI)

STI 1 and STI 2 are each calculated based on the corporate planning approved prior to the beginning of a given financial year, in which the targets for EBIT and EBIT per employee are set for three different future scenarios (normal, aggressive, and defensive). A target achieved in the 2015 financial year under the normal scenario constitutes a target achievement in accordance with the target value shown in the benefits table and, under the defensive scenario, a target achievement of 0% (minimum). The maximum target achievement shown in the table is calculated when the planned aggressive scenario is exceeded by at least 20%. The scenarios are based on ambitious targets, which means that the maximum can only be reached if the targets are significantly overachieved. There is linear interpolation between the individual values. If negative EBIT is reported for the following year, in certain circumstances the given loss may be taken into account retroactively.

Long Term Incentives (LTI)

Safeguarding product quality at the highest level is one of the strategic action areas of LPKF Laser & Electronics AG. LTI 1 (Quality), which will run for three years, is measured by the achievement of these quality specifications. The aim is to lower the error rate in the Group calculated in the 2013 financial year by 50% within three years. Target achievement is calculated based on three-year averages. If the error rate is not reduced, this constitutes a target achievement of 0%. The target achievement is calculated by means of linear interpolation between the initial value and the minimum value of the error rate.

A long-term bonus plan was established as LTI 2 (Options). Details are laid down in the plan's terms and conditions, which are part of the contractual arrangements with the Management Board members. Decisive factors for the amount of LTI 2 are the development of the EBIT margin of the LPKF Group and the share price performance. LTI 2 is therefore directly tied to the pursuit of the Group's objectives of profitable growth and a long-term increase in the enterprise value.

In detail, LTI 2 is designed as follows: Fictitious shares, known as phantom stocks, are granted to the Management Board members in a contractually stipulated amount, which for Chief Executive Officer Dr. Ingo Bretthauer is EUR 50 thousand and for the Management Board members Kai Bentz, Dr. Christian Bieniek and Bernd Lange EUR 25 thousand. The number of phantom stocks granted to a single Management Board member will be calculated based on the set amount to be granted divided by the average closing price of the shares of LPKF Laser & Electronics AG over the last 30 trading days prior to 1 January of the year in which the shares are allotted. After the expiry of a four-year performance period, the beneficiaries will be entitled for the first time to a disbursement amount whose calculation will depend on the final number of phantom stocks. The final number of phantom stocks will be calculated by multiplying the preliminary number of phantom stocks by a performance factor that is determined by the average EBIT margin of the LPKF Group during the relevant performance period. The amount to be paid out will in turn be calculated by multiplying the final number of phantom stocks by the average share price of LPKF Laser & Electronics AG on the last 30 trading days before the end of the relevant performance period. This is capped at three times the amount to be granted, the maximum shown in the benefits table. If the beneficiaries waive their right to a disbursement after the four-year performance period, they can obtain the amount to be paid out after a five-or six-year performance period. One prerequisite for a disbursement under the long-term bonus plan is an own investment in the form of shares of LPKF Laser & Electronics AG, which must correspond to at least half of the amount to be granted.

For the variable multi-year remuneration components LTI 1 (Quality), the Company will make advance payments at the end of a given financial year based on the level of target achievement of the error rate at the end of the financial year. If the advance payments shown under allocations exceed the entitlement to variable remuneration under LTI 1, the Management Board members will be required to pay the excess. No advance payments are made under LTI 2 (Options).

Cap

Each of the components of variable performance-based remuneration has a maximum amount (cap). As a rule, the STI 1 remuneration component is only paid if Group EBIT amounts to at least EUR 9 million (floor).

Value of the benefits in the reporting period

The benefits for the 2015 reporting period are presented in the table below, supplemented by the minimum and maximum amounts that can be reached. In contrast to consideration of the amount paid out, the target value that would apply if the planned normal scenario is accomplished is stated for the one-year variable remuneration. In addition, the multi-year variable remuneration granted in the reporting period is broken down according to various plans and the length of the respective periods is indicated. The target value of a moderately probable scenario is stated for LTI 1 and the fair value at the grant date is stated for LTI 2. This was determined with the help of an option price model based on Black/Scholes.

BENEFITS GRANTED (PLAN)

	Dr. Ingo Bretthauer Chief Executive Officer (CEO)				Bernd Lange Chief Technology Officer (CTO)				Kai Bentz Chief Financial Officer (CFO)				Dr.-Ing. Christian Bieniek Chief Operating Officer (COO)				Total
EUR thsd.	**2014**	**2015**	**(Min)**	**(Max)**	**2014**	**2015**	**(Min)**	**(Max)**	**2014**	**2015**	**(Min)**	**(Max)**	**2014**	**2015**	**(Min)**	**(Max)**	**2015**
Fixed remuneration[1]	250	325	325	325	243	243	243	243	193	203	203	203	205	210	210	210	981
Incidental benefits	32	38	38	38	22	22	22	22	16	18	18	18	18	20	20	20	98
Total	**282**	**363**	**363**	**363**	**265**	**265**	**265**	**265**	**209**	**221**	**221**	**221**	**223**	**230**	**230**	**230**	**1,079**
One-year variable remuneration																	
Bonus	375	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
STI 1 (EBIT)	n/a	152	0	203	94	94	0	156	75	79	0	131	77	79	0	131	404
STI 2 (EBIT per employee)	n/a	49	0	81	38	38	0	63	30	32	0	53	31	32	0	53	151
Multi-year variable remuneration																	
LTI 1 Quality (3 years)	n/a	73	0	122	56	56	0	94	45	47	0	79	46	47	0	79	223
LTI 2 Options (4 years)	n/a	66	0	150	30	33	0	75	30	33	0	75	30	33	0	75	165
Other																	
Total	**375**	**340**	**0**	**556**	**218**	**221**	**0**	**388**	**180**	**191**	**0**	**338**	**184**	**191**	**0**	**338**	**943**
Cost of benefits[1]	0	0	0	0	7	7	7	7	7	7	7	7	0	0	0	0	14
Total remuneration	**657**	**703**	**363**	**919**	**490**	**493**	**272**	**660**	**396**	**419**	**228**	**566**	**407**	**421**	**230**	**568**	**2,036**

1 According to the contracts, the benefit costs are part of fixed remuneration.

Allocations for the reporting period

In compliance with the recommendations of the German Corporate Governance Code (GCGC), the fixed remuneration and incidental (fringe) benefits as well as the one-year variable remuneration components are stated as allocations for financial year 2015 in the table below. Allocations from multi-year variable remuneration components arise only from advance payments for LTI 1 (Quality) that are measured based on the degree to which the targeted error rate is achieved at the end of the financial year. There were no other allocations from multi-year variable remuneration components, since none of the plan terms ended in the reporting period and the members of the Management Board have opted to forgo the advance payment of LTI 2 (Options) in 2015. Following the recommendations of the GCGC, the benefit costs correspond to the committed contributions to old-age pensions, although they do not represent an allocation in the narrow sense.

The current members of the Management Board received a total remuneration of EUR 1,462 thousand (2014: EUR 1,565 thousand) for their activities in the 2015 financial year, EUR 1,079 thousand of which can be attributed to fixed remuneration components, including incidental benefits, that were fully paid out in the 2015 reporting period.

A total of EUR 369 thousand can be attributed to variable remuneration components. The one-year variable remuneration components agreed for financial year 2015 as well as the advance payments for multi-year variable remuneration components are not due until after the consolidated financial statements are adopted by the Supervisory Board and will be paid in March 2016.

ALLOCATIONS (ACTUAL)

	Dr. Ingo Bretthauer Chief Executive Officer (CEO)		Bernd Lange Chief Technology Officer (CTO)		Kai Bentz Chief Financial Officer (CFO)		Dr.-Ing. Christian Bieniek Chief Operating Officer (COO)		Total
EUR thsd.	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2015**
Fixed remuneration	250	325	243	243	193	203	205	210	981
Incidental benefits	32	38	22	22	16	18	18	20	98
Total	**282**	**363**	**265**	**265**	**209**	**223**	**223**	**230**	**1,079**
One-year variable remuneration									
Bonus	326	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
STI 1 (EBIT)	n/a	0	n/a	0	n/a	0	n/a	0	0
STI 2 (EBIT per employee)	n/a	0	n/a	0	n/a	0	n/a	0	0
Multi-year variable remuneration									
LTI 1 Quality (3 years)	n/a	117	94	94	75	79	77	79	369
LTI 2 Options (4 years)	n/a	0	0	0	0	0	0	0	0
Other									
Total	**326**	**117**	**94**	**94**	**75**	**79**	**77**	**79**	**369**
Cost of benefits	0	0	7	7	7	7	0	0	14
Total remuneration acc. to GCGC (allocation)	**608**	**480**	**366**	**366**	**291**	**307**	**300**	**309**	**1,462**
Share-based remuneration acc. to GCC/GAS 17 (for LTI 2 Options)	0	66	30	33	30	33	30	33	165
Total remuneration acc. to GCC/GAS 17 (allocation)	**608**	**551**	**396**	**399**	**321**	**340**	**330**	**342**	**1,627**

Commitments to members of the Management Board upon termination

Post-contractual non-competition agreements have been made with the members of the Management Board in the event their activities as such are terminated, irrespective of whether it is an ordinary or extraordinary termination. Under these agreements, the Company shall pay remuneration equivalent to 50% of the respective individual's most recent average base salary for the 12-month term of the post-contractual non-competition agreement unless the individual in question is retiring.

If the appointment of a member of the Management Board ends early on account of his or her death while in office, the fixed monthly remuneration shall be paid to the heirs for a six-month period.

The Company has not made any defined-benefit commitments to the current members of its Management Board. Contracts regarding a company pension were closed with the members of the Management Board, Kai Bentz and Bernd Lange. These are defined-contribution commitments. No provisions for pensions are required in this case.

No other provisions and commitments have been made with respect to the ordinary or extraordinary termination of a member of the Management Board.

Total remuneration of former members of the Management Board

Provisions were recognized for EUR 520 thousand (previous year: EUR 474 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

A total of EUR 17 thousand (previous year: EUR 17 thousand) in pensions was paid to a former member of the Management Board in 2015.

Shareholdings of members of the Company's corporate bodies

The shareholdings of the members of the Company's corporate bodies are distributed as follows:

	31 Dec. 2015	30 Sep. 2015	30 June 2015	31 March 2015
Management Board				
Dr. Ingo Bretthauer	56,000	56,000	56,000	56,000
Bernd Lange	25,000	25,000	25,000	75,000
Kai Bentz	17,600	16,000	15,200	15,200
Dr.-Ing. Christian Bieniek	0	0	0	0
Supervisory Board				
Dr. Heino Büsching	10,000	10,000	10,000	10,000
Bernd Hackmann	125,600	125,600	125,600	125,600
Prof. Dr.-Ing. Erich Barke	2,000	2,000	2,000	2,000

Compensation of the Supervisory Board

Each member of the Supervisory Board receives fixed basic remuneration for each full financial year of membership on the Supervisory Board that is specified by resolution of the Annual General Meeting and is payable after the end of the financial year. The Chairman of the Supervisory Board receives double and the Deputy Chairman receives one-and-a-half times the amount of the fixed basic remuneration. The fixed remuneration was set at EUR 40 thousand by resolution of the Annual General Meeting on 1 June 2011.

In addition, for every full financial year, in accordance with Article 20 (1) sentence 2 of the Articles of Incorporation, each member of the Supervisory Board receives performance-based remuneration equal to EUR 1,000.00 for every EUR 0.01 by which the average of the (basic) earnings per share (EPS) for the financial year for which the remuneration is granted and for the two preceding financial years exceeds a minimum amount of EUR 0.25, whereby the minimum amount increases annually by 10% p.a. for the first time on the financial year beginning on 1 January 2015. Since financial year 2013, the determination of earnings per share has been based on the (basic) earnings per share (EPS) calculated in accordance with International Financial Reporting Standards and reported in the adopted consolidated financial statements. This variable remuneration is limited to the amount of the basic remuneration.

The (basic) consolidated earnings per share amount to EUR –0.16 per share. This results in the variable remuneration payable as shown in the following table.

The remuneration of the Supervisory Board is as follows:

EUR thsd.		Dr. Heino Büsching (Chairman)	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2015	80	60	40	180
	2014	80	60	40	180
Variable remuneration	2015	2	2	2	6
	2014	31	31	31	93
Total remuneration	2015	82	62	42	186
	2014	111	91	71	273

Supervisory Board members

Dr. Heino Büsching (Chairman)	Lawyer/tax consultant at CMS Hasche Sigle Partnerschaft von Rechtsanwälten und Steuerberatern mbB, Hamburg, Germany
Bernd Hackmann (Deputy Chairman)	Consultant to technology companies previously: Chief Executive Officer of LPKF Laser & Electronics AG Chairman of the Supervisory Board of Viscom AG, Hannover, Germany Member of the Supervisory Board of SLM Solutions Group AG, Lübeck, Germany
Prof. Dr.-Ing. Erich Barke	Retired professor at Leibniz University, Hannover, Germany previously: President of Leibniz University Hannover, Germany Member of the Supervisory Board of the following companies: Esso Deutschland GmbH, Hamburg, Germany ExxonMobil Central Europe Holding GmbH, Hamburg, Germany hannoverimpuls GmbH, Hannover, Germany Solvay GmbH, Hannover, Germany

2.4 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS OF THE GROUP

2.4.1 Results of operations

Development of revenue

The LPKF Group's revenue amounted to EUR 87.3 million in the 2015 financial year.

The LPKF Group's revenue amounted to EUR 87.3 million in the 2015 financial year and thus remained 27.1% below the previous year's level. In particular, the LDS systems business in the Electronics Production Equipment segment once again significantly underperformed compared to the previous year, declining by 74%. Although printed circuit board (PCB) cutting systems once again substantially outperformed the previous year, overall revenue in the Electronics Production Equipment segment fell by 42%. The Other Production Equipment segment experienced a similar trend. While plastic welding system revenue increased compared to the previous year, this was more than offset by the anticipated decline in solar scribers revenue, prompting the segment to end the year 28% lower than the previous year. Having enjoyed steady growth in previous years, the Electronics Development Equipment segment made a further gain of almost 2% last year.

Revenue by operating segment was as follows:

EUR million	2015	Previous year
Electronics Production Equipment	29.9	51.2
Electronics Development Equipment	25.5	25.1
Other Production Equipment	30.8	42.8
All other segments	1.1	0.6
	87.3	**119.7**

The following table shows the revenue by region:

%	2015	Previous year
Asia	40.8	53.0
Germany	14.5	10.2
Europe excluding Germany	19.8	12.5
North America	21.7	21.3
Other	3.2	3.0
	100.0	**100.0**

Despite the palpable reluctance to invest, China remains the most important market for LPKF.

Despite the palpable reluctance to invest, China remains the most important market for LPKF. As in the previous year, the US market maintained its relative strength during the financial year ended and generally remains strategically significant to the Group. The European market made encouraging gains, with revenue in the rest of Europe rising by more than 15% due to higher domestic revenue.

Development of orders

At EUR 82.8 million, incoming orders during the reporting period were 31% down on the previous year's level of EUR 119.7 million. Orders on hand at the end of the year, at EUR 13.3 million, also were below the previous year's figure of EUR 17.7 million. The decline in orders on hand was due essentially to the completion of a major solar order.

Development of main income statement items

Production costs for prototypes and application systems of EUR 0.7 million and capitalized development costs of EUR 6.2 million are shown in own work capitalized. Other operating income rose significantly (EUR +3.0 million) compared to the previous year due primarily to insurance payments received for the loss suffered by the fire at the Garbsen site, but also due to income from the reversal of provisions and currency gains.

The material cost ratio relative to revenue and changes in inventories fell from 31.4% the previous year to 28.6%. Only minor write-downs of inventories were recognized in the financial year (EUR 0.2 million after EUR 0.3 million in the previous year).

Overall, staff costs remained almost unchanged from the previous year's level.

After many years of growth, the workforce at the end of 2015 was 17 employees lower year on year, with the average figure only slightly higher than in the previous year. This reduction was attributable to employee turnover and individual measures that negatively impacted the Group's staff costs by EUR 1.0 million. Employee numbers as of the reporting date included 16 employees who only left the Company after the reporting date, as agreed. Reduced bonuses and variable remuneration caused by lower earnings and salary freezes at individual sites had a positive impact on costs. The increased reduction of vacation and overtime credits also had a positive effect. Overall, staff costs remained almost unchanged from the previous year's level. As a result, the ratio of staff costs to total revenue has risen from 36.3% to 50.1% based solely on the decline in revenue.

At EUR 7.2 million, depreciation, amortization and impairment losses were lower than in the previous year, as the amortization period for some development projects ended in 2014 and investments in property, plant and equipment were significantly lower in the current financial year than in previous years. On the other hand, major new development projects still remain unfinished as of the reporting date. Within depreciation, amortization and impairment losses, impairment losses on capitalized development costs amounted to EUR 0.3 million (previous year: EUR 0.3 million).

Other operating expenses rose slightly by EUR 0.4 million to EUR 29.1 million, primarily as a result of high repair costs of EUR 1.5 million arising from the fire at the Garbsen site. In contrast, there were significant declines in revenue-related expenses, with license expenses and sales commission both EUR 0.3 million lower than in the previous year. Entertainment and travel expenses, third-party work and consulting expenses fell by a total of EUR 1.4 million as a result of cost-cutting measures. Only exchange rate losses (EUR +0.7 million) and expenses for purchased development services (EUR +0.5 million) increased.

Earnings for the 2015 financial year include EUR 1.1 million in extraordinary restructuring expenses, of which EUR 1.0 million is attributable to staff costs.

The Group generated an operating loss of EUR –3.7 million (previous year: EBIT EUR 12.7 million) in particular as a result of the decrease in revenue. The EBIT margin fell to –4.3%, down from 10.6% the previous year. Comprehensive cost-cutting measures had a positive impact on earnings, thereby pushing the Company's break-even point to below EUR 100 million. Earnings for the 2015 financial year included EUR 1.1 million in extraordinary restructuring expenses, of which EUR 1.0 million is attributable to staff costs.

The financial result remained at the prior-year level, despite the increased raising of short-term borrowings due to the lower interest rate level, and amounted to EUR –0.7 million (previous year: EUR –0.8 million) for the financial year. The operating loss resulted in tax income totaling EUR 0.9 million. The tax ratio is 20.9% (previous year: 28.6%).

Consolidated net loss for the year after taxes is EUR 3.5 million, compared to a consolidated net profit of EUR 8.5 million in the previous year.

		2011	2012	2013	2014	2015
Revenue	EUR million	91.1	115.1	129.7	119.7	87.3
EBIT	EUR million	15.2	20.4	23.2	12.7	–3.7
Material cost ratio	%	28.8	30.6	26.7	31.4	28.6
Staff cost ratio	%	32.3	30.5	31.2	36.3	50.1
Tax rate	%	29.6	26.8	30.1	28.6	20.9
EBIT/employee	EUR thsd.	27.5	31.2	32.0	16.1	–4.7

Details regarding the operating segments can be found in the notes to the consolidated financial statements.

2.4.2 Financial position

Principles and goals of financial management

Funds are raised from external sources by issuing shares, for one, and by current and non-current borrowings, for another. The Group uses mainly its profits, as well as the retention of proceeds generated by depreciation/amortization and provisions, as sources for its internal financing.

The European companies optimize their liquidity peaks by way of cash pooling.

Within the LPKF Group, derivatives are managed by the parent company, LPKF Laser & Electronics AG. Derivatives are used only to hedge foreign exchange rates and interest rates. The European companies optimize their liquidity peaks by way of cash pooling. All other companies carry out their ongoing cash management locally. LPKF is currently reviewing whether to expand cash pooling to other international companies. If large amounts of funds are required, reviews are performed to determine whether to utilize local financing or financing via LPKF AG.

The Group plans to generate a clearly positive free cash flow in the 2016 financial year.

Statement of cash flows

The following statement of cash flows shows the origin and use of financial resources.

EUR million	2015	2014
Cash flows from operating activities	10.1	1.8
Cash flows from investing activities	–13.7	–14.7
Cash flows from financing activities	–3.2	6.1
Change in cash and cash equivalents due to changes in foreign exchange rates	–0.1	0.3
Change in cash and cash equivalents	–6.8	–6.8
Cash and cash equivalents on 1 Jan.	6.0	12.5
Cash and cash equivalents on 31 Dec.	–0.9	6.0
Composition of cash and cash equivalents: Cash-in-hand, bank balances	3.8	6.0
Overdrafts	–4.7	0.0
Cash and cash equivalents on 31 Dec.	–0.9	6.0

The Group's cash and cash equivalents decreased from EUR 6.0 million to EUR −0.9 million. Despite the annual net loss, cash inflows from operating activities were EUR 10.1 million, especially due to the reduction in the Company's working capital. As cash outflows for investing activities were higher, the free cash flow amounted to EUR −3.6 million (previous year: EUR −12.9 million).

Overall cash outflows of EUR 3.2 million were also caused by financing activities, with repayments and borrowings approximately balancing each other out. The Group took advantage of low interest rates by securing working capital financing at interest rates of 1% over five years.

As a rule, LPKF agrees long-term fixed interest periods.

Long-term financing is used for non-current assets subject to long-term fixed interest periods. The loans have interest rates of 1.0% to 4.35%. Large, unused credit lines that have not been tapped to date are still available.

The Company's financial position remains robust.

Multi-period overview of cash flows

EUR million	2011	2012	2013	2014	2015
Cash flows from operating activities	3.2	17.1	34.2	1.8	10.1
Net liabilities to banks	8.3	13.1	11.2	30.2	37.3

(−) Balance (+) Debt

2.4.3 Net assets

Analysis of financial position and capital structure

The Company's net assets and capital structure developed as follows year on year:

	31 Dec. 2015		31 Dec. 2014	
	EUR million	%	EUR million	%
Non-current assets	67.6	56.9	60.3	47.0
Current assets	51.2	43.1	67.9	53.0
Assets	**118.8**	**100.0**	**128.2**	**100.0**
Equity	63.5	53.4	68.6	53.5
Non-current liabilities	27.1	22.8	19.2	15.0
Current liabilities	28.2	23.7	40.4	31.5
Equity and liabilities	**118.8**	**100.0**	**128.2**	**100.0**

Despite reporting a loss in the current financial year, LPKF's net assets remain robust.

Despite reporting a loss in the current financial year, LPKF's net assets remain robust, as indicated, among other things, by its consistently high equity ratio of 53.4% (previous year: 53.5%). The increase in non-current assets during the reporting year stems from the capitalization of development costs as well as completion of the expansion in Fürth, Germany and the acquisition of the non-current assets as part of an acquisition. A total of 99% of the non-current assets are covered by equity (previous year: 119%).

With respect to current assets, mainly high levels of trade receivables from the previous year were reduced. The Group also marginally reduced its inventories of (system) parts and work in progress. As of 31 December 2015, cash and cash equivalents were EUR 2.2 million lower than in the previous year.

Due to current low interest rates, EUR 10.0 million of short-term loans were refinanced into medium-term loans.

As of the reporting date, net working capital fell by EUR 9.8 million to EUR 40.3 million. This was primarily due to the reduction of high levels of trade receivables from the previous year caused by the Company's performance and subsequent receivables management. As a result of the decrease in revenue, the net working capital ratio increased from 41.9% in the previous year to 46.2% in the reporting period. The targets for this management parameter were therefore not met. Equity decreased as a result of the Group's net loss for the financial year. Liabilities to banks rose by a total of EUR 4.9 million. Due to current low interest rates, EUR 10.0 million of short-term loans were refinanced into medium-term loans. With regard to current liabilities to banks, current account liabilities increased by EUR 4.7 million. Under current liabilities, provisions for taxes decreased as a result of the net loss for the period. Lower warranty provisions and bonus obligations in particular provided for a decrease in other provisions. With these exceptions, there has been no substantial change in the structure of the statement of financial position.

The return on capital employed (ROCE) is used to quantify an adequate return on the employed capital and to measure the achievement of performance targets. ROCE is calculated in % as a ratio of EBIT and capital employed (interest-bearing equity and borrowings). The capital employed is determined by deducting provisions for pensions and non-interest bearing items in the statement of financial position from total assets.

Multi-period overview of the financial position

		2011	2012	2013	2014	2015
Fixed assets ratio	%	35.8	36.5	44.5	44.9	54.1
Inventories ratio	%	29.4	32.4	27.6	25.1	26.2
ROCE	%	23.4	26.5	26.4	12.1	–3.6
Net working capital	EUR million	39.7	44.6	37.3	50.1	40.3
Net working capital ratio	%	43.6	38.8	28.7	41.9	46.2
Days sales outstanding	days	63	57	53	54	64

Days sales outstanding (DSO) are determined based on the average amount of outstanding receivables between reporting dates.

Capital expenditures

In the 2015 financial year, EUR 13.7 million was invested in intangible assets and property, plant and equipment and thus EUR 1.3 million less than in the previous year. In addition to the capitalization of development costs, capital expenditures included the completion of the expansion of the Fürth site in Germany as well as office equipment and IT expenses. Even if the business performs as planned, the Group does not expect to exceed 2015 capital expenditure levels in the next few years.

Even if the business performs as planned, the Group does not expect to exceed 2015 capital expenditure levels in the next few years.

Employees

LPKF's basic philosophy is to secure motivated and well-trained employees and tie them to the Company on a long-term basis. Due to the economic situation, no new hires were made in 2015 and only staff replacements were carried out as a matter of priority. Six employees joined the Group at the start of the year as part of an acquisition. The Group expects to largely refrain from making new hires as long as there is no sustained improvement in the economic situation. As part of human resources development, internal and external training courses and the necessary staff training measures were conducted in all areas so that staff are well prepared to cope with future challenges. Here, LPKF will pursue an even more systematic HR development policy in the coming years, mainly featuring special-

In particular, LPKF trains mechatronic technicians and industrial business assistants in order to acquire properly qualified young staff.

ized training seminars as well as training of the managers of today and tomorrow. In particular, LPKF trains mechatronic technicians and industrial business assistants in order to acquire properly qualified young staff. The Group employed 37 trainees at the reporting date (2014: 43); the number of trainees is expected to remain stable for the next years.

2.4.4 Segment performance

The following table provides an overview of the operating segments' performance:

EUR million		Electronics Production Equipment	Electronics Development Equipment	Other Production Equipment	Other	Total
External revenue	2015	29.9	25.5	30.8	1.1	87.3
	2014	51.2	25.1	42.8	0.6	119.7
Operating result (EBIT)	2015	–5.8	3.4	–0.2	–1.1	–3.7
	2014	9.4	2.7	1.8	–1.2	12.7
Assets	2015	41.1	17.4	27.5	32.8	118.8
	2014	40.8	19.9	34.6	32.9	128.2
Liabilities	2015	3.4	3.1	10.6	38.2	55.3
	2014	4.9	3.5	18.5	32.8	59.7
Capital expenditures	2015	5.6	1.7	5.9	0.5	13.7
	2014	6.1	1.7	4.6	2.6	15.0
Depreciation, amortization and impairment losses	2015	3.3	2.0	1.8	0.1	7.2
	2014	4.1	2.5	1.1	0.2	7.9

2.5 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS OF LPKF AG

The following explanations aim to provide an overview of the economic development of LPKF AG (single entity). The annual financial statements of LPKF AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and published in the Federal Gazette (Bundesanzeiger). The single entity is managed according to the same principles as the Group, on the basis of the IFRSs. On account of the single entity's large share of the value creation in the Group, LPKF therefore refers to the statements in the "Corporate management" section and in the report on expected developments, which can also be extrapolated for the parent company.

2.5.1 Results of operations

LPKF AG's revenue amounted to EUR 61.6 million in the 2015 financial year.

LPKF AG's revenue amounted to EUR 61.6 million in the 2015 financial year and thus remained 29.0% below the previous year's level. This can be mainly attributed to weaker development in the Electronics Production Equipment segment. In addition, the transfer of the operating business with plastic welding equipment from LPKF AG to LPKF WeldingQuipment GmbH on 1 October 2015 triggered the transfer of fourth-quarter revenue to this company, which resulted in a decrease in revenue of around EUR 8.2 million for LPKF AG. The percentage of revenue generated internationally was 77.6% (previous year: 92.7%).

Other operating income primarily increased as a result of insurance payments made for the loss suffered in the fire of January 2015, the passing on of charges for services to affiliated companies as well as utilization of warranty provisions totaling EUR 3.2 million. High-margin systems produced at the Garbsen site in Germany were particularly affected by the decline in sales; consequently, the material cost ratio rose significantly to 42.5% (previous year: 31.8%).

Staff costs within LPKF AG decreased by EUR 3.0 million or 11.1%, particularly due to the transfer of staff at the Fürth site in Germany to LPKF WeldingQuipment GmbH. The cost increase in conjunction with the decrease in revenue led to a considerable rise in the staff cost ratio to 39.1% (previous year: 31.2%). Depreciation and amortization of non-current assets remained unchanged from the level of the previous year, while the depreciation and amortization rate rose to 6.2%. Other operating expenses fell by a total of EUR 4.6 million. Although this is partly attributable to the decline in sales-related expenses (approximately EUR 4.9 million), the figure also includes a EUR 1.0 million reduction in items such as legal fees, third-party work and travel expenses that was achieved through cost-saving measures. While repairs increased significantly, primarily as a result of the fire in Garbsen, these were reimbursed by the insurance company.

The decline in revenue led to a significant reduction in the EBIT margin.

The decline in revenue led to a significant reduction in the EBIT margin, which slipped to –16.2% in the financial year after 4.3% in the previous year. The financial result includes distributions of LPKF Inc. and LPKF d.o.o. totaling EUR 1.5 million. Under the terms of the profit and loss transfer agreement with LPKF SolarQuipment GmbH, the parent company is obliged to absorb EUR 2.1 million of the loss for the financial year. Earnings before tax were EUR 14.8 million lower than in the previous year, with the Company generating a net loss for the financial year of EUR 7.2 million after reporting a net profit of EUR 2.7 million the previous year.

Income statement of LPKF AG

EUR million	2015	2014
Revenue	61.6	86.7
Change in inventories	–2.0	–0.2
Other own work capitalized	0.1	0.1
Other operating income	7.3	4.1
Cost of materials	25.3	27.5
Staff costs	24.1	27.1
Depreciation/amortization/impairment losses on fixed assets	3.8	3.9
Other operating expenses	23.8	28.4
Financial result	**–1.0**	**0.0**
Profit from ordinary operations	**–11.0**	**3.8**
Income and other taxes	–3.8	1.1
Net loss/profit for the year	**–7.2**	**2.7**
Retained earnings brought forward from the previous year	11.5	11.5
Net retained profits	**4.3**	**14.2**

Regarding the performance indicators, the expectation is that LPKF AG will essentially develop in line with the Group's forecast described in section 7.1.3.

2.5.2 Net assets and financial position

Investments in fixed assets were reduced by EUR 4.0 million.

Total assets stood at EUR 85.8 million on 31 December 2015, down EUR 8.4 million from the prior-year reporting date. Investments in property, plant and equipment and intangible assets were EUR 4.0 million lower than the previous year at EUR 2.6 million for the financial year under review. While the Group was still investing in the completion and furnishing of a new building in Garbsen and the expansion of the Fürth site in 2014, there were no such investment priorities in the reporting year. The carrying amounts of non-current assets fell by 2.3% due to depreciation, amortization and impairment losses. The reduction in inventories was primarily attributable to the sale of inventories to LPKF WeldingQuipment GmbH. Trade receivables declined significantly as of the reporting date as a result of low revenue in the current year and the transfer of the plastic welding business to WeldingQuipment

GmbH. Receivables from affiliated companies rose slightly compared to the previous year and primarily comprise financial receivables. Cash and cash equivalents fell by EUR 1.0 million. Overall, current assets decreased by EUR 10.6 million. Due to the net loss for the year, a tax refund claim of EUR 3.9 million was recognized under deferred taxes.

The equity ratio now stands at 46.6%.

Taking into account the dividend payment in 2015, the decrease in equity of EUR 9.9 million to EUR 40.0 million is primarily attributable to the net loss for the year of EUR 7.2 million. The equity ratio dropped below 50% and now stands at 46.6%. Other provisions decreased significantly by a total of EUR 2.7 million compared to the previous year, primarily as a result of the utilization of provisions for warranties and taxes as well as lower license claims and bonuses. Although liabilities to banks increased by EUR 5.0 million as of the reporting date, the portion of these liabilities repayable in the short term fell by EUR 4.8 million after being rescheduled into medium-term loans. By doing this, the Company secured current low interest rates for a further five years. Overall, EUR 28.0 million is now repayable within the next five years, up from EUR 22.6 million in the previous year. Miscellaneous liabilities primarily include liabilities to affiliated companies resulting from both trade payables and financing. At EUR 42.4 million, total liabilities exceeded the previous year's level (EUR 38.2 million) by EUR 4.2 million.

The Company's net assets and capital structure developed as follows year on year:

	31 Dec. 2015		31 Dec. 2014	
	EUR million	%	EUR million	%
Non-current assets	43.0	50.1	44.3	47.0
Current assets	42.8	49.9	49.9	53.0
Assets	**85.8**	**100.0**	**94.2**	**100.0**
Equity	40.0	46.6	49.9	52.9
Non-current liabilities	15.8	18.4	5.9	6.3
Current liabilities	30.0	35.0	38.4	40.8
Equity and liabilities	**85.8**	**100.0**	**94.2**	**100.0**

In contrast to the Group level, the weak LDS business cannot be offset as effectively by strong business performance in other Group companies at the level of LPKF AG's financial statements. As a result, the economic situation of LPKF AG is weaker than that of the Group as a whole. However, LPKF AG's net assets and financial position can still be considered robust.

Capital expenditures

Of a total EUR 2.6 million, EUR 1.2 million of capital expenditures were focused on IT equipment and the replacement of fire-damaged office equipment. Further capital expenditures concerned technical equipment for process developments and software licenses.

Employees

LPKF AG had 281 employees at the reporting date, 174 less than in the previous year. This is mainly due to the fact that the employees at the Fürth site in Germany transferred to LPKF WeldingQuipment GmbH.

Dividend

The sustained ability to pay a dividend is key goal of the LPKF Group. In general the Company proposes to the Annual General Meeting that between 30% and 50% of LPKF's earnings per share be distributed as a dividend in the following year. The Company may deviate from this aim, especially if it faces an uncertain future due to circumstances such as an economic downturn, or if paying a dividend would jeopardize the ability to finance investments or put the financial position of LPKF AG or the Group at risk.

In view of the development in 2015, the Management Board and the Supervisory Board intend to propose to the Annual General Meeting that no dividend be paid.

In view of the development in 2015 and the prospects for the new financial year, the Management Board and the Supervisory Board intend to propose to the Annual General Meeting on 2 June 2016 that no dividend be paid. In the previous year, a dividend of EUR 0.12 per share was paid.

2.5.3 Risk report

The business development of LPKF AG is essentially exposed to the same risks as that of the LPKF Group. These risks are explained in the risk report (section 6) of the combined management report.

2.6 EMPLOYEES

Motivated, highly-qualified staff that identifies with their employer is the key to success – especially for a growing technology company like LPKF. Low levels of sick leave and employee turnover are important indicators of LPKF's success in achieving this goal. At 4.2%, the sick leave percentage in the LPKF Group was below the average for the metal working and electronics industry (2014: 4.8%). The employee turnover rate in the Group was 9.4% (2014: 7.1%).

At 4.2%, the sick leave percentage in the LPKF Group was below the average for the metal working and electronics industry.

As a result of demographic change, the share of older people in the population as a whole has been increasing compared with the share of younger people for decades now. Life expectancy, which has also been rising for decades, coupled with declining birth rates is largely responsible for these demographic changes. The result is that the average lifespan of both men and women is growing steadily longer. Demographic shifts also affect the labor market. The decline in births means that in the future fewer and fewer young workers will be available. The proportion of older people in the workforce will grow for this reason alone. Then there is also the shift in the retirement age.

The average age of the workforce was 39.0 years for the LPKF Group in Germany (previous year: 38.8). According to information provided by the VDMA, the average age of all employees in the German engineering industry rose slowly but steadily and was 42.6 in 2014.

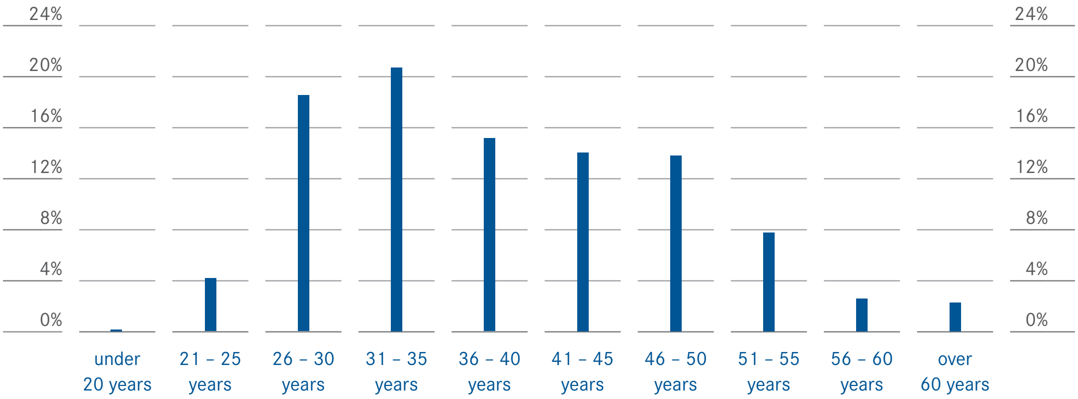


Fig. Age structure analysis in years, LPKF in Germany (excluding trainees)

An analysis of the length of service of LPKF Group employees shows that with an average of 5.2 years (previous year: Group-wide figures not yet available) LPKF as a relatively young enterprise can point to a healthy mix of experienced and new employees after undergoing a period of strong growth. The average length of service of employees in the German engineering industry according to the VDMA decreased slightly from 13.9 to 13.5 years in 2014.

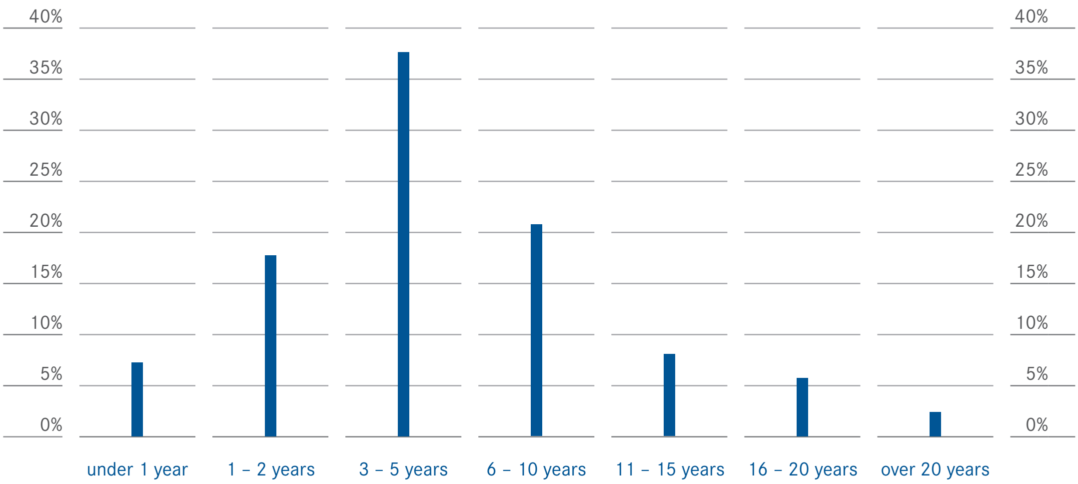


Fig. Distribution of length of service in years, LPKF in Germany (excluding trainees)

Based on the current age structure and a balanced mix of years of service, LPKF is positioned well to face the challenges posed by demographic trends. The high number of applications for vacant positions in Germany alone in 2015 proves that LPKF is perceived as an attractive company on the labor market.

2.7 OVERALL APPRAISAL OF THE GROUP'S ECONOMIC SITUATION

The Company's financial situation can be considered robust in the 2015 financial year yet again.

The Company's financial situation can be considered robust in the 2015 financial year yet again. As far as revenue and earnings are concerned, however, 2015 was once again weaker than the previous year, with the Group generating an operating loss for the first time. The Management Board believes that LPKF will get back on a growth trajectory in 2016 and can post positive earnings and thus achieve an improved return on capital employed.

III. REPORT ON POST-BALANCE SHEET DATE EVENTS

DISCLOSURES ON PARTICULARLY SIGNIFICANT EVENTS

There were no reportable events after the reporting date.

IV. CORPORATE GOVERNANCE DECLARATION

The corporate governance declaration pursuant to Section 289a HGB is part of the combined management report. The declaration is available for the public on LPKF AG's website (www.lpkf.com/investor-relations/corporate-governance/declaration-compliance.htm) and included in the corporate governance report on pages 30 – 35 of the annual report.

V. REPORT ON OPPORTUNITIES

5.1 OPPORTUNITY MANAGEMENT

As a technology company, LPKF does business in a dynamic market environment that always provides new opportunities. Systematically identifying and leveraging these opportunities is a major factor in the sustainable growth of the LPKF Group. Opportunity management involves closely monitoring new markets and applications, regularly evaluating market analyses, and reviewing the focus of the product portfolio.

Innovation managers specialize in systematically seeking out new technologies.

In the R&D unit, innovation managers specialize in systematically seeking out new technologies. The responsibility for identifying opportunities in the product groups and markets lies with the product managers and international subsidiaries. The results of these efforts are regularly reported to the Company's management and to the central Group strategy department. If it is likely that opportunities will materialize, they are included in the planning and outlook for the coming years. The opportunities listed below focus on future trends or events that could result in a positive deviation for LPKF from the outlook given in the report on expected developments. Taking into account the existing estimation uncertainty, the opportunities presented below can make a positive contribution to earnings in the single-digit million range.

5.2 OPPORTUNITIES

5.2.1 Further developing the existing product portfolio

LPKF updates the product portfolio on an ongoing basis, aligning this activity with signals from customers, technological progress outside the Company and changing markets. At the same time, it also pursues its own ideas and innovations. The Company thus aims to always be prepared to meet future customer needs while at the same time actively creating new market demand through its own innovative and efficient processes. LPKF ensures its capability to innovate for the future by closely networking its development departments with market research, sales and service, as well as providing a suitable annual R&D budget of approximately 10% of revenue. The continual updating of the product portfolio can result in changes in the product mix, and these changes pose risks as well as providing opportunities.

5.2.2 New technology breakthroughs

LPKF is a market leader in all product groups worldwide. The chances are excellent for further expansion of market share thanks to LPKF's wide-ranging technological expertise, brand recognition and long-term relationships with customers. In addition to established markets, LPKF additionally concentrates on attractive new markets that promise good growth and income opportunities. Moreover, LPKF aims to open up new markets and further cement its presence in existing markets by developing new products. The purpose of systematic market and technology monitoring is to identify sustainable market opportunities at an early stage and fill these needs with the Company's own technological solutions. The development of such solutions is often not linear, but rather offers the chance to make a technological breakthrough that may be protectable as intellectual property.

5.2.3 Takeover of external companies with strategically relevant expertise

LPKF has a broad product portfolio and many ideas for further developing products and uncovering new market opportunities. This is why organic growth is at the forefront of LPKF's corporate strategy. Nonetheless, the Company also pursues opportunities for external growth that could come from acquiring patents or companies with strategically relevant expertise. In order to pursue the strategic option of inorganic growth, the structures for actively seeking and analyzing potential targets and for managing M&A projects will be created with the involvement of external service providers.

5.2.4 Orders as a result of supplanting conventional production methods

The production methods developed by LPKF often have economic and quality advantages compared to conventional production technologies. Above average growth is possible if customers decide to abandon traditional methods in favor of LPKF's equipment. Especially in a rapidly changing market environment, many of LPKF's customers see the need to make larger investments in their own developments and launch new products. This benefits sales of LPKF products to development laboratories. Both ongoing technological progress, in general, and LPKF's intensive development activities are making laser-based machinery more attractive to customers than established technologies, even for mass production.

5.2.5 Independence of individual markets as a result of broad positioning

The Company's ongoing development activity is intended to maintain its edge over the competition.

LPKF's strategy to build on its core competencies and enter different markets has a stabilizing effect against the backdrop of cyclical markets. The various markets served by LPKF undergo asynchronous and different industry cycles. The Company's ongoing development activity is intended to maintain its edge over the competition in key product markets.

5.2.6 Business organization

The consistent alignment of the corporate structure to the strategy has created one of the key conditions for exploiting opportunities for further growth. The Group's organization and internal processes are continually improved and positioned for profitable growth. Going forward, LPKF aims to profit further from the size of the Group and more effectively leverage economies of scale.

VI. RISK REPORT

6.1 DESCRIPTION OF THE INTERNAL CONTROL SYSTEM

6.1.1 Overview

The internal control system (ICS) comprises the principles, procedures and measures introduced by LPKF's management. They focus on the organizational implementation of management decisions and statutory requirements. The aim of the methods and measures implemented by LPKF is to safeguard the Group's assets and to boost its operating efficiency.

The ongoing refinement of the ICS involves analyzing the Company's functional areas.

The ongoing refinement of the ICS involves analyzing the Company's functional areas – e.g. during workshops, internal audits and Management Board meetings – and assessing the probability of damage occurring in these areas and the extent of potential damage.

The Management Board structured each unit and adjusted processes based on the findings of these analyses and the assessments made. Among others, this involves strictly separating incompatible activities, implementing the dual control principle in all significant areas internationally and installing controls in the workflows. Examples include signature regulations, approval requirements for significant transactions, and IT access authorizations.

The results of the internal audits are presented to the Supervisory Board. It is stipulated that the findings must be worked through in a timely manner. Follow-up audits ensure that the agreed implementation of the findings is monitored regularly and documented. Implementation is the responsibility of the relevant Management Board member with purview over the respective area.

The risk and opportunity management system is also an integral part of the ICS.

6.1.2 Risk management system

Risk management is pursued actively at LPKF like opportunity management, which is not integrated into the risk management system, but instead is handled separately. In doing so, the Company employs a number of reporting tools.

Risk management serves to safeguard the foundation of business and expand competitiveness.

Risk management at LPKF involves the formulation and implementation of measures that are suitable to identify existing risks, hedge them, reduce their probability of occurring, mitigate them or consciously accept them to a reasonable extent. Risk is defined as potential future trends or events that might result in a negative departure from forecasts or goals. Risk management serves to safeguard the foundation of business and expand competitiveness by providing a platform for suitably controlling specific risks and managing them transparently. It ensures that risks are identified and controlled proactively. This is a crucial factor for sustainable commercial success because risks are inseparably associated with business activity. The risk management system is integrated with compliance management through creation of a shared position.

An international firm of public auditors performs internal auditing tasks for the entire LPKF Group. These audits are based on a multi-year audit plan that reflects the risk situation of the Group documented by the risk management system and the risk assessment developed by the Management Board. In financial year 2015, audits were conducted at LPKF AG and one subsidiary. After the unified ERP system for managing processes and workflows has been implemented at the German sites of LPKF AG and in certain departments of its Chinese subsidiary, the roll-out of the system at the Slovenian subsidiary was completed in 2015. Subsequent implementation of this system at further Group companies is planned. This process serves to further optimize process structure and information flow and improve transparency. The Company will continue to focus on the ongoing development of its structural and workflow organization in view of the Group's envisioned growth.

LPKF makes use of a number of highly developed management and control systems to measure, monitor, control and handle risks.

The LPKF Group is exposed to numerous risks as it pursues its global business activities within the rapidly changing conditions affecting its target markets. Risk management, specifically the risk early warning system, is therefore always a fundamental element in the planning and implementation of LPKF's business strategy. Although risks can be limited by taking suitable measures and can be identified rapidly and precisely through an early warning system, they can never be completely excluded and can only be assessed as of a given point in time. LPKF therefore makes use of a number of highly developed management and control systems to measure, monitor, control and handle the risks the Group is exposed to. Group-wide strategic planning and the associated reporting system are particularly important in this context. The Management Board of LPKF AG is responsible for risk policy and the internal control and risk management system. The second- and third-level management staff implement these control functions in each of the Group's organizational units and benefit here from theoretical technical knowledge, practical experience and excellent networking in the relevant topical areas. In this way, the responsible employees can use suitable and effective means to identify new risks quickly and directly where they arise and then report them to the risk manager. A central database is used for reporting. In addition to regular reporting on identified risks, ad hoc reports must be prepared as needed on all risks that occur unexpectedly. This involves the risk manager coordinating and, if necessary, participating in developing the various risk control measures. The risk manager reports directly to the Management Board. Aspects of risk and opportunity management are also a fixture on the agenda of the weekly meetings of the full Management Board. This procedure has proven its worth time and again in past years. The risk early warning system is reviewed annually by a public auditor, and where necessary also by other external auditors. Starting in 2014, internal auditing reviews the risk management system as part of a multi-year auditing plan.

The risk owners are trained and made aware of risks.

In order to record and control risks, existing instruments in the context of the risk management process such as the risk management manual and the reporting tools are updated continuously and the daily implementation of the risk management system is documented. Risk management discussions of all types are always recorded in minutes. As in previous years, existing and potential risks were reassessed and the reporting system was reviewed to ascertain its efficiency in managing risks in the 2015 financial year. The risk owners are trained and made aware of risks. A database-supported reporting system has been installed at Group companies. The quality management system pursuant to DIN EN ISO 9001:2008 and the occupational safety management system pursuant to OHSAS 18001 are also important elements of the risk early warning system and for ensuring structured business processes. The implementation of the recommendations of the German Corporate Governance Code, which also plays an important part in the cooperation between the Supervisory Board and the Management Board, is yet another instrument for limiting and managing risks.

6.1.3 Description of the main features of the internal control and risk management system relevant to the financial reporting process (Section 289 (5) German Commercial Code)

The internal control and risk management system relevant for the financial reporting process is designed to ensure proper financial reporting, which is defined as the compliance by the consolidated financial statements and combined management report with all applicable regulations.

The workflows in the Group are structured around processes and are set up identically for the most part thanks to the use of the same ERP system in key units of the Group. The Company plans to roll out the system to additional units in the Group.

Automatic process controls are integrated into this system and protected from unintentional changes with an IT-based authorization concept.

The dual-control principle is applicable throughout the LPKF Group. Through the general separation of functions related to administration, execution, accounting and approval – and the delegation of these functions to different members of staff or departments – this approach limits the possibilities for engaging in fraudulent acts. This is a manual control that also underlies the process descriptions, signature regulations, guidelines and work instructions.

The specific functions of the internal control system are the risk management system, Group Accounting, Internal Auditing and Compliance Management, which at LPKF AG are based at the Group's headquarters.

Among other things, the risk management system continually monitors the risks of publishing erroneous figures in accounting and external reporting. More details on the risk management system are included in section 6.1.2.

The entries recorded at LPKF AG and the subsidiaries provide the data used to prepare the consolidated financial statements. LPKF guarantees the quality of this data by selecting suitable staff and regularly training employees, and enlisting the help of service providers, e.g., in measuring long-term liabilities and determining facts material to accounting by Group Accounting. Before being included in the consolidated financial statements, the data is subject to automatic and manual controls. The consolidated financial statements are prepared in a system separate from the ERP system to which only a limited group of authorized persons has access. It is managed solely at headquarters. In further developing the systems, the focus is on automating standard procedures to the greatest extent possible. In addition, the auditing of the parent company's and material subsidiaries' annual financial statements as well as the consolidated financial statements by public auditors is an essential process-independent control measure relevant for the financial reporting process in which the Supervisory Board is also regularly involved.

The position of compliance manager was established to ensure that all business activities comply with the statutory provisions and the values of LPKF. The compliance manager is responsible for stipulating guidelines applicable throughout the Group and compliance with these guidelines.

Based on the organizational, control and monitoring structures defined by the Management Board, the internal control system enables the complete recording and proper presentation of transactions in the Company's accounts.

However, personal judgments, defective controls and criminal acts in particular cannot be fully excluded despite these measures. This could limit the effectiveness of the internal control system, which means that even the strict application of regulations provides no absolute guarantee for the correct, complete and punctual recording of all matters in the accounts.

6.2 SPECIFIC RISKS

The risks changed compared to the previous year.

The risk management process currently involves dealing in detail with the specific risks listed in the table below which could have a significant impact on the LPKF Group's business, as well as its net assets, financial position and results of operations. The risks changed compared to the previous year.

The following risks in particular are given high priority[1]:

Specific risk	Qualitative probability of risk occurrence[1]	Possible financial effects[2]
General business risks (esp. macroeconomic risks from sector trends)	Possible (less likely)	Material
Dependence on suppliers	Less likely	Moderate
Dependence on customers	Less likely	Moderate
Technological developments	Possible	Material
Patent risks	Possible	Material
Personnel risks	Less likely	Moderate

1 Previous year's are shown in parentheses if they have changed
2 Categories: – Less likely = Probability of occurrence up to 25% – Possible = Probability of occurrence higher than 25% and up to 50% – More likely than unlikely = Probability of occurrence higher than 50%
3 Categories: – Moderate = Damage amount up to EUR 3 million – Material = Damage amount higher than EUR 3 million up to EUR 10 million

Other risks which are currently unknown, or which are currently (still) considered negligible, could also have a positive or negative impact on LPKF.

Disclosures on all individual risks:

6.2.1 General business risks

I. Cause

LPKF is operating internationally in an ever faster changing environment. The Company's customers are exposed to considerable cost and competitive pressures as well as curtailed investment budgets. Business in LPKF's target markets is cyclical, with particularly strong fluctuations especially in the electronics industry as well as the automotive and solar industry.

Whereas the automotive industry continued to grow in 2015, some uncertainty was noticeable in the consumer electronics industry. For example, a partial loss of market share on the part of major international vendors in favor of emerging Chinese competitors amid a slowdown in market growth was observed in the cell phone and smartphone market. The solar market grew slightly, which however has not yet led to significant capital investments to expand capacities. Among others, the further development of the business with solar scribers is also contingent on the continuation of and further amendments to legal regulations that govern the feed-in fees, e.g. for solar electricity.

Economic fluctuations have a strong impact on the investment in production equipment. Especially in markets outside Asia, customers' willingness to expand capacities or introduce new technologies is therefore limited. New investments are often only made when future utilization of such equipment appears assured by concrete orders from customers. The Electronics Production Equipment and the Other Production Equipment segments are usually more exposed to cyclic fluctuations than the more budget-driven Electronics Development Equipment segment. There is a risk in the Electronics Production Equipment segment that market share could shift further to countries such as China in which there is no patent protection. This affects in particular the patents for the LDS method and the above-average growth rates of smartphones in emerging markets compared to stagnating sales figures in Western industrial countries. The majority of LDS systems continue to be used in the production of antennas. Growth is expected from new applications in this business. There is the risk that not enough additional applications with large unit volumes will be developed and that as a result the business overall does not perform as well as planned.

The majority of LDS systems continue to be used in the production of antennas.

The Group's general business risks also include the increasing share of the project business in the overall operations. Order volumes of several million euros are being negotiated more frequently than in the past in connection with projects. This places special demands on the Group's flexibility to be able to also deal with greater fluctuations in sales volumes. The ability to plan the Company's business performance can also be impacted as a result. In particular the Other Production Equipment and Electronics Production Equipment segments are affected by this.

LPKF is also exposed to risks associated with a rapidly changing technological environment. The availability of high-quality components enables new players to launch cost-efficient competitive products or alternative techniques. For more explanations see section 6.2.4.

The systematic development of new technologies and business segments is generally associated with the risk that the planned business model fails to meet its targets. There is the risk, especially in connection with new technologies or machine types, that deliveries might be delayed or that formal acceptance procedures might not take place at all or only later. Ensuring the high level of quality required by customers places great demands on development and production processes. Especially systems, components and technologies that have been newly developed from scratch entail a risk of high quality costs.

Ensuring the high level of quality required by customers places great demands on development and production processes.

Product liability risks, in particular in connection with patents and the associated warranty of title mainly arise in the Electronics Production Equipment and Other Production Equipment segments. Furthermore, the risk that recall costs may be incurred is to be pointed out. This risk arises in particular in the business with production services.

Last but not least, the global political situation may also pose risks affecting the development of LPKF's business. The risks involved here include possible changes in laws, e.g. with respect to the import of capital goods to China. Recent years have seen the increasing implementation of tariff and non-tariff barriers to trade.

II. Measures

In part, these industry cycles are staggered timewise in different markets such that LPKF's broad market positioning helps to balance matters somewhat. This positioning in the market is part of the business model and is to be retained in the future. In order to expand LPKF's leading role in the various businesses, it is important to have a robust innovation and product management system with state-of-the-art technology and to be in close contact with customers in close proximity to the market. Overall, around 10% of revenue should also be invested in the new and further development of products in the future.

In order to be able to compensate for fluctuations in the utilization of capacities, LPKF is focusing on flexible structures, for example in production, and increasingly also on the collaboration of LPKF's production sites. In addition, peak workload levels are covered by way of external production service providers and recourse to temporary workers. In the case of lower workload levels, the depth of production can be increased.

In the MID equipment product group, LPKF is working to further develop the process with a view to customer requests. For instance, further developments will be offered in 2016 that enable greater precision, new materials, lower production costs for the LDS components and easy retooling of machines. These steps should help to develop additional applications for the LDS method. In the Electronics Production Equipment segment, two new technologies – the TGV process and Laser Transfer Printing (LTP) – have just been developed to market readiness to reduce the Group's reliance on a few high-revenue products. The TGV process product launch has already been planned for the 2016 financial year. This process is expected to open up a completely new customer base in the IC packaging market. The laser systems required here should begin contributing to revenue in 2016, albeit not in large numbers. The Electronics Production Equipment segment will seek to utilize the PCB equipment product group for the LTP process, particularly for the production of generally ceramic high-performance PCBs. This process is expected to make a significant contribution to revenue from 2017 onwards.

Expanding quality management is a focus of the Group's strategy.

Expanding quality management is a focus of the Group's strategy, and measures to this end were implemented in the 2015 financial year.

The Company seeks to cover these through insurance policies if there are existent risks from product liability. One of LPKF's subsidiaries also provides production services for the automotive supply industry. There is a risk in this connection that the Group will be held liable for auto manufacturers' recalls on account of defects. The probability of a loss is deemed to be low, however. This risk is further mitigated by taking out insurance.

III. Effects on economic position

Despite the measures in place and planned, occurrence of the risks described above is considered possible and any financial effects with regard to the general and sector-specific economic risks are considered material.

6.2.2 Dependence on suppliers

I. Cause

The procurement of components and services from external suppliers is associated with basic risks involving deliverability, the ability to deliver on time, stability of prices and quality.

II. Measures

Suppliers are regularly subject to systematic evaluations, and, if necessary, steps to improve the supply chain are defined.

This is why LPKF pays particular attention to selecting and developing reliable suppliers. Suppliers are regularly subject to systematic evaluations, and, if necessary, steps to improve the supply chain are defined.

As a rule, dependence on individual suppliers outside the Group is to be avoided.

However, the choice of possible suppliers for a few special components or services is currently limited. Special attention is devoted to managing these sources. Furthermore, the market is continually analyzed for alternative sources.

III. Effects on economic position

Depending on the component, late deliveries, components with quality problems, unexpected fluctuations in price, or even the sudden halting of deliveries can result in temporary bottlenecks in the delivery of systems, and therefore to greater or lesser losses of revenue and earnings. Overall, this risk is considered less likely to occur and potential financial effects are considered moderate.

6.2.3 Dependence on customers

I. Cause

The distribution of revenue by region shows a clear shift to Asia, China in particular.

The distribution of revenue by region shows a clear shift to Asia, China in particular. While it reflects prevailing market conditions, it has resulted in the Group's evolving dependence on international customers that base most of their manufacturing in China. In the Solar Module Equipment product group, larger-scale projects are often completed with a few customers. For some time now, a major customer has dominated significant parts of this business. In the Electronics Production Equipment product group, there is also a certain dependency on decisions made on the part of a few major customers for laser-based technologies who then provide their suppliers with corresponding instructions. These instructions can have an impact on LPKF's business with these suppliers.

If the Company were to fail to land individual major projects, this could significantly affect the financial success of this business segment. Due to the ongoing difficult business situation in the solar industry, there is an increased risk of order cancellations and defaults in the Solar Module Equipment product group. There is currently no indication of this.

II. Measures

The Electronics Production Equipment business succeeded in considerably widening its customer base in 2015 especially for the de-panneling of electronic components with lasers. In the solar business, the agreed payment terms and other conditions provide a modicum of protection against cancellations and payment defaults.

III. Effects on economic position

Nonetheless, if the solar market continues to be weak or the Company fails to obtain other major orders, this could have a negative impact on the Group's revenue and earnings if, for example, capacities cannot be wound down fast enough or used by other divisions. The current planning is based on the assumption that business will pick up again in 2016 and beyond after a weak year in 2015. Based on the current project situation, revenue is expected to increase again starting in 2016. However, due to the dependency on customers and projects in the solar business, the utilization of capacities, revenue and earnings are likely to continue fluctuating in the solar business. Taking into account the overall circumstances, occurrence of this risk is assessed as less likely and any damage amount as moderate.

Based on the current project situation, revenue is expected to increase again starting in 2016.

6.2.4 Technological developments

I. Cause

The competitive situation and the rapidly changing technological requirements are associated with cross-segment risks. LPKF's success significantly depends on the speed and quality with which new products can be developed to market readiness. In the markets, some of which can be quite cyclic, there is an additional risk when the capacity and willingness to invest in new technology diminishes in response to the state of the economy. The increased appearance of competing techniques can lead to declining revenue and income, in particular if these techniques should prove to be technologically and/or economically advantageous.

II. Measures

Permanent follow-up by the Supervisory Board and the Management Board is an integral part of the risk management system to review the sustainable value of new developments and integrate these findings into the product strategy. This follow-up involves the division heads, innovation management and the head of Group strategy. The development of high-quality products in a structured, expeditious flow of development projects is supported by a structured idea generation and development process. In addition to frequently achieving cost benefits by investing in LPKF's technology, LPKF's customers can also enjoy competitive benefits and harness the associated market opportunities. In this way, it has been possible to repeatedly replace established technologies with laser-based processes. LPKF's technologies are also protected by patents.

III. Effects on economic position

In 2015, LPKF once again generated the majority of its revenue with fresh products. The planning for the coming years assumes that this success can be continued. On the whole, this is critically important for the LPKF Group. Due to increasing competition and the rapidly changing technological requirements, the probability of risks occurring in the field of technological development is to be described as possible and any financial effects due to the economic importance are to be described as significant.

6.2.5 Patent risks

I. Cause

LPKF considers the obtaining of patent rights to be the most effective way of preventing its R&D investments to be devalued by copyists.

The LPKF Group owns 54 patent families, and most of them are international. LPKF continually applies for new patents thanks to its intense development activities, in addition to acquiring the industrial property rights of third parties. LPKF considers the obtaining of patent rights to be the most effective way of preventing its R&D investments to be devalued by copyists. In the laser direct structuring (LDS) business in particular, commercial success also depends on the patent situation. Existing or new industrial protection rights of third parties cannot be precluded and might have an impact on the financial condition of LPKF. There is also the risk that competitors might successfully challenge LPKF's patents. In reaction to an infringement action, appeal proceedings are currently pending before the German Federal Supreme Court in Karlsruhe after the Group successfully defended itself against an action for declaration of nullity against the validity of the LDS patent before the German Federal Patents Court in Munich. LPKF is also confident in the favorable outcome of these appeal proceedings. However, there remains the risk that the patent will be declared null and void also in Germany. Under certain circumstances, this could have a widespread impact in all countries in which the patent is valid.

II. Measures

In general, these risks are addressed with comprehensive innovation and product management and close cooperation with internationally active patent attorneys. LPKF is also in close contact with customers and other sources of information and, in this way, tries to identify and counter risks in this area at an early stage. Along with the growing success of the LDS technology, the number of attacks on the patent that secures LPKF's sole rights to the LDS technology has increased. After the loss of the patent in China, LPKF is now increasingly taking action against companies outside the Chinese market who use the LDS process in violation of the patent. LPKF is currently taking action against a mobile phone manufacturer who is putting electronic components on the market that infringe the LDS patent in LPKF's view. In a decision handed down by the court of first instance, the manufacturer was already successfully prohibited from selling devices in Germany that infringe on the patent. An appeal was filed against the decision, and the competent Karlsruhe Higher Regional Court is expected to decide on the appeal in 2016. Furthermore, by intensively pursuing R&D activities, LPKF always strives to gain a technological edge over its competitors and possible patent infringers. If successful, this is an effective additional measure of protection against copying and the theft of intellectual property. A certification program has been developed as a unique selling point for the LDS method that permanently highlights its quality and advantages over plagiarized methods.

III. Effects on economic position

Due to the significance of patents for the LPKF Group, the possible financial consequences in this area can be described as material overall. However, the loss of LDS patent protection in China does not affect the continued existence of the patents in other countries. For this reason, it still is not legally possible to export LDS components manufactured in China, or equipment that contains these parts, to countries outside of China where patent protection exists. However, this patent protection is limited to the world's major industrialized countries. This is becoming increasingly significant due to above-average growth figures for smartphones in emerging markets. Without patent protection and with products for these emerging markets subject to increased cost pressure, it is highly probably that substandard laser systems not sourced from LPKF are being used to produce LDS parts so that occurrence of this risk is considered possible.

6.2.6 Personnel risks

I. Cause

Demand for qualified technical personnel in both mechanical engineering and manufacturing remains high. Thanks to its attractive work environment, contacts with universities and the growing level of awareness the Company enjoys in the laser sector, LPKF has not had any significant problems attracting adequately trained staff. In 2015, around 600 applications were received at German sites alone. Although this figure was significantly lower than in the previous year, it is due to a lower number of vacant positions compared to the previous year. There is also a cross-segment risk associated with the loss of key employees with important know-how as a result of head hunting.

II. Measures

The expansion of systematic personnel development represented a major goal also in 2015.

An attractive working environment and development opportunities within the LPKF Group are offered to retain employees in the Company. Particular value is placed on pay that reflects performance and a good working atmosphere. Extensive need-based advanced training measures are offered to employees in order to facilitate their further development and keep knowledge up-to-date. The expansion of systematic personnel development represented a major goal also in 2015. In 2016, one focus of LPKF will be on personnel marketing in order to continue being perceived on the labor market as an attractive employer among medium-sized enterprises in the mechanical engineering industry. Members of the Management Board also maintain contact and exchange information with high performers at all sites on an ongoing basis.

III. Effects on economic position

As in previous years, the Company currently enjoys a low level of sick leave compared to industry as a whole. The Group's performance is currently not hindered by possible delays in hiring. The financial effects can therefore currently be described as moderate and occurrence of this risk as less likely.

6.2.7 Financial risks

I. Cause

LPKF AG enjoys a good credit rating thanks also to the robust structure of its statement of financial position and its future prospects. Further potential exists for financing due to the unused credit lines and the Company's liquid assets. A further tightening of credit, e.g. indirectly if customers of LPKF were to encounter financing difficulties, could have a negative effect on order intake and thus the LPKF Group's future development. This risk affects all segments.

II. Measures

By following a policy of openness and transparency in communicating with financing partners, LPKF provides an always up-to-date picture of the Company's financial situation, thus simplifying financing decisions. The Company uses suitable information sources in an effort to assess financial risks at the level of customers, the relevant markets and economic conditions and, if necessary, to hedge these with credit default insurance.

III. Effects on economic position

Currently there are no indications that the Group's performance could be adversely affected by financial risks. The current economic environment is viewed as neutral to slightly negative. Furthermore, LPKF assumes that such risks will not materialize cumulatively. In view of this assumption, the effects can be classified as moderate.

6.2.8 Exchange rate fluctuations

I. Cause

The exchange rates between foreign currencies and the euro can undergo major fluctuations. For LPKF, the main fluctuations are those with regard to the US dollar (USD) and the Chinese renminbi. This risk also includes obligations from hedging relationships entered into that arise from delays in the underlying transaction (e.g., late receipt of USD already sold). In this case, subsequent hedging might only be able to be continued at a less favorable rate. This risk affects all segments. As a rule, LPKF invoices in euros. Only for transactions with American customers is billing usually in USD. In these cases, exchange rate volatility can have an indirect effect on LPKF's competitiveness because most of its competitors are not from the euro zone and material costs at LPKF are incurred in euros.

II. Measures

LPKF closes hedging transactions to protect itself against exchange rate risks involving business transactions invoiced in foreign currencies. This part of the risk management is handled by the parent Company in Garbsen, Germany, also on behalf of subsidiaries. In accordance with the risk management strategy, most of the foreign currency cash flow is either used for procuring materials in the dollar countries or hedged by engaging in forward exchange transactions or acquiring put options in foreign currencies.

III. Effects on economic position

Fluctuations in exchange rates can have a moderately positive or negative effect on earnings.

Fluctuations in exchange rates can have a moderately positive or negative effect on earnings. Counter measures are permanently reviewed and implemented to the degree possible. The exchange rate trend of the euro against the US dollar and important Asian currencies, which has been weak for quite some time now, is considered to be very positive for competitiveness and the business in general.

6.2.9 IT risks

I. Cause

In terms of its information, its international activities and the IT systems used to process it, the Group is potentially exposed to the risk of industrial espionage or disruptions by internal or external perpetrators, just as other innovative companies.

II. Measures

Extensive technical and organizational security systems are implemented to keep these cross-segment risks at an acceptable level. Security is also ensured by means of a restrictive policy for granting access authorizations to systems and information as well as by maintaining distributed backups of data repositories. IT security measures are evaluated on an ongoing basis by way of audits by external consultants and internal auditing. In this context, LPKF adheres to national and international standards. The results are structured for management and serve as a planning and decision-making tool for further risk management.

III. Effects on economic position

The performance of many security measures is sometimes costly, but results in LPKF being able to classify the likelihood of occurrence of a risk and possible loss as moderate. A residual risk that cannot be fully managed exists with regard to IT security due to the rapid pace of continuing technical developments.

6.2.10 Fire at the Garbsen site

I. Cause

On 14 January 2015, there was a fire in the development department at the Garbsen site.

On 14 January 2015, there was a fire in the development department at the Garbsen site. A number of offices and laboratories as well as a multitude of machines and test set-ups were caught in the fire and in some cases destroyed. This resulted in important development projects being completed later than originally planned or continued with a delay in 2015. However, almost all affected areas have now been restored, which enabled the Group to continue or complete the affected development projects. But there remains a residual risk that the insurance company will partially refuse some insurance payments.

II. Measures

An intensive exchange is taking place with the insurance companies and the experts it has engaged. Losses have been kept to a minimum and financial losses have been documented as fully as possible.

III. Effects on economic position

The insurance company has settled the majority of claims that have arisen. LPKF believes that the insurance company will also cover the remaining claims not yet settled. The Group is still in discussions with the insurance company about the extent of losses due to the interruption to business arising from delayed development projects. The remaining probability of the residual risk is therefore judged to be moderate.

6.3 ASSESSMENT BY THE MANAGEMENT BOARD OF THE RISK SITUATION AFFECTING THE GROUP

Both the risks for the global economy and the risks from the sovereign debt crisis have risen compared to the previous year. China is currently exhibiting signs of a slowdown of the boom it has been experiencing for many years. Many analysts assume that the global economy will once again grow slightly for 2016, however, with a series of uncertainties. Several risks have arisen with regard to the LDS business, which has led to a decline in this product group. Overall, the ability to plan and predict business performance of the Group remains limited. For the rest, LPKF's overall risk exposure from specific risks has not changed much compared to the previous year thanks to the positive development of its business.

A review of the overall risk situation of the LPKF Group concluded that there are currently no risks jeopardizing the Group's existence as a going concern.

A review of the overall risk situation of the LPKF Group concluded that there are currently no risks jeopardizing the Group's existence as a going concern.

There is also currently no foreseeable development which could significantly and sustainably harm the profit or loss, cash flows and financial position of the LPKF Group in the future. There is, however, a continued possibility that the effects of a significant economic slowdown, particularly in China, could impede the further development of LPKF.

The auditor of the financial statements reviewed LPKF AG's risk early warning system set up pursuant to the German Stock Corporation Act (Aktiengesetz). This review revealed that the existing Groupwide risk early warning system is fit for purpose, meets the requirements of the German Stock Corporation Act and is suitable for detecting developments that jeopardize the Company's continued existence as a going concern at an early stage. In addition, the Internal Auditing department reviewed the Group's risk management system in 2014. Suggestions for improvements were solicited, but there were no major complaints.

VII. REPORT ON EXPECTED DEVELOPMENTS

7.1 OVERALL APPRAISAL OF THE GROUP'S PROBABLE PERFORMANCE

7.1.1 Economic environment

The Kiel Institute for the World Economy (IfW) anticipates global growth of 3.4% in 2016, and is forecasting a slight increase to 3.8% in 2017. Economists believe that the upturn in developed economies will continue at a slightly increased pace as a result of expansive monetary policy, the slow increase in wages, persistently and extremely low oil prices and the continuing deleveraging process in the private sector.

The US economy in particular is expected to continue improving this year and in 2017 at growth rates of 2.8% and 3.0% respectively. The situation is similar in the eurozone, where economists expect a rise in gross domestic product (GDP) of 1.7% and 2.0% over the next two years after an increase of 1.5% in 2015. Germany remains among Europe's fastest expanding economies with predicted growth rates of 2.2% and 2.3% respectively for 2016 and 2017.

In contrast, while low commodity prices and structural problems continue to hamper the economic development of emerging markets, the IfW believes these markets will gradually pick up. Gross domestic product in China is expected to increase at a slightly lower rate than in the previous year, rising by 6.5% in 2016 and 6.3% in 2017.

In addition to global economic momentum, the business performance of laser technology specialist LPKF AG is impacted by developments in the automotive and electronics sectors with a focus on the consumer electronics, solar and plastics processing industries.

The VDMA does not expect any real growth in 2016.

Although the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, or VDMA) does not expect any real growth in 2016, nominal production volumes could pass the EUR 200 billion mark for the first time. The VDMA cites global trouble spots and domestic investment restraint as reasons for this moderate increase.

During the current financial year 2016, the German Automotive Industry Association (Verband der Automobilindustrie – VDA) expects the passenger car market to face increasing challenges as a result of the global economy's continuing relatively weak performance combined with global crises such as those in the Middle East or Ukraine. Assuming conditions do not deteriorate further, the automotive market is nonetheless expected to grow by around 2% to more than 78.1 million units in 2016 according to VDA estimates, with only moderate growth of between 1% and 2% forecast for the three major automotive markets – Western Europe, USA and China.

GTM Research also anticipates further growth in the solar industry in 2016, with installed capacity expected to increase by 64 gigawatts (GW) or 20% to 321 GW. As in previous years, China and the USA will provide the market with significant momentum. Experts believe that India will establish itself as a photovoltaics market. A modest recovery with 2 GW of added capacity is expected in Germany. GTM Research also anticipates that growth will continue in the coming years, creating almost 800 GW of installed capacity by 2020.

According to the International Data Corporation (IDC), sales growth rates for smartphones will continue to fall in the coming years to an average of 7.4% annually. The volume of the smartphone market is expected to reach 1.86 billion by 2019. According to forecasts from research company Gartner, the global PC market – including tablets, laptops, desktop PCs and smartphones – will grow by around 1.9% in 2016. While Gartner believes smartphones will continue to drive growth in the global market, it expects PC sales to fall by around 1% in 2016, with a slight recovery only predicted from 2017 onwards. Overall, Gartner anticipates that around 2 billion mobile devices and 287 million PCs will be sold in 2016. As growth rates drop in developed countries, they are continuing to rise in emerging markets. This also correlates with the trend towards simpler, cheaper mobile devices highlighted by Gartner.

The VDMA believes the plastics processing industry will continue to grow until 2017. Although moderate growth of 1.5% and 2% is expected in Europe and Germany respectively, forecasts suggest that this market will expand by 3.2% globally.

7.1.2 Group performance

Economic research institutes forecast a subdued positive trend for 2016 and the following years, characterized by regional differences, potential crises and increasing uncertainty as regards further economic development. A mixed picture emerges for the future business performance of the international LPKF Group against a highly diversified backdrop with a total of eight product groups.

The Company anticipates above-average growth in the Welding Equipment and Solar Module Equipment product groups, with the cutting systems and PCB drilling business (PCB Production Equipment) also expected to expand considerably.

LPKF expects Electronics Development Equipment segment to grow at an average rate. The Group does not envisage growth in the LDS and Stencil Equipment businesses.

LPKF AG expects new product groups to provide fresh stimulus for growth over the next years.

LPKF AG expects the new Through Glass Via (TGV) and Laser Transfer Printing (LTP) product groups being introduced to the market during the current financial year to provide fresh stimulus for growth over the next years. TGV technology can be used to drill holes in glass for interposers produced by chip manufacturers, for example. LTP offers a new alternative to widespread screen printing and will be used for the digital printing of pastes.

7.1.3 Significant indicators

Revenue and EBIT: Revenue in financial year 2015 reached EUR 87.3 million and thus came in 27% below the prior-year figure. The EBIT margin of –4.3% also was lower than in the previous year (+10.6%). The operating result (EBIT) fell by EUR 16.4 million to EUR –3.7 million. This included restructuring expenses in the amount of EUR 1.1 million.

On the whole, the Management Board expects the LPKF Group to continue to generate revenue of EUR 100 to EUR 120 million for 2016, assuming stable performance by the global economy. The EBIT margin is expected to be in the single-digit percentage range. This results in planning for EBIT in 2016 between EUR 1 million and EUR 11 million. The Group will focus on providing a foundation for positive business performance through R&D, while efficiency improvements and cost control will continue to play a key role across the entire Group.

The net working capital ratio is expected to fall back to below 35%, which corresponds to net working capital of less than EUR 42 million for the forecast period. This would represent a moderate year-on-year increase. Regarding the error rate, LPKF again expects a slight improvement.

From 2017, LPKF will once again aim for targets of average annual revenue growth of at least 10% and a double-digit EBIT margin.

VIII. RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Garbsen, Germany, 22 March 2016

Dr. Ingo Bretthauer   Bernd Lange   Kai Bentz   Dr.-Ing. Christian Bieniek

CONSOLIDATED FINANCIAL STATEMENTS 2015

LPKF LASER & ELECTRONICS AG

CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2015 FINANCIAL YEAR IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

CONSOLIDATED NOTES 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2015

Assets EUR thsd.	Note	31 Dec. 2015	31 Dec. 2014
Non-current assets			
Intangible assets	10		
Goodwill		74	74
Development costs		11,473	6,643
Other intangible assets		1,991	1,830
		13,538	**8,547**
Property, plant and equipment	10		
Land, similar rights and buildings		39,654	37,026
Plant and machinery		4,885	3,841
Other equipment, operating and office equipment		6,137	6,168
Advances paid and construction in progress		13	1,945
		50,689	**48,980**
Receivables and other assets			
Trade receivables	12	257	68
Income tax receivables	13	46	91
Other assets	13	153	74
		456	**233**
Deferred taxes	15	2,899	2,565
		67,582	**60,325**
Current assets			
Inventories	11		
(System) parts		15,658	16,987
Work in progress		2,843	3,791
Finished products and goods		11,839	11,102
Advances paid		752	359
		31,092	**32,239**
Receivables and other assets			
Trade receivables	12	13,593	25,659
Income tax receivables	13	236	2,082
Other assets	13	2,522	1,896
		16,351	**29,637**
Cash and cash equivalents	14	3,795	6,021
		51,238	**67,897**
		118,820	**128,222**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2015

Equity and liabilities EUR thsd.	Note	31 Dec. 2015	31 Dec. 2014
Equity			
Subscribed capital	16	22,270	22,270
Capital reserves		1,489	1,489
Other retained earnings		10,933	10,945
Reserve for cash flow hedges		0	–17
Share-based payment reserve		490	490
Currency translation		1,945	858
Net retained profits		26,374	32,527
		63,501	**68,562**
Non-current liabilities			
Provisions for pensions and similar obligations	17	352	276
Other provisions	18	52	83
Non-current liabilities to banks	19	25,480	16,099
Deferred income from grants	3	732	787
Deferred taxes	15	488	2,020
		27,104	**19,265**
Current liabilities			
Tax provisions	18	374	657
Other provisions	18	2,954	4,488
Current liabilities to banks	19	15,627	20,126
Trade payables	19	2,278	4,829
Other liabilities	19	6,982	10,295
		28,215	**40,395**
		118,820	**128,222**

CONSOLIDATED INCOME STATEMENT FROM 1 JANUARY TO 31 DECEMBER 2015

EUR thsd.	Note	2015	2014
Revenue	1	87,255	119,749
Changes in inventories of finished goods and work in progress		–181	1,444
Other own work capitalized	2	6,914	5,338
Other operating income	3	7,127	4,139
		101,115	**130,670**
Cost of materials	4	24,896	38,037
Staff costs	5	43,697	43,412
Depreciation and amortization and impairment losses	6	7,152	7,896
Other operating expenses	7	29,087	28,652
Operating result		**–3,717**	**12,673**
Finance income	8	25	19
Finance costs	8	705	769
Earnings before tax		**–4,397**	**11,923**
Income taxes	9	–916	3,407
Consolidated net loss (previous year: consolidated net profit)		**–3,481**	**8,516**
Earnings per share (basic)	21	EUR –0.16	EUR 0.38
Earnings per share (diluted)	21	EUR –0.16	EUR 0.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY TO 31 DECEMBER 2015

EUR thsd.	Note	2015	2014
Consolidated net profit		**–3,481**	**8,516**
Revaluations (mainly actuarial gains and losses)		–6	–231
Deferred taxes		–6	61
Sum total of changes which will not be reclassified to the income statement in the future		**–12**	**–170**
Gains and losses on the market valuation of available-for-sale financial assets that were reclassified to the income statement		0	–5
Fair value changes from cash flow hedges		0	54
Fair value changes from cash flows reclassified to the income statement		17	0
Currency translation		1,087	1,684
Deferred taxes		0	–15
Sum total of changes which will be reclassified to the income statement in the future if certain conditions are met		**1,104**	**1,718**
Other comprehensive income after taxes		**1,092**	**1,548**
Total comprehensive income		**–2,389**	**10,064**

CONSOLIDATED STATEMENT OF CASH FLOWS FROM 1 JANUARY TO 31 DECEMBER 2015

EUR thsd.	Note	2015	2014
Operating activities			
Consolidated net profit		–3,481	8,516
Income taxes		–916	3,407
Interest expense		705	769
Interest income		–25	–19
Depreciation/amortization/impairment losses		7,152	7,896
Gains/losses from the disposal of non-current assets including reclassification to current assets		135	172
Changes in inventories, receivables and other assets		13,332	–15,138
Changes in provisions		–1,115	–1,218
Changes in liabilities and other equity and liabilities		–5,735	3,129
Other non-cash expenses and income		138	–97
Interest received		19	12
Income taxes paid		–101	–5,644
Cash flows from operating activities		**10,108**	**1,785**
Investing activities			
Investments in intangible assets		–7,790	–5,172
Investments in property, plant and equipment		–5,938	–9,819
Proceeds from disposal of financial instruments		0	269
Proceeds from disposal of non-current assets		24	64
Cash flows from investing activities		**–13,704**	**–14,658**
Cash flows from financing activities			
Dividend payment		–2,672	–5,567
Interest paid		–705	–769
Proceeds from borrowings		13,600	18,400
Cash repayments of borrowings		–13,392	–5,979
Cash flows from financing activities		**–3,169**	**6,085**
Change in cash and cash equivalents			
Change in cash and cash equivalents due to changes in foreign exchange rates		–134	250
Change in cash and cash equivalents		–6,765	–6,788
Cash and cash equivalents on 1 Jan.		**5,982**	**12,520**
Cash and cash equivalents on 31 Dec.		**–917**	**5,982**
Composition of cash and cash equivalents			
Cash and cash equivalents		3,795	6,021
Overdrafts		–4,712	–39
Cash and cash equivalents on 31 Dec.	20	**–917**	**5,982**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF 31 DECEMBER 2015

EUR thsd.	Subscribed capital	Capital reserve	Other retained earnings
Balance as of 1 Jan. 2015	22,270	1,489	10,945
Consolidated total comprehensive income			
Consolidated net profit	0	0	0
Reclassification of cash flow hedge to the income statement	0	0	0
Revaluations (mainly actuarial gains and losses) actuarial gains and losses	0	0	–6
Deferred taxes on changes recognized directly in equity	0	0	–6
Currency translation differences	0	0	0
Consolidated total comprehensive income	**0**	**0**	**–12**
Transactions with owners			
Distributions to owners	0	0	0
Balance as of 31 Dec. 2015	**22,270**	**1,489**	**10,933**

EUR thsd.	Subscribed capital	Capital reserve	Other retained earnings
Balance as of 1 Jan. 2014	22,270	1,489	11,115
Consolidated total comprehensive income			
Consolidated net profit	0	0	0
Change from measurement of cash flow hedge	0	0	0
Change from market valuation of securities	0	0	0
Revaluations (mainly actuarial gains and losses) actuarial gains and losses	0	0	–231
Deferred taxes on changes recognized directly in equity	0	0	61
Currency translation differences	0	0	0
Consolidated total comprehensive income	**0**	**0**	**–170**
Transactions with owners			
Distributions to owners	0	0	0
Balance as of 31 Dec. 2014	**22,270**	**1,489**	**10,945**

Cash flow hedge reserve	Revaluation reserve	Share-based payment reserve	Currency translation reserve	Net retained profits	Total equity
–17	0	490	858	32,528	68,563
0	0	0	0	–3,481	–3,481
17	0	0	0	0	17
0	0	0	0	0	–6
0	0	0	0	0	–6
0	0	0	1,087	0	1,087
0	**0**	**0**	**1,087**	**–3,481**	**–2,389**
0	0	0	0	–2,672	–2,672
0	**0**	**490**	**1,945**	**26,375**	**63,502**

Cash flow hedge reserve	Revaluation reserve	Share-based payment reserve	Currency translation reserve	Net retained profits	Total equity
–55	4	490	–826	29,579	64,066
0	0	0	0	8,516	8,516
54	0	0	0	0	54
0	–5	0	0	0	–5
0	0	0	0	0	–231
–16	1	0	0	0	46
0	0	0	1,684	0	1,684
38	**–4**	**0**	**1,684**	**8,516**	**10,064**
0	0	0	0	–5,567	–5,567
–17	**0**	**490**	**858**	**32,528**	**68,563**

CONSOLIDATED NOTES 2015

LPKF LASER & ELECTRONICS AG

A. BASIC INFORMATION

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

The Company is a stock corporation which was established and is headquartered in Germany. Its registered seat is at:

Osteriede 7
30827 Garbsen

These consolidated financial statements were approved for publication by the Management Board on 22 March 2016.

B. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of LPKF Laser & Electronics AG, Garbsen, have been prepared using uniform accounting policies. They take into account all International Financial Reporting Standards (IFRS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable on the reporting date and in the EU.

The consolidated financial statements are prepared on the basis of historical cost, limited by the market valuation of available-for-sale financial assets as well as by the measurement of financial assets and financial liabilities (including derivatives) at fair value through profit and loss. Customer-specific construction contracts are recognized using the percentage-of-completion method (POC method). According to this method, pro rata revenue and cost of sales are reported in accordance with the stage of completion based on the contract revenue stipulated with the given customer and the expected contract costs. The stage of completion is generally determined based on the percentage of contract costs incurred as of the reporting date relative to total expected contract costs (cost-to-cost method). Orders are shown under trade receivables or, if there is an impending risk of loss, under trade payables. The portion of advances that exceeds accumulated services is recognized under other liabilities.

The financial year corresponds to the calendar year. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (EUR thousand).

The following standards that were amended, revised or issued prior to the reporting date were applied in the 2015 financial year:

Standard/interpretation		Effective date	Adopted by the EU commission[1]	Effects
IFRS 1, IFRS 3, IFRS 13, IAS 40	Annual Improvements Cycle 2011 – 2013	01 Jan. 2015	19 Dec. 2014	None

1 Balance as of 31 December 2015

Initial application of these pronouncements and amendments did not have any material effects on the current or previous presentation of the Group's net assets, financial position and results of operations.

The following standards that were amended, revised or issued prior to the reporting date were not applied in the 2015 financial year:

Standard/interpretation		Effective date	Adopted by the EU commission[1]
IAS 16 IAS 41	Amendments to IAS 16 and IAS 41 – Bearer Plants	01 Jan. 2016	23 Nov. 2015
IFRS 11	Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations	01 Jan. 2016	24 Nov. 2015
IAS 19	Amendments to IAS 19 – Employee Contributions	01 Jan. 2016	17 Dec. 2014
IAS 16 IAS 38	Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization	01 Jan. 2016	02 Dec. 2015
Various standards	Annual Improvements to International Financial Reporting Standards (2012 – 2014 Cycle)	01 Jan. 2016	15 Dec. 2015
Various standards	Annual Improvements to International Financial Reporting Standards (2010 – 2012 Cycle)	01 Jan. 2016	09 Jan. 2015
IAS 1	Amendments to IAS 1 – Disclosures in the Notes	01 Jan. 2016	18 Dec. 2015
IAS 27	Amendments to IAS 27 – Equity Method in Separate Financial Statements	01 Jan. 2016	18 Dec. 2015
IFRS 9	Financial Instruments (July 2014)	01 Jan. 2018	Not yet adopted
IFRS 15	Revenue from Contracts with Customers	01 Jan. 2018	Not yet adopted
IFRS 16	Leases	01 Jan. 2019	Not yet adopted

1 Balance as of 31 December 2015

IFRS 15 establishes a comprehensive framework for determining if, in what amount and when revenue is recognized. It replaces existing guidance for recognition of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IAS 15 is effective for annual periods beginning on or after 1 January 2018; early application is permitted. The Group is currently reviewing which potential effects the application of IFRS 15 could have on its consolidated financial statements.

The effects that the other standards and interpretations mentioned have on the LPKF Group are currently being reviewed. Early application is not planned.

BASIS OF CONSOLIDATION

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

Name	Registered seat	Equity interest (Previous year) %	Equity EUR thsd.	Result for the financial year ended EUR thsd.
Fully consolidated				
LaserMicronics GmbH	Garbsen/ Germany	100.0 (100.0)	1,917.2	417.9
LPKF SolarQuipment GmbH	Suhl/Germany	100.0 (100.0)	7,194.9	0.0
LPKF WeldingQuipment GmbH	Fürth/ Germany	100.0 (100.0)	286.9	301.2
LPKF Laser & Electronics d.o.o.	Naklo/Slovenia	100.0 (100.0)	9,478.1	1,075.3
LPKF Distribution Inc.	Tualatin (Portland)/USA	100.0 (100.0)	3,954.5	437.3
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0 (100.0)	12,924.8	1,102.3
LPKF Laser & Electronics Trading (Shanghai) Co. Ltd.	Shanghai/ China	100.0 (100.0)	40.1	–5.7
LPKF Laser & Electronics (Hong Kong) Ltd.	Hong Kong/ China	100.0 (100.0)	2,102.7	358.6
LPKF Laser & Electronics K.K.	Tokyo/Japan	100.0 (100.0)	–1,547.7	–156.9
LPKF Laser & Electronics Korea Ltd.	Seoul/Korea	100.0 (100.0)	–197.8	82.4

The equity and earnings figures for the financial year just ended concern the financial statements as of 31 December 2015 and represent the balances pursuant to the local financial statements prior to reconciliation for purposes of groupwide recognition and measurement.

The legal structure of the LPKF Group did not change in the 2015 financial year.

The parent company leased the Welding Equipment segment to LPKF WeldingQuipment GmbH as part of a leasing of operations. With the authorization of the Annual General Meeting on 28 May 2015, a profit transfer agreement with a five-year term effective retrospectively at the beginning of 2015 is in place between LPKF Laser & Electronics AG and LPKF SolarQuipment GmbH.

As of 31 December 2015, LPKF AG had ten subsidiaries, which together with the parent company form the basis of consolidation.

C. CONSOLIDATION PRINCIPLES

The consolidated financial statements are based on the financial statements as of 31 December 2015 of the companies included in the consolidated financial statements, which were prepared in accordance with uniform accounting policies.

Subsidiaries include all entities that are controlled by the Group (more precisely: LPKF AG). LPKF AG controls an investee when it has power over the investee, risk exposure or rights to variable returns arise from its investment in the investee and LPKF AG has the ability to use its power over the investee such that this affects the amount of the investee's variable returns. Consolidation of an investee begins on the day on which LPKF AG gains control over the entity. It ends when LPKF AG loses control over the investee.

Subsidiaries acquired are accounted for using the purchase method. The acquisition costs correspond to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the acquisition date.

Assets, liabilities and contingent liabilities identifiably in connection with a business combination are remeasured upon initial consolidation, irrespective of the scope of the non-controlling interests. The excess of the cost of the acquisition over the Group's interest in the fair value of the net assets acquired is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

Intra-Group transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated. Deferred taxes are recognized on consolidation measures reported in the income statement.

The accounting policies used by subsidiaries were adjusted as necessary to the Group's uniform accounting policies.

If the Group loses either its control or significant influence over an entity, its remaining equity interest is remeasured at fair value and the resulting difference is recognized in profit or loss. The fair value of an associate, joint venture or financial asset is the fair value determined upon initial recognition. In addition, the treatment of any amounts shown in other comprehensive income relating to this entity is analogous to the treatment of transactions by the parent company directly disposing of the respective assets and liabilities. This means that any gain or loss previously shown in other comprehensive income must be reclassified from equity to profit or loss.

D. CURRENCY TRANSLATION

Annual financial statements are prepared in the functional currency of each entity; it is defined as the currency of the economic environment in which the entity mainly operates. The functional currency of subsidiaries is the same as the currency of the country in which the subsidiary is domiciled.

If the annual financial statements of a subsidiary are prepared in a functional currency other than the euro, the assets and liabilities are translated into euros at an average exchange rate at the reporting date and equity is translated at the historical exchange rate. Expenses and income were translated at the average annual exchange rate. The translation differences are recognized directly in equity as a currency translation reserve until the subsidiary is disposed of.

The exchange rates of the material currencies that were applied in the preparation of these consolidated financial statements are listed below:

	Closing rate		Average exchange rate	
EUR 1 = currency x	31 Dec. 2015	31 Dec. 2014	2015	2014
US dollar	USD 1.0887	USD 1.2141	USD 1.1096	USD 1.3094
Chinese renminbi yuan	CNY 7.0608	CNY 7.5358	CNY 6.9730	CNY 8.0893
Hong Kong dollar	HKD 8.4376	HKD 9.417	HKD 8.6023	HKD 10.3052
Japanese yen	JPY 131.07	JPY 145.23	JPY 134.29	JPY 140.38
South Korean won	KRW 1,280.78	KRW 1,324.80	KRW 1,255.74	KRW 1,399.03

E. CRITICAL ACCOUNTING AND MEASUREMENT ESTIMATES AND ASSUMPTIONS

All estimates and assessments are continuously updated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes assessments and assumptions that concern the future. Estimates based on these assessments and assumptions often do not correspond to actual facts in the future. The estimates and assumptions associated with a significant risk of triggering material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed in the following.

(a) Estimated impairment of goodwill

In accordance with the accounting policy described in note 10.1, the Group tests goodwill for impairment annually and whenever there is a concrete indication of possible impairment. The recoverable amount of cash generating units (CGUs) was determined based on a calculation of their value in use. These calculations must be based on assumptions made by the management on 31 December 2015.

(b) Intangible assets and property, plant and equipment

Material assumptions and estimates refer to determining the useful lives and the recoverable residual values of intangible assets and items of property, plant and equipment. More details regarding useful lives and residual values are presented under note 10, “Non-current assets” in chapter H. “Consolidated statement of financial position”.

(c) Provisions

Accounting for provisions involves making assumptions regarding probability, maturity and risk level. Actuarial calculations are used to determine the obligation from defined-benefit pension commitments and termination benefits paid to employees as well as the obligation from a long-term bonus program launched for the first time in 2012. The amount of the pension provisions is essentially dependent on the life expectancies on which it is based, and the choice of discount rate which is redetermined every year. The discount rate is based on the interest rate paid on high-quality corporate bonds in that currency in which the benefits are paid and whose maturities correspond to the pension obligations. Key parameters in the calculation of provisions for anniversary payments and termination benefits are employee turnover and the salary growth factor. Detailed information is provided in note 17 describing pension provisions. An option pricing model is used to calculate the value of the obligation arising from the long-term bonus program settled in cash due to the influence exerted by LPKF’s share price. Another material factor is the performance of the EBIT margin, which is derived from the Group’s planning. Detailed information is provided in note 18 describing other provisions.

(d) Income taxes

The Group is subject to income tax payments in various countries. Material assumptions are therefore required to determine income tax provisions on a global scale.

There are numerous business transactions and calculations for which the ultimate level of taxation cannot be finally determined during the course of normal business activities. The Company determines the amount of the provisions for expected tax audits based on best estimates of whether and to what extent additional income taxes may become payable. If the final level of taxation of these business transactions deviates from the initial assumptions, this will have an impact on the actual taxes and deferred taxes in the period in which taxation is finally determined.

Deferred tax assets are recognized at the amount at which it is probable that future tax benefits will be realized. The assessment of recoverability is based on five-year planning, probable performance as well as taxable temporary differences. The actual extent to which earnings in future periods must be taxed, and thus the actual extent to which the tax benefits will be usable, may deviate from the assessment at the time the deferred tax assets are recognized.

(e) Fair value of derivative and other financial instruments

The fair value of financial instruments not traded on an active market is determined by applying suitable valuation techniques selected from a large number of methods. The assumptions applied in this context are largely based on the market conditions existing on the reporting date.

(f) Accounting changes

No accounting changes were made in these financial statements.

F. SEGMENT REPORTING

In accordance with the provisions of IFRS 8 Operating Segments, selected information in the annual financial statements is presented by operating segment and region, with segmentation being based on internal reporting to the chief operating decision maker. The chief operating decision maker is responsible for determining the allocation of resources to segments and reviewing their performance. The Management Board of LPKF AG has been defined as the Group's chief operating decision maker. Segment reporting aims to lend greater transparency to both the performance and potential of the Group's individual activities.

Primary segment reporting is based on the following segments:

- → Electronics Development Equipment involves the enhancement, production and marketing of circuit board plotters and ProtoLasers for the world market.
- → The Electronics Production Equipment segment comprises three product lines: LDS, Stencil-Lasers and PCB Production lasers.
- → In the Other Production Equipment segment, LPKF develops and sells laser systems for welding plastic components as well as laser systems for structuring thin film solar cells.
- → The Other Segments contain some expense and income items as well as assets and liabilities which cannot be assigned to any of the other operating segments.

There is no intersegment revenue. The existing goodwill (EUR 74 thousand) is allocated to the Other Production Equipment segment.

The segment information was determined as follows:

→ The segment result (EBIT) is determined taking into account impairment of goodwill, but without taking into account the financial result and taxes.
→ The investments and depreciation and amortization including impairment losses refer to property, plant and equipment and intangible assets including goodwill.
→ The operating segment assets and liabilities comprise the attributable assets and/or debt required for operational purposes, excluding any interest-bearing claims and liabilities, funds or taxes.
→ The figures reported are those after consolidation.

EUR thsd.		Electronics Production Equipment	Electronics Development Equipment	Other Production Equipment	Other	Total
External revenue	2015	29,934	25,527	30,753	1,041	87,255
	2014	51,260	25,087	42,837	565	119,749
Operating profit (EBIT)	2015	–5,759	3,359	–217	–1,100	–3,717
	2014	9,360	2,716	1,777	–1,180	12,673
Assets	2015	41,104	17,416	27,535	32,765	118,820
	2014	40,754	19,947	34,589	32,932	128,222
Liabilities	2015	3,425	3,083	10,614	38,197	55,319
	2014	4,946	3,456	18,454	32,804	59,660
Capital expenditures	2015	5,573	1,765	5,913	476	13,727
	2014	6,076	1,735	4,561	2,619	14,991
Depreciation/amortization/ impairment losses	2015	3,238	1,995	1,808	111	7,152
	2014	4,073	2,515	1,066	242	7,896
Other non-cash expenses	2015	304	244	152	93	793
	2014	557	255	555	219	1,586

GEOGRAPHICAL SEGMENTS:

Reporting reflects the four main geographical regions in which the Group is active.

EUR thsd.		Germany	Other Europe	North America	Asia	Other	Total
External revenue	2015	12,626	17,277	18,953	35,626	2,773	87,255
	2014	12,201	14,928	25,611	63,449	3,560	119,749
Assets	2015	89,392	5,803	7,722	15,903	0	118,820
	2014	97,660	8,019	11,161	11,382	0	128,222
Capital expenditures	2015	12,941	555	192	39	0	13,727
	2014	14,445	318	16	212	0	14,991

G. CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue is recognized when the service has been rendered or the goods and products have been delivered.

Revenue of EUR 87,255 thousand includes no contract revenue (previous year: EUR 3,883 thousand) that was determined using the POC method in accordance with IAS 11. The POC method is applied if the total revenue, the total costs and the degree of completion of a construction contract can be reliably determined. The revenue to be recognized is determined based on the ratio of the costs incurred as of the reporting date relative to the estimated total costs. If the total costs are likely to exceed revenue, the expected loss is immediately recognized in its entirety.

No single customer accounted for revenue of more than EUR 10 million in the 2015 reporting year. In the previous year, revenue of EUR 11 million was generated with one customer.

In addition to the sale of goods, there are no other significant categories of revenue in accordance with IAS 18.35.

2. OTHER OWN WORK CAPITALIZED

Own work capitalized by the Group concerned non-current assets amounted to EUR 6,914 thousand (previous year: EUR 5,338 thousand). This comprises own work for plant and machinery used by Group companies for production as well as prototype development projects capitalized during 2015 which are intended for permanent use in Group operations. Research costs are immediately expensed when they are incurred. Costs incurred in the context of development projects (in connection with the design and test runs of new or improved products) are recognized as intangible assets if the criteria of IAS 38.57 are met. Other development costs which do not meet these criteria are expensed on an accrual basis. Previously expensed development costs are not recognized as assets in subsequent reporting periods. Development costs recognized as intangible assets are amortized on a straight-line basis over their useful lives – up to a maximum of three years – from the time they become usable.

3. OTHER OPERATING INCOME

EUR thsd.	2015	2014
Income from insurance payments	2,961	154
Income from currency translation differences	1,718	1,040
Income from the reversal of provisions	899	136
Research and development grants	309	435
Income from the reversal of write-downs	224	79
Reversal of deferred item income from grants	66	56
Income from the disposal of non-current assets	26	41
Miscellaneous	924	2,198
	7,127	**4,139**

Income from insurance payments mainly resulted from compensation for the loss suffered by the fire in Garbsen.

The miscellaneous other operating income in 2015 includes EUR 0.1 million (previous year: EUR 1.2 million) from the use of warranty provisions.

Research and development grants are recognized in accordance with IAS 20 and exclusively concern government grants – in some cases with the involvement of private project companies. They are granted for costs actually incurred in connection with a specific purpose during the financial year (expenditure grant). Payments are made in line with project progress.

Grants received for capitalized development costs and other assets which have been recognized as deferred income are reversed on an accrual basis in accordance with the useful life of the associated capitalized development costs and other assets. The same accounting procedure applies to a grant for building costs in Suhl totaling EUR 413 thousand from previous years, and grants and investment subsidies for the new office building, also in Suhl, in the amount of EUR 530 thousand. Both are reversed on an accrual basis through the item deferred income from grants.

4. COST OF MATERIALS

EUR thsd.	2015	2014
Cost of (system) parts and purchased goods	24,362	37,582
Cost of purchased services	534	455
	24,896	**38,037**

5. STAFF COSTS AND EMPLOYEES

EUR thsd.	2015	2014
Wages and salaries		
Expenses for wages	36,299	36,276
Other	808	855
	37,107	**37,131**
Social security costs and pension costs		
Employer's contribution to social security	6,137	5,879
Pension costs	227	175
Employer's liability insurance association	226	227
	6,590	**6,281**
	43,697	**43,412**

The item, social security costs and pension costs, includes contributions of EUR 2,328 thousand (previous year: EUR 2,348 thousand) to Germany's statutory pension scheme. There were ongoing pension payments of EUR 17 thousand (previous year: EUR 17 thousand) arising from pension obligations in financial year 2015 (also see note 17).

The number of employees was as follows:

	as of the reporting date		annual average	
	31.12.2015	31.12.2014	2015	2014[1]
Production	168	190	182	187
Sales	148	142	152	141
Development	179	171	174	170
Services	108	117	107	114
Administration	175	175	174	173
	778	**795**	**789**	**784**

1 There was a shift in the average annual employee figure for the previous year due to a realignment of functions in 2015 from production to administration. To facilitate comparability, the previous year's figures were adjusted.

6. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

Depreciation, amortization and impairment losses on non-current assets are shown in the statement of changes in non-current assets (note 10). An impairment loss of EUR 308 thousand was recognized on capitalized development costs in the reporting year (previous year: EUR 304 thousand).

7. OTHER OPERATING EXPENSES

EUR thsd.	2015	2014
Travel, meals/entertainment	3,455	3,933
Repairs, maintenance, operating materials	3,282	1,856
Advertising and sales expenses	3,191	3,643
Consumables, development and purchased development services	2,766	2,300
Rent, ancillary rental costs, leases, land and building costs	2,432	2,211
Third-party work	2,211	2,754
Exchange rate losses	1,619	918
Legal and consulting costs	1,439	1,797
Trade fair costs	997	917
Voluntary benefits, training and further education	926	1,103
Sales commissions	865	1,161
Insurance, contributions, duties	834	775
Vehicle costs	761	823
Telephone, postage, telefax	744	732
Expenses for warranties	564	800
Addition to allowance on receivables and bad debts	507	356
Investor relations	434	452
Financial statements preparation, publication, auditing costs	284	240
Supervisory Board remuneration incl. reimbursement of expenses	274	244
Bank charges	250	275
Office supplies, books, software	240	255
Miscellaneous	1,012	1,107
	29,087	**28,652**

The expenses for repair, maintenance and operating materials, which increased year on year, include expenses incurred in connection with the loss suffered by the fire at the Garbsen site.

In 2015, total research and development costs or the effect on profit or loss were EUR 9,870 thousand (previous year: EUR 11,093 thousand). Besides EUR 5,339 thousand for materials and other costs (previous year: EUR 3,766 thousand), they also contain EUR 4,531 thousand (previous year: EUR 7,327 thousand) in additional costs for staff as well as depreciation, amortization and impairment losses, among other things.

8. FINANCIAL RESULT

EUR thsd.	2015	2014
Finance income		
Other interest and similar income	25	19
Finance costs		
Interest and similar expenses	–705	–769
	–680	**–750**

The other interest income arose from overnight and time deposits totaling EUR 19 thousand (previous year: EUR 5 thousand). At EUR 684 thousand (previous year: EUR 745 thousand), the other interest expense was incurred in connection with long-term loans as well as short-term money market loans.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

9. INCOME TAXES

Actual and deferred taxes are reported in the income statement as tax expense or tax income unless they affect items recognized directly in equity. In this case, the taxes are recognized directly in equity.

EUR thsd.	2015	2014
Corporate income tax and solidarity surcharge	775	2,143
Trade tax	151	965
	926	**3,108**
Of which related to prior period	26	–43
Deferred taxes	–1,842	299
	–916	**3,407**

The German entities of the LPKF Group are subject to trade tax of 15.1% or 15.4%, depending on the applicable trade tax assessment rate. As in the previous year, a corporate income tax rate of 15.0% plus a solidarity surcharge of 5.5% on corporate income tax applies. Foreign income taxes are calculated on the basis of the laws and regulations applicable in the individual countries. The income tax rates applicable to the foreign entities vary between 16.5% and 40.0%.

The corporate tax rates applicable in the respective countries were used to calculate the deferred tax assets and tax liabilities in connection with the preparation of the consolidated financial statements.

Reconciliation of estimated and actual tax expense:

EUR thsd.	2015	2014
Consolidated net profit before income taxes	–4,397	11,923
Anticipated tax expense 30.0% (previous year: 30.0%)	–1,319	3,577
Effect of different tax rates	–169	–176
Effects on legal tax rate changes	0	23
Effect of unrecognized deferred tax assets	128	0
Effect of remeasurement of deferred tax assets	503	0
Tax-free income	–200	–189
Trade tax additions and deductions	29	39
Tax effect of non-deductible operating expenses	121	141
Prior-period tax effects	26	–43
Other differences	–35	35
Effective tax expense 20.8% (previous year: 28.6%)	**–916**	**3,407**

The tax rate applied for the reconciliation for 2015 and 2014 presented above corresponds to the corporate tax rate of 30% that is to be paid on taxable profits by the Company in Germany in accordance with German tax law.

The effect from unrecognized deferred tax assets results from the non-recognition of deferred tax assets on tax loss carryforwards and temporary differences of one entity that has a history of losses.

H. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

10. FIXED ASSETS

The following statement of changes in non-current assets shows the changes in the individual categories:

FIXED ASSETS 2015

EUR thsd.	Cost					
	Balance on 01 Jan. 2015	Currency differences	Addition	Reclassification	Disposal	Balance on 31 Dec. 2015
Intangible assets						
Goodwill	74	0	0	0	0	74
Development costs	24,901	0	6,178	0	0	31,079
Other intangible assets	8,957	2	1,611	0	224	10,346
	33,932	**2**	**7,789**	**0**	**224**	**41,499**
Property, plant, and equipment						
Land, similar rights and buildings	44,021	258	2,218	1,553	0	48,050
Plant and machinery	9,634	88	1,793	530	580	11,465
Other equipment, operating and office equipment	13,330	115	1,779	– 3	1,593	13,628
Advances paid and construction in progress	1,945	0	148	– 2,080	0	13
	68,930	**461**	**5,938**	**0**	**2,173**	**73,156**
	102,862	**463**	**13,727**	**0**	**2,397**	**114,655**

The following table shows the corresponding figures for the previous year:

FIXED ASSETS 2014

EUR thsd.	Cost					
	Balance on 01 Jan. 2014	Currency differences	Addition	Reclassification	Disposal	Balance on 31 Dec. 2014
Intangible assets						
Goodwill	74	0	0	0	0	74
Development costs	20,353	0	4,548	0	0	24,901
Other intangible assets	8,548	1	624	0	216	8,957
	28,975	**1**	**5,172**	**0**	**216**	**33,932**
Property, plant, and equipment						
Land, similar rights and buildings	38,179	269	1,258	4,315	0	44,021
Plant and machinery	8,464	117	1,821	28	796	9,634
Other equipment, operating and office equipment	11,255	132	2,792	7	856	13,330
Advances paid and construction in progress	2,464	0	3,948	– 4,350	117	1,945
	60,362	**518**	**9,819**	**0**	**1,769**	**68,930**
	89,337	**519**	**14,991**	**0**	**1,985**	**102,862**

Depreciation, amortization and impairment losses					Resid. carrying amounts	
Balance on 01 Jan. 2015	Currency differences	Addition	Disposal	Balance on 31 Dec. 2015	Balance on 31 Dec. 2015	Previous year
0	0	0	0	0	74	74
18,258	0	1,348	0	19,606	11,473	6,643
7,127	3	1,449	224	8,355	1,991	1,830
25,385	**3**	**2,797**	**224**	**27,961**	**13,538**	**8,547**
6,995	32	1,369	0	8,396	39,654	37,026
5,793	75	1,279	567	6,580	4,885	3,841
7,162	68	1,706	1,445	7,491	6,137	6,168
0	0	0	0	0	13	1,945
19,950	**175**	**4,354**	**2,012**	**22,467**	**50,689**	**48,980**
45,335	**178**	**7,151**	**2,236**	**50,428**	**64,227**	**57,527**

Depreciation, amortization and impairment losses					Resid. carrying amounts	
Balance on 01 Jan. 2014	Currency differences	Addition	Disposal	Balance on 31 Dec. 2014	Balance on 31 Dec. 2014	Previous year
0	0	0	0	0	74	74
15,918	0	2,340	0	18,258	6,643	4,435
5,464	1	1,810	148	7,127	1,830	3,084
21,382	**1**	**4,150**	**148**	**25,385**	**8,547**	**7,593**
5,751	29	1,215	0	6,995	37,026	32,428
5,326	94	1,097	724	5,793	3,841	3,138
6,433	86	1,434	791	7,162	6,168	4,822
85	0	0	85	0	1,945	2,379
17,595	**209**	**3,746**	**1,600**	**19,950**	**48,980**	**42,767**
38,977	**210**	**7,896**	**1,748**	**45,335**	**57,527**	**50,360**

10.1 Intangible assets

Software

As an intangible asset, purchased software is recognized at cost less straight-line amortization.

Goodwill

As a rule, the goodwill arising from business combinations (capitalized differences arising from acquisition accounting) is assumed to have an unlimited useful life. The carrying amount of the goodwill is compared to the recoverable amount at every reporting date. The goodwill is written down if its carrying amount exceeds its recoverable amount. It is assigned to a cash generating unit for an impairment test. Based on the Other Production Equipment segment, a detailed planning period of five years and an appropriate rate of return on capitalization are applied. Based on this, there was no impairment loss on goodwill in 2015, just as in the previous year.

Development costs

Own capitalized development costs are also reduced over their useful life using straight-line amortization. Borrowing costs are not capitalized. Instead, they are expensed in the period in which they are incurred unless they relate to qualifying assets pursuant to IAS 23. The item is broken down by segment as follows:

EUR thsd.	2015	2014
Electronics Production Equipment	7,783	4,135
Electronics Development Equipment	2,451	2,024
Other Production Equipment	1,239	484
	11,473	**6,643**

Both the residual carrying amounts and the useful lives of the intangible assets are tested for impairment, at a minimum, as of the end of every financial year. Pursuant to IAS 36, intangible assets are written down if the recoverable amount of the respective asset has dropped below its carrying amount. Capitalized development costs not yet available for use are tested for impairment annually. In addition to amortization, impairment losses of EUR 308 thousand were recognized due to model changes in 2015 (previous year: EUR 304 thousand).

Reviews to determine whether write-ups are required for intangible assets written down in the past are conducted as of every reporting date; this does not concern the goodwill. No write-ups were necessary during the reporting year.

Intangible assets subject to amortization are deemed to have the following useful lives:

	Years
Software	3
Development costs	3

10.2 Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated straight-line depreciation. Borrowing costs are not capitalized. Instead, they are expensed in the period in which they are incurred unless they relate to qualifying assets pursuant to IAS 23. Land is not depreciated. The residual carrying amounts and the useful lives of each item of property, plant and equipment are tested for impairment, at a minimum, as of the end of every financial year. Property, plant and equipment is tested for impairment if certain events or changes in circumstances indicate that the given carrying amount may no longer be recoverable.

Property, plant and equipment is written down in accordance with IAS 36 if the recoverable amount of the respective asset has dropped below its carrying amount. The recoverable amount is the higher of its value in use and fair value less costs to sell. Corresponding write-ups are made if the reasons for an earlier write-down no longer apply.

Production costs cover the costs of materials and related overheads as well as the manufacturing costs and related overheads.

They are deemed to have the following useful lives:

	Years
Buildings	33 or 25
External facilities	10
Plant and machinery	3 – 10
Other equipment, operating and office equipment	3 – 10

Bank loans totaling EUR 17,046 thousand (previous year: EUR 18,490 thousand) are secured by land and buildings.

Leases are classified as finance leases when substantially all of the risks and rewards of ownership are transferred to the lessee under the terms of the lease. All of the other leases are classified as operating leases.

At the inception of finance leases, the relevant assets are capitalized at the lower of the fair value of the leased property and the present value of the minimum lease payments and depreciated over their expected useful lives, analogous to the treatment of comparable own assets, or over the term of the contract, whichever is shorter. At this time, no assets have been recognized as finance leases.

11. INVENTORIES

Inventories are recognized at the lower of cost and net realizable value at the reporting date.

The costs of conversion of inventories include costs directly related to the units of production (such as production costs and directly attributable material costs). They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Borrowing costs are not capitalized. Instead, they are expensed in the period in which they are incurred unless they relate to qualifying assets pursuant to IAS 23. Inventories are measured using the weighted average cost formula. Inventories were written down below cost to their net realizable value and scrapped by EUR 185 thousand (previous year: EUR 239 thousand).

Some inventories are subject to customary collateral such as reservations of title.

They are broken down by segment as follows compared to the previous year:

EUR thsd.	2015	2014
Electronics Production Equipment	15,241	15,592
Electronics Development Equipment	9,683	9,314
Other Production Equipment	5,864	7,122
Other	304	211
	31,092	**32,239**

12. TRADE RECEIVABLES

EUR thsd.	2015	2014
Nominal amount of receivables	14,478	26,263
Specific valuation allowances incl. currency losses	–628	–536
Receivables after valuation allowances, discounts and currency losses	**13,850**	**25,727**

Trade receivables are measured at fair value on addition and subsequently at amortized cost using the effective interest rate method less impairment losses. An impairment of trade receivables is recognized if there is objective evidence that a receivable may not be fully recoverable on becoming due. The amount of the impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable, discounted at the effective interest rate. Impairment losses are recognized directly in equity and shown in an impairment loss item under trade receivables. Trade receivables are derecognized upon offsetting against previously recognized impairment losses if they are unrecoverable, e.g. if the given debtor is insolvent. Items recognized in foreign currencies are measured at the average exchange rate as of the reporting date.

In the reporting period, no revenue from construction contracts was recognized applying the percentage of completion method. As of 31 December 2015, one receivable from construction contracts in the amount of EUR 331 thousand was recognized. This amount was paid in early 2016.

The residual carrying amount of the trade receivables is EUR 257 thousand (previous year: EUR 68 thousand) and concerns receivables with remaining maturities of more than one year.

The following table describes the counterparty credit risk from trade receivables and receivables from borrowings and other assets as of 31 December 2015:

Trade receivables and receivables from borrowings and other assets in EUR thsd.	Carrying amount as of 31 Dec.	Of which not impaired and not past due	Not impaired but past due since: less than 30 days	between 30–60 days	between 60–90 days	between 90–360 days	more than 360 days
2015	**15,822**	9,196	4,012	933	508	548	3
2014	**27,052**	21,631	2,476	797	393	908	116

There is no indication that the recoverability of receivables has suffered if they are neither past due nor impaired.

Valuation allowances recognized on trade receivables and borrowings in EUR thsd.	2015	2014
Balance on 1 Jan.	**536**	**318**
+ Additions	502	295
– Reversals (allowances not required)	224	78
– Uses (allowances required)	187	0
+/– Currency differences (foreign currency receivables)	1	1
Balance on 31 Dec.	**628**	**536**

There were no proceeds from derecognized receivables in the 2015 financial year (previous year: EUR 34 thousand).

13. OTHER ASSETS AND INCOME TAX RECEIVABLES

With the exception of derivatives, the other assets and current tax receivables are measured at cost. Derivatives are measured at their fair value, non-current tax receivables at the present value of the future rights to reimbursement.

EUR thsd.	2015	2014
Input tax receivables	666	686
Income tax receivables	282	2,173
Prepaid expenses	703	645
Miscellaneous	1,306	639
Total	**2,957**	**4,143**

Rights to reimbursement of corporate income and trade taxes are reported in tax receivables. Corporate income tax receivables with a remaining maturity of more than one year amount to EUR 46 thousand (previous year: EUR 91 thousand).

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand of EUR 5 thousand (previous year: EUR 5 thousand) and bank balances of EUR 3,790 thousand (previous year: EUR 6,016 thousand); they are reported at their nominal value. Cash and cash equivalents in foreign currencies are translated at the respective reporting date exchange rate.

15. DEFERRED TAXES

Deferred taxes are determined using the liability method pursuant to IAS 12. Accordingly, deferred taxes are recognized for all temporary differences between the tax base of the assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax assets are recognized only if it is probable that adequate earnings will be available in future periods to offset the tax benefits. Income tax liabilities are netted against income tax receivables within the same fiscal territory if maturity and type are matched.

The income taxes are calculated in accordance with applicable laws and regulations.

The capitalized deferred tax assets encompass deferred taxes on intercompany profits. The deferred tax liabilities largely concern capitalized development costs. The deferred taxes consist of the following:

Deferred tax assets

EUR thsd.	2015	2014
Tax loss carryforwards	3,666	568
Intangible assets	145	172
Trade receivables	99	–
Provisions	294	322
Other liabilities	0	7
Elimination of intercompany profits and other deductible temporary differences	1,835	1,730
Other	25	1
Netting of deferred tax assets and liabilities	**–3,165**	**–235**
Total	**2,899**	**2,565**

Deferred tax liabilities

EUR thsd.	2015	2014
Capitalized development costs	3,442	1,993
Property, plant and equipment	118	68
Trade receivables	92	194
Other	1	0
Netting of deferred tax assets and liabilities	–3,165	–235
Total	**488**	**2,020**

Within the next twelve months, EUR 2,070 thousand (previous year: EUR 1,885 thousand) in deferred tax assets and EUR 93 thousand (previous year: EUR 194 thousand) in deferred tax liabilities will be realized.

For entities which in the reporting period or in the previous year made a tax loss, deferred tax assets in the amount of EUR 1,709 thousand are recognized because planning assumes the achievement of taxable profits. The amount for subsidiaries' tax losses not yet used and temporary differences for which no deferred tax assets were recognized in the statement of financial position, was EUR 1,786 thousand (previous year: EUR 0 thousand).

No deferred tax liabilities were recognized on EUR 1,199 thousand (previous year: EUR 986 thousand) in temporary differences related to investments in subsidiaries and branches.

EQUITY AND LIABILITIES

16. SUBSCRIBED CAPITAL

Share capital

The Company's share capital amounts to EUR 22,269,588.00. It is fully paid-in and denominated in 22,269,588 no-par bearer shares with an interest in capital of EUR 1.00 per share.

The capital reserves comprise only a capital reserve pursuant to Section 272 (2) no. 1 German Commercial Code.

There is no ban on dividend distributions with respect to net retained profits, since sufficient revenue reserves are available.

Authorized capital

With the resolution adopted by the Annual General Meeting on 5 June 2014, the Management Board is authorized to increase the share capital once or repeatedly until 4 June 2019 with the approval of the Supervisory Board by up to a total of EUR 11,134,794.00 by issuing up to 11,134,794 new no-par value bearer shares in return for contributions in cash or in kind (authorized capital). Shareholders shall generally be granted a subscription right in that connection. However, the Management Board is authorized with the approval of the Supervisory Board to disapply the pre-emptive rights of shareholders

- → to exclude fractional amounts from shareholders' pre-emptive rights;
- → if the new shares are issued in return for cash contributions and the issue price of the new shares is not significantly lower than the stock exchange price of the shares currently listed when the issue price is finally determined. The number of shares issued while thus disapplying shareholders' pre-emptive rights may not exceed a total of 10% of the share capital, neither at the time when this authorization takes effect nor when it is exercised. Other shares that are issued or were sold during the period in which this authorization is in effect while disapplying shareholders' pre-emptive rights in direct or corresponding application of section 186(3) sentence 4 of the Stock Corporation Act (Aktiengesetz, AktG) are to be counted toward this upper limit of 10% of the share capital. Shares that are issued to service option rights and/or conversion rights or conversion obligations from convertible bonds or bonds with warrants or profit participation rights are also to be counted toward this limit if such debt securities or profit participation rights are issued during the period in which this authorization is in effect while disapplying shareholders' pre-emptive rights in corresponding application of section 186(3) sentence 4 AktG;
- → if the capital increase is carried out in return for contributions in kind for the purpose of acquiring entities, business divisions, equity investments, other assets related to an intended acquisition or in connection with mergers or for the purpose of acquiring industrial property rights, including copyrights and know-how or rights to use such rights;
- → if it is necessary to grant subscription rights for new shares to the bearers or creditors of bonds with warrants and convertible bonds or profit participation rights with option rights or conversion rights and/or conversion obligations that were or will be issued by the Company or companies in which the Company holds a direct or indirect majority interest in the volume to which they would be entitled after exercising the option rights or conversion rights or after conversion obligations are fulfilled;
- → if the new shares are issued to individuals who are in an employment relationship with the Company or its affiliated companies. The number of shares issued while disapplying shareholders' pre-emptive rights may not exceed a proportionate interest in the share capital in the total amount of EUR 200,000.00.

In any case, the authorization to disapply shareholders' preemptive rights is limited insofar as after exercising the authorization the sum of shares issued while disapplying shareholders' pre-emptive rights in exchange for contributions in cash or in kind under this authorized capital may not exceed a total of 10% of the share capital, neither at the time that this authorization takes effect nor when it is exercised. The following count toward the aforementioned 10% limit:

→ treasury shares that are sold during the period in which this authorization is in effect while disapplying shareholders' pre-emptive rights, as well as
→ new shares that are to be issued on the basis of convertible bonds or bonds with warrants or profit participation rights issued during the period in which this authorization is in effect while disapplying shareholders' pre-emptive rights.

The Management Board is authorized with the approval of the Supervisory Board to determine the contents of the share rights, the further details of the capital increase, and the terms and conditions under which the shares are issued, in particular the issue price.

The Supervisory Board is authorized to revise the Articles of Association accordingly after utilization of the authorized capital or the expiration of the period for utilizing the authorized capital.

The authorization to increase the share capital was not exercised before the reporting date.

Treasury shares

The Management Board was authorized by resolution of the Annual General Meeting on 1 June 2011, subject to the Supervisory Board's prior approval, to buy back treasury shares until 31 May 2016 corresponding to up to 10% of the Company's share capital either on the date the resolution was adopted or on the date the authorization is exercised, whichever is higher; to use the treasury shares so acquired for all statutory purposes; and, in particular cases, to exclude shareholders' right to tender or subscribe such shares, respectively, in connection with buybacks and subscriptions. This authorization was revoked early.

The Management Board was authorized by resolution of the Annual General Meeting on 28 May 2015, subject to the Supervisory Board's prior approval, to buy back treasury shares until 27 May 2020 corresponding to up to 10% of the Company's share capital either on the date the resolution was adopted or on the date the authorization is exercised, whichever is higher; to use the treasury shares so acquired for all statutory purposes; and, in particular cases, to disapply shareholders' right to tender or subscribe such shares, respectively, in connection with buybacks and subscriptions. This authorization was not utilized as of the reporting date.

17. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The following obligations are recognized for this item in the consolidated financial statements:

a) Post-employment benefits
b) Anniversary payments and benefits similar to pensions

a) Post-employment benefits

Germany has a statutory defined-contribution national pension scheme for employees that pays pensions contingent on income and contributions made. Except for the payment of its contributions to the statutory pension insurance entity, the Company has no other benefit obligations. As part of the Company pension plan and based on a shop agreement, some of the Group's employees have also taken out policies with a private insurer or a benevolent fund. In this case, too, the Company has no other benefit obligations above and beyond the cost of contributions that are reported in current staff costs.

The pension provisions reported in the statement of financial position comprise only defined-benefit obligations to former Management Board members of the parent company for which fixed retirement benefits have been stipulated. The plan is financed through payments to a fund and to insurance companies. The promised benefits comprise payments for retirement pensions, disability pensions and widow's and orphan's pensions. Once the age threshold has been attained by reaching the end of the 65th year of life, or if eligibility to receive a disability pension is established prior to reaching the end of the 65th year of life, a commitment is made to pay the beneficiary a monthly pension payment for life. The widow's pension paid to a surviving wife amounts to 60% or 70% of the relevant retirement pension entitlement. The weighted average term of the defined benefit plans is 17.5 years.

There is longevity and interest rate risk with regard to the pension provision. Reinsurance policies were obtained for hedging purposes and pledged to the beneficiaries. The fair value amounts are reported in the offsetting and reconciliation of the excess of plan assets over post-employment benefit liability.

The carrying amount in the statement of financial position of the net liabilities (assets) for defined benefit plans in accordance with IAS 19 corresponds to the present value of the defined benefit obligation (DBO) on the balance sheet date less the fair value of the plan assets. The DBO is calculated annually by an independent actuary using the projected unit credit method. The DBO's present value is determined by discounting the expected future cash outflows at the interest rate of high-quality corporate bonds. The resulting revaluations (mainly actuarial gains and losses) in connection with the remeasurement of net liabilities and net assets are recognized directly in other comprehensive income (OCI) due to the amendment of IAS 19.

The following amounts were reported in the statement of financial position for defined benefit plans:

EUR thsd.	2015	2014
Present value of the defined benefit obligation at beginning of period	**709**	**578**
Current service cost	0	0
Interest expense	14	19
Pension payments	–17	–17
Actuarial gains (–) and losses (+)	–38	129
Present value of the defined benefit obligation at end of period	**668**	**709**
Plan assets		
Reinsurance coverage	–267	–247
Securities	–485	–476
Surplus shown in the statement of financial position	**–84**	**–14**

Development of net liabilities/assets:

EUR thsd.	2015
Net assets at beginning of period	14
Total amount in the income statement	1
Total of the revaluations recognized in OCI	53
Benefit payments	0
Employer contributions	16
Net assets at end of period	**84**

All defined benefit plans are covered by plan assets; there are no unfunded plans. The fair value of the plan assets developed as follows:

EUR thsd.	2015	2014
At beginning of period	723	737
Interest income from plan assets	15	24
Expected return on plan assets without interest income	15	–37
Payments from plan assets	–17	–17
Funded by the employer	16	16
At end of period	**752**	**723**

The plan assets are made up as follows:

	2015		2014	
	Absolute	Percentage	Absolute	Percentage
Equity securities	0	0%	0	0%
Debt securities	485	64%	476	66%
Other	267	36%	247	34%
	752	**100%**	**723**	**100%**

The debt securities include mixed fund shares that are primarily invested in fixed-income securities. As in the previous year, the plan assets do not contain any financial instruments.

The following amounts were recognized in the income statement:

EUR thsd.	2015	2014
Current service cost	0	0
Interest income from plan assets	15	24
Interest expense related to the liability	–14	–19
Total effect on earnings in the income statement	**1**	**5**

The provisions for pensions were determined based on the following assumptions:

%	2015	2014
Discount rate as of 31 December	2.30	2.00
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	2.30	2.00
Employee turnover	0.00	0.00

The determination of the expected return on the plan assets was based on the estimated return on the assets, taking the changes in the yields of non-current fixed-income instruments into account. The allocations to plans for post-employment benefits and pension payments payable in the financial year ending 31 December 2015 are estimated to total EUR 33 thousand.

The undiscounted pension payments based on the average life expectancy of 17.5 years result in the following maturity analysis:

EUR thsd.	up to 1 year	up to 5 years	more than 5 years	Total
Retirement benefits	17	68	469	554

Regarding possible changes in the significant actuarial assumptions made, the following sensitivities were determined:

Basic values	
Discount rate	2.30%
Pension trend	1.75%
DBO	EUR 667,291

Sensitivities	Revalued BDO	Change in percent of the DBO
Discount rate plus 0.5%	EUR 615,169	–7.81%
Discount rate minus 0.5%	EUR 725,999	8.80%
Pension trend plus 0.25%	EUR 687,536	3.03%
Pension trend minus 0.25%	EUR 647,894	–2.91%

b) Anniversary payments and benefits similar to pensions

One Group company is obligated to pay its employees a benefit equal to three months of an employee's salary based on the most recently paid salary when employment is terminated due to the employee reaching the maximum age threshold. In addition, the company is required to pay a benefit calculated based on the attainment of a certain number of years of service with the company. The company, which is included in the consolidated financial statements, meets these obligations itself as soon as they come due. These obligations are measured annually by an independent actuary. No plan assets are maintained for this purpose. The amount of the obligation is therefore reported in the statement of financial position under provisions for pensions.

Payments totaling EUR 60 thousand are expected in the following five years.

The amounts recognized in the statement of financial position are comprised as follows:

EUR thsd.	2015	2014
Present value of the defined benefit obligation at beginning of period	**276**	**176**
Current service cost	23	13
Interest expense	6	7
Benefit payments	–2	–1
Benefit change	–13	0
Actuarial gains (–) and losses (+)	62	81
Present value of the defined benefit obligation at end of period	**352**	**276**

The following amounts were recognized in the income statement:

EUR thsd.	2015	2014
Current service cost	23	13
Interest expense related to the liability	6	7
Total amount in the income statement	**29**	**20**

Regarding possible changes in the significant actuarial assumptions made, the following sensitivities were determined:

Basic values	
Discount rate	1.72%
Salary trend	4.50%
DBO	EUR 351,933

Sensitivities	Revalued DBO	Change in percent of the DBO
Discount rate minus 0.5%	EUR 383,365	8.93%
Discount rate plus 0.5%	EUR 323,873	–7.97%
Salary trend minus 0.5%	EUR 324,434	–7.81%
Salary trend plus 0.5%	EUR 382,350	8.64%

18. TAX PROVISIONS AND OTHER PROVISIONS

Provisions are recognized for legal or constructive obligations resulting from past events if it is probable that settling the obligation will lead to an outflow of Group resources and that a reliable estimate of the amount of the obligation can be made. Provisions are recognized at their estimated settlement value in accordance with IAS 37.

The tax provisions concern the following:

EUR thsd.	2015	2014
Corporate income tax and solidarity surcharge	242	430
Trade tax	132	227
	374	**657**

Statement of changes in provisions

EUR thsd.	Balance on 1 Jan. 2015	Use	Reversal	Addition	Balance on 31 Dec. 2015
Tax provisions	657	610	0	327	374
Bonus	1,716	1,609	107	594	594
Warranty and guarantee	2,390	1,241	669	1,160	1,640
Other	741	618	123	1,124	1,124
Total	**5,504**	**4,078**	**899**	**3,205**	**3,732**

The provisions for guarantees and warranties cover potential statutory or financial obligations under guarantee and goodwill cases. Other provisions mainly include provisions for severance payments, litigation and share-based payment plans settled in cash in accordance with IFRS 2. All provisions stated are due within one financial year.

In 2012, a long-term incentive program (LTI) was launched in which a selected group of LPKF Group executives can participate. The beneficiaries are entitled to a long-term bonus, which is paid to the beneficiaries depending on the long-term bonus allotment granted to each individual, the average EBIT margin of the LPKF Group during a four-, five- or six-year performance period and the performance of LPKF's share price. The program does not stipulate settlement by granting of equity instruments. The first prerequisite for payment of the bonus is an investment in LPKF shares to be made and held throughout the entire duration of the long-term bonus plan. The beneficiaries must also have an unterminated employment contract as of 20 July of the year in which the payment is made.

At plan inception, a preliminary number of phantom stocks corresponding to the allotment value is specified, which represents the starting point for calculating the bonus payment. At the end of the performance period, the final number of phantom stocks is determined. The performance period amounts to at least four years, but can be extended to five, or no more than six, years upon request by an individual beneficiary. The final number of virtual shares is determined based on an inhouse measure of the Company's success, the EBIT margin. If the target is exceeded or the actual figure falls short of the target, the preliminary number of phantom stocks at the time of the allotment is increased or decreased accordingly. The payment amount is determined by measuring the value of the phantom stocks using the average XETRA closing quote for LPKF shares on the 30 trading days prior to 21 July after the end of the four-, five- or six-year performance period. The amount of the payment is limited to no more than 300% of the individual allotment value.

Reporting of share-based compensation transactions settled in cash is governed by IFRS 2 "Share-based Payment". The expense expected to arise from the long-term bonus program is estimated at fair value at each reporting date using a Monte Carlo simulation. The expected total expense from the program is distributed pro rata temporis across the time period up to the first possible exercise date. On this basis, the amount of the provision in the Group for financial year 2015 is EUR 12 thousand (previous year: EUR 83 thousand). Mainly due to the impact the consolidated net profits generated in 2014 and 2015 had on the average EBIT margin applicable to all tranches' performance periods, a total of EUR 71 thousand was reversed in the reporting period and EUR 37 thousand in the previous year.

The following parameters were used in the option price model (modified Black Scholes (Merton) model) for determining the fair value as of 31 December 2015:

	Tranche 1 2012	Tranche 2 2013	Tranche 3 2014	Tranche 4 2015
Expected volatility	49%	49%	49%	49%
Risk-free interest rate	0.00% p. a.	0.00% p. a.	0.00% p. a.	0.00% p. a.
Expected remaining maturity	7 months	3 years and 7 months	4 years and 7 months	5 years and 7 months
Price of the LPKF share on 29 December 2014	EUR 7.21	EUR 7.21	EUR 7.21	EUR 7.21
Initial price of the LPKF share[1]	EUR 6.06	EUR 12.10	EUR 15.02	EUR 8.08
Number of phantom stocks at the allotment date	4,755	3,822	4,803	10,359

1 The initial price of the first tranche of LPKF shares at the allotment date in 2012 was EUR 12.12. The initial price has been included in the valuation taking into account the effect from the capital increase from Company funds in 2013.

Separate plan terms were introduced for the members of the Management Board in 2014. The main difference is the programs' terms, which begin on 1 January of each year for the members of the Management Board instead of on 21 July. The following parameters were used in the option price model (modified Black Scholes (Merton) model) for determining the fair value for the Management Board program as of 31 December 2015:

Basic values	Tranche 1 2014	Tranche 2 2015
Expected volatility	49%	49%
Risk-free interest rate	0.00% p. a.	0.00% p. a.
Expected remaining maturity	4 years	5 years
Price of the LPKF share on 30 December 2015	EUR 7.21	EUR 7.21
Initial price of the LPKF share	EUR 18.25	EUR 10.97
Number of phantom stocks at the allotment date	4,110	11,395

Recognition of the expected volatility is based on the historical volatility of the previous two years. The resulting volatility is rounded to full percentage points.

19. LIABILITIES

Upon initial recognition, financial liabilities are measured at fair value after deduction of transaction costs. They are subsequently measured at amortized cost. Any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is amortized over the term of the loan using the effective interest method.

The breakdown of the liabilities by remaining maturities follows from the statement of changes in liabilities below:

			Liabilities with remaining maturities of				
Type of liability EUR thsd.		Total amount	up to 1 year	1 to 5 years	more than 5 years	Collaterized amounts	Type of collateral
Liabilities to banks	2015	41,107	15,627	20,380	5,100	17,046	*.**
	2014	36,225	20,126	9,334	6,765	18,490	*.**
Trade payables	2015	2,278	2,278	0	0	0	–
	2014	4,829	4,829	0	0	0	–
Other liabilities	2015	6,982	6,982	0	0	0	–
	2014	10,295	10,295	0	0	0	–
	2015	**50,367**	**24,887**	**20,380**	**5,100**	**17,046**	
	2014	**51,349**	**35,250**	**9,334**	**6,765**	**18,490**	

* Land charge, assignments of the receivable

** Security assignment

The loans are earmarked for financing new construction, purchases of real property, investments to expand capacities and development projects.

I. OTHER DISCLOSURES

20. STATEMENT OF CASH FLOWS

The statement of cash flows is derived from the consolidated financial statements using the indirect method; pursuant to IAS 7, it presents the changes in cash flows broken down by inflows and outflows for operating activities, investing activities and financing activities. Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

21. EARNINGS PER SHARE

According to IAS 33, basic earnings per share are determined by dividing the consolidated net profit for the year attributable to the shareholders of LPKF Laser & Electronics AG by the weighted number of shares outstanding during the financial year. There are currently no transactions triggering dilution.

	2015	2014
Number of shares. undiluted	22,269,588	22,269,588
Number of shares, diluted	22,269,588	22,269,588
Consolidated profit/loss (in EUR thousand)	–3,481	8,516
Adjusted consolidated profit/loss (in EUR thousand)	–3,481	8,516
Basic earnings per share (in EUR)	–0.16	0.38
Diluted earnings per share (in EUR)	–0.16	0.38

22. DIVIDEND PER SHARE

The Management Board and the Supervisory Board will propose to the Annual General Meeting on 2 June 2016 that it resolve not to pay a dividend from the net retained profits of LPKF Laser & Electronics AG in the amount of EUR 4,333,645.77 for the 2015 financial year and to carry the full amount (previous year: EUR 11,521,876.48) forward to new account. In the previous year, a dividend of EUR 0.12 per no-par share, i. e. a total amount of EUR 2,672,350.56, was paid to the shareholders and the balance in the amount of EUR 11,521,876.48 was carried forward to new account.

23. TRANSACTIONS WITH RELATED PARTIES

There are no reportable business relationships with parties related to the LPKF Group.

As of the reporting date, LPKF AG had EUR 214 thousand in liabilities to members of the Supervisory Board (previous year: EUR 214 thousand).

For the rest, there are no other receivables from or liabilities to LPKF Group companies, nor were any payments or benefits granted to related parties. Notes 27 and 28 provide details on the corporate bodies of LPKF AG.

24. GERMAN CORPORATE GOVERNANCE CODE

The Declaration of Compliance by the Supervisory Board and the Management Board required under Section 161 German Stock Corporation Act on the application of the recommendations of the Government Commission of the German Corporate Governance Code, as well as the disclosures of any non-compliance with the recommendations, were made available to the shareholders on the Company's website (http://www.lpkf.com/investor-relations/corporate-governance/declaration-compliance.htm).

25. OTHER DISCLOSURES

Other financial liabilities

Mid- and long-term leases for land and buildings are in place for the offices of LPKF (Tianjin) Co. Ltd., LPKF Laser & Electronics (Hong Kong) Ltd., LPKF Laser & Electronics K.K., LPKF Laser & Electronics Korea Ltd. and at LPKF SolarQuipment GmbH at the Mainz site as well as a production hall in Suhl. LaserMicronics GmbH, LPKF SolarQuipment GmbH, LPKF WeldingQuipment GmbH and the parent company also have auto leases.

The existing auto leases are classified as operating leases. The lease payments are determined by the term of the given lease and the car's mileage. There are no other provisions or agreements with respect to the extension of maturities or favorable purchasing options. Total future lease payments broken down by maturity are:

EUR thsd.	2015	2014
Lease payments included in the net profit/loss for the period	689	620
up to 1 year	445	468
more than 1 year and up to 5 years	326	340

All future rental payments due under building and office leases are broken down by maturity as follows:

EUR thsd.	2015	2014
up to 1 year	575	332
more than 1 year and up to 5 years	251	122

There are no other significant financial obligations.

Financial Instruments

The financial instruments reported in the statement of financial position (financial assets and financial liabilities) as defined in IAS 32 and IAS 39 comprise specific financial assets, trade receivables, cash, trade payables as well as certain other assets and liabilities under agreements.

1. Primary financial instruments

IAS 39 makes a general distinction between primary and derivative financial instruments and classifies primary financial instruments into the following categories:

→ Financial assets or liabilities at fair value through profit or loss
→ Held-to-maturity investments
→ Loans and receivables
→ Available-for-sale financial assets

The "financial assets or liabilities at fair value through profit or loss" category has two sub-categories: Financial assets that have been classified as held for trading from inception, and those that are designated upon initial recognition as at fair value through profit or loss. A financial asset is allocated to this category if it was acquired principally for the purpose of selling it in the near term or was designated as such by management. Derivatives also belong to this category unless they qualify as hedges.

There are no primary financial instruments that are designated as "financial assets or financial liabilities at fair value through profit or loss" or "financial instruments held to maturity."

Loans and receivables primarily concern loans to third parties, receivables, other assets as well as cash and cash equivalents. The initial measurement is at fair value plus transaction costs, subsequent measurements at amortized cost using the effective interest method.

Financial assets available for sale included the securities sold in 2014. Securities comprise shares in funds. Initial measurements are at fair value plus transaction costs, subsequent measurements at fair value. Impairment losses are recognized directly in equity until the respective assets are disposed of. Financial assets are tested for objective indications of impairment as of every reporting date. If impairment of available-for-sale financial assets is indicated, the cumulative loss – measured as the difference between the cost and the current fair value, less any impairment losses previously recognized for the financial asset in question – is derecognized in equity and recognized in the income statement. When financial instruments of this type are sold, the cumulative fair value adjustments previously posted to equity must be recognized in profit or loss as gains or losses from financial assets.

The financial instruments are classified as non-current assets if management does not intend to sell them within twelve months of the reporting date.

Settlement date accounting is used for reporting purchases and sales of previously recognized assets. Financial assets are derecognized when the rights to the cash flows from the financial assets have expired or were transferred and the Group has transferred substantially all of the risks and rewards of ownership.

Impairment is assumed if payment is substantially delayed or insolvency proceedings have been opened.

2. Derivative financial instruments

The Group uses various derivative financial instruments to hedge future transactions and cash flows. Particularly derivatives such as forwards, options and swaps are used to that end. Special hedge accounting rules may be applied under IAS 39 if certain conditions are met. The hedging relationship between the hedged item and the hedging instrument must be documented, and its effectiveness must be evidenced. The accounting principles of IAS 39 shall be used if the requirements for application of the special hedge accounting rules do not apply.

a) Derivative financial instruments subject to hedge accounting

As part of its risk management strategies LPKF aims to minimize increases in cash flows from interest payments due to negative changes in interest rates. To that end, the hedging relationship described below was entered into in 2011.

LPKF took out a loan of nominally EUR 7,000 thousand in the 2011 financial year, which was disbursed in two tranches. The loan payable was designated a hedged item for a hedging relationship in its entirety at the time the interest rate was adjusted for the first time on 1 October 2011. The loan was included in the hedging relationship for its entire term until 31 December 2015. It carried a variable interest rate (3-month EURIBOR plus spread) and was extinguished over its term by means of regular payments on prescribed dates.

The variable-interest loan was hedged through an interest rate swap. The swap was entered into on 1 October 2011 and simultaneously designated a hedging instrument for the hedge. The term of the swap corresponded to that of the loan and runs until 31 December 2015; it is designated as a hedging instrument for this period in its entirety. The hedging instrument had the same amount as the underlying loan. The regular loan payments were taken into account correspondingly in the agreement made. The interest rate swap entailed exchanging the variable interest rate on the loan for a fixed interest rate.

The aforementioned transactions qualified for hedge accounting pursuant to IAS 39.71 ff. As a liability, the loan represented the hedged item and the interest rate swap represents the hedging instrument used. It concerned a cash flow hedge where future fluctuations in cash flows from changes in interest rates are hedged by means of fixed contractual interest payments. Hedging instruments used for cash flow hedges are measured at fair value. The changes in the fair value of the effective portion of the derivative were initially recognized in the cash flow hedge provisions; they were only recognized through profit and loss once the underlying transaction had been completed. Ineffective portions of the hedge were posted to income immediately.

Given that the parameters (nominal amount, variable interest rate, interest payment dates, loan payment dates, term and maturity) of both the underlying transaction and the hedging instrument were identical, it was prospectively assumed based on the so-called critical term match method that the hedge was highly effective. Consequently, prospective effectiveness was assumed without offering numerical evidence. This was verified each time effectiveness was measured.

The retrospective effectiveness of the cash flow hedge was determined using the dollar offset method, specifically, the hypothetical derivative method. To that end, the cumulative absolute change in the fair value of the swap designated as the hedging instrument was compared to the cumulative absolute change in the fair value of the hypothetical swap. The hypothetical swap as the “stand-in” for the underlying transaction was equipped with all the conditions that were relevant to its measurement (nominal amount, term, interest rate adjustment dates, interest payment dates and loan payment dates) and had to be measured at current market rates. The hedge was considered highly effective because the current results fell within the permissible range of 80% to 125%.

Until maturity, the change in the fair value of the hedging instrument was recognized in a separate line item of equity (cash flow hedge provision) that was equivalent to the effective portion of the hedge. The change in the fair value of the hedging instrument attributable to the ineffective portion had to be recognized in profit or loss.

The hedge ended on 31 December 2015 upon full repayment of the loan. The existing cash flow hedge was reclassified to the income statement at that time.

b) Derivative financial instruments not subject to hedge accountingg

The existing forward contracts and options do not qualify for hedge accounting pursuant to IAS 39.71 ff. All these derivatives are therefore designated as held for trading (a subcategory of the category, “assets and liabilities at fair value through profit or loss”) and recognized at fair value in the statement of financial position. Fair value changes are recognized in profit or loss. The issuing banks notified the Group of the fair values (market values). The measurement took current ECB reference prices and forward premiums or discounts into account. If the fair value is positive, these instruments are recognized in current assets, otherwise under current liabilities. The current assets contain one forward transaction in USD with a fair value of EUR 11 thousand.

3. Disclosures pursuant to IFRS 7

Carrying amounts, valuations and fair values by measurement category

EUR thsd.	Measurement category pursuant to IAS 39	Carrying amount 31 Dec. 2015	IAS 39 carrying amount: Amortized cost	Fair value recognized in equity	Fair value through profit or loss	Fair value 31 Dec. 2015
Assets						
Cash and cash equivalents	LaR	3,795	3,795			3,795
Trade receivables	LaR	13,850	13,850			13,850
Other assets	LaR	1,287	1,287			1,287
Derivative financial assets						
Derivatives	FAHfT	11			11	11
Equity and liabilities						
Trade payables	FLAC	2,278	2,278			2,278
Liabilities to banks	FLAC	41,107	41,107			38,389
Other interest-bearing liabilities	FLAC	1,504	1,504			1,504
Derivative financial liabilities						
Derivatives	FLHfT	0			0	0
Of which accumulated by IAS 39 measurement category						
Loans and receivables	(LaR)	18,932	18,932			18,932
Assets held for trading	(FAHfT)	11			11	11
Financial liabilities measured at amortized cost	(FLAC)	44,889	44,889			42,171
Liabilities held for trading	(FLHfT)	0			0	0

LaR Loans and Receivables
FLAC Financial Liabilities Measured at Amortized Cost
AfS Available for Sale
FAHfT Financial Assets Held for Trading
FLHfT Financial Liabilities Held for Trading

Measurement category pursuant to IAS 39	Carrying amount 31 Dec. 2014	IAS 39 carrying amount: Amortized cost	IAS 39 carrying amount: Fair value recognized in equity	IAS 39 carrying amount: Fair value through profit or loss	Fair value 31 Dec. 2014
LaR	6,021	6,021			6,021
LaR	25,727	25,727			25,727
LaR	620	620			620
FLAC	4,829	4,829			4,829
FLAC	36,225	36,225			35,537
FLAC	2,807	2,807			2,807
FLHfT	128			128	128
(LaR)	32,368	32,368			32,368
(FLAC)	43,861	43,861			43,173
(FLHfT)	128			128	128

Because of short remaining maturities, the fair values of cash and cash equivalents, current receivables, trade payables as well as current financial assets and liabilities closely correspond to the respective carrying amounts. The carrying amount of the derivative financial instruments corresponds to their fair value (Level 2 of the fair value hierarchy).

The financial instruments designated as financial assets held for trading in the amount of EUR 11 thousand (previous year: EUR 0 thousand) and as financial liabilities held for trading in the amount of EUR 0 thousand (previous year: EUR 128 thousand) have been allocated to Level 2 of the fair value hierarchy. Level 2 requires availability of a stock or market price for a similar financial instrument or calculation parameters based on data from observable markets. The measurement takes current ECB reference prices and forward premiums or discounts into account based on a discounted cash flow method.

There were no financial instruments that had to be classified to Level 3 of the fair value hierarchy.

The net gains/losses from financial instruments are as follows:

EUR thsd.		2015	2014
Loans and receivables	(LaR)	26	–90
Available-for-sale financial assets	(AfS)	0	4
Assets and liabilities held for trading	(FAHfT) + (FLHfT)	–23	–83
Financial liabilities measured at amortized cost	(FLAC)	684	769
		687	**600**

The net gains/losses from loans and receivables include changes in allowances, gains and losses on derecognition/disposal, payments received, reversals of write-downs on loans and receivables as well as currency translation.

The net gains and losses on assets available for sale contain changes in the fair value of the securities as well as gains and losses on their disposals.

Net gains and losses from financial assets and liabilities held for trading contain changes in the fair value of the derivative financial instruments not subject to hedge accounting as well as gains and losses on maturity during the reporting period.

Net gains and losses from financial liabilities recognized at amortized cost comprise gains and losses on disposal and currency translation. Total interest expense using the effective interest method was EUR 684 thousand.

There are no significant counterparty credit risks by customer group or geographical region. Loans and receivables are securitized in part through credit insurance or bank guarantees (LC). For the rest, the maximum exposure to lending risks corresponds to the carrying amount of the aforementioned receivables by class.

Maturity analysis as of 31 December

Trade payables in EUR thsd.	Carrying amount as of 31 Dec.	up to 6 months	6 months to 1 year	between 1 year and 5 years	more than 5 years
2015	2,278	2,278	0	0	0
2014	4,829	4,829	0	0	0

Financial obligations and loans in EUR thsd.	Carrying amount as of 31 Dec.	up to 6 months	6 months to 1 year	between 1 year and 5 years	more than 5 years
2015	41,107	14,200	1,427	20,380	5,100
2014	36,225	18,220	1,906	9,334	6,765

Other interest-free liabilities in EUR thsd.	Carrying amount as of 31 Dec.	up to 6 months	6 months to 1 year	between 1 year and 5 years	more than 5 years
2015	1,504	1,504	0	0	0
2014	2,807	2,807	0	0	0

Derivative financial instruments in EUR thsd.	Carrying amount as of 31 Dec.	up to 6 months	6 months to 1 year	between 1 year and 5 years	more than 5 years
2015	11	11	0	0	0
2014	128	128	0	0	0

4. Hedging policy and risk management

Risk management principles

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

Risk management is handled by the Management Board, which fixes the general guidelines for risk management and determines the relevant procedures. It is implemented by the technical departments and subsidiaries subject to compliance with authorized business guidelines and coordinated by the Group Risk Officer.

The material risks from financial instruments and the attendant risk management system of the LPKF Group are disclosed below.

Currency risks

The currency risks to which the LPKF Group is exposed mainly arise from receivables, liabilities, cash and future transactions in foreign currencies. Assets recognized in currencies with declining exchange rates decline in value whereas liabilities reported in currencies with rising exchange rates increase in value. From the Group’s point of view, only the difference between income and expense in a foreign currency is exposed to risk.

As a rule, risks are only hedged if they have an impact on the Group's cash flows. Foreign currency risks that have no impact on the Group's cash flows are not hedged. These include risks from the translation of the assets and liabilities reported in the annual financial statements of foreign subsidiaries into euros, the Group's reporting currency. Most invoices related to operations are written in euros; sales in North America are invoiced in USD. Cash flows in JPY and other foreign currencies are required in some cases.

To the extent possible, the Group pays for its procurement in USD, thus following a natural hedge philosophy. In net terms, however, this does give rise to USD cash inflows. Foreign currency forward contracts or currency options are used to hedge foreign currency inflows contracted for up to 12 months. Foreign currency hedges cannot fully offset the negative effects of the euro's continued strength against the US dollar on the Group's competitive position.

Changes in the fair value of the derivatives used to hedge currency risks that arise from foreign exchange rates and changes in the hedged item in the statement of financial position during the same period are virtually balanced in the income statement.

The disclosure of market risks requires sensitivity analyses pursuant to IFRS 7. They show the effects of hypothetical changes in the relevant risk variables on performance and equity. Currency risks arising from changes in the USD exchange rate have priority for LPKF in this respect. The periodic effects are determined by relating the hypothetical changes in the risk variables to the holdings of financial instruments as of the reporting date. The assumption is that the value of the holdings as of the reporting date is representative for the whole year. Differences from foreign-currency translation of the annual financial statements of foreign subsidiaries into euros, the Group's functional currency, are not taken into account.

The currency sensitivity analysis is based on the following assumptions:

Interest income or expenses associated with financial instruments are either reported directly in the functional currency or translated into the functional currency by way of derivatives. This means that the figures analyzed cannot have material consequences.

Pursuant to IFRS 7, the analysis only shows the effects of exchange rate changes on financial instruments held by the Group as of the reporting date.

If the euro had risen by 10% against the USD dollar, earnings before income taxes would have been reduced by EUR 25 thousand. A 10% decline in the euro would have raised earnings before income taxes by EUR 20 thousand.

Interest rate risks
Interest rates give rise to cash flow risks that affect cash and cash equivalents. An increase in interest rates by 25 basis points yields a gain of EUR 12 thousand while a decrease in interest rates by 25 basis points yields a loss of EUR 12 thousand. Given low interest rates, the sensitivities are determined using a hypothetical change by 25 basis points. The low interest rate sensitivities relative to cash and cash equivalents largely stem from low-interest cash and cash equivalents.

The long-term loans obtained to finance buildings are subject to fixed interest rates, as are the other interest-bearing liabilities.

Other price risks
LPKF is not exposed to other price risks.

Liquidity risks
The liquidity risk concerns the risk of not being able to satisfy existing or future payment obligations for lack of cash. This is centrally managed within the LPKF Group. The liquidity risk is minimized through continuous liquidity planning. In addition to existing cash and cash equivalents, credit lines are also available from various banks. The European companies optimized their liquidity peaks by way of cash pooling. All other companies carry out their ongoing cash management locally. LPKF is currently reviewing whether to expand cash pooling to other international companies. If large amounts of funds are required, reviews are performed to determine whether to utilize local financing or financing via LPKF AG. Long-term bank loans were used to finance the buildings in Garbsen, Suhl, Fürth and Slovenia.

Credit risks
The LPKF Group's operating business and certain of its financing activities expose it to default risks. Receivables from the operating business are monitored on an ongoing basis in decentralized fashion by the segments and subsidiaries. Default risks are accounted for by appropriate allowances.

The maximum default risk is reflected in the carrying amounts of the assets reported in the statement of financial position (including derivative financial instruments with positive fair values). Trade receivables are also securitized by EUR 883 thousand in payment commitments from banks (letters of credit). This leaves solely the credit risk of the chattel mortgagor. In addition, EUR 4,041 thousand in trade receivables is hedged through credit default insurance. The deductible for customers insured under a credit limit is 29%; for customers insured under a discretionary limit, it is 66%.

Capital management disclosures
The Group's capital management serves to secure the Company's existence as a going concern and pursue opportunities for growth with the aim of continuing to funnel profits to its shareholders and pay other interested parties that to which they are entitled. Maintaining an the best possible capital structure to reduce capital costs is another objective. To maintain or modify its capital structure, depending on the given situation the Group adjusts dividend payments to its shareholders; repays capital to its shareholders; issues new shares; or sells assets in order to discharge liabilities. The capital available comprises equity of EUR 63,501 thousand and borrowings of EUR 55,319 thousand.

26. DISCLOSURES PURSUANT TO SECTION 315A GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH)

The requirements of Section 315a German Commercial Code for the preparation of consolidated financial statements according to IFRS, as applicable in the EU, have been fulfilled. In addition to IFRS disclosure obligations, LPKF also publishes details and explanations required under the German Commercial Code.

27. DISCLOSURES ON MANAGEMENT BOARD REMUNERATION

The following individuals have been appointed as members of the Company's Management Board:

Dr. Ingo Bretthauer (CEO) (Chairman)	Sales, Marketing, Services, Strategy, Investor Relations, Legal Affairs
Dipl.-Ing. Bernd Lange (CTO)	Research, Development, Patents
Dipl.-Oec. Kai Bentz (CFO)	Finance, Controlling, Risk Management, Human Resources, Organization/IT
Dr.-Ing. Christian Bieniek (COO)	Production, Purchasing, Logistics, Quality Management, Administration

The remuneration of the Management Board is performance-based and consists of a fixed component and variable performance-based components. A portion of the variable remuneration consists of long-term incentives (LTI). LTI 1 (Quality), which will run for three years, is measured by the achievement of these quality specifications. The aim is to lower the error rate in the Group calculated in the 2013 financial year by 50% within three years. If the error rate is not reduced, this constitutes a target achievement of 0%. The target achievement is calculated by means of linear interpolation between the initial value and the minimum value of the error rate. A long-term bonus plan was established as LTI 2 (Options). Details are laid down in the plan's terms and conditions, which are part of the contractual arrangements with the Management Board members. Decisive factors for the amount of LTI 2 are the development of the EBIT margin of the LPKF Group and the share price performance. LTI 2 is therefore directly tied to the pursuit of the Group's objectives of profitable growth and a long-term increase in the enterprise value. Further details regarding the remuneration of the Supervisory Board including individual disclosures are presented in the remuneration report which is an integral part of the Group management report.

The current members of the Management Board were paid total remuneration of EUR 1,462 thousand (previous year: EUR 1,565 thousand) for their activities in the 2015 financial year. Of this amount, EUR 981 thousand (previous year: EUR 891 thousand) was fixed remuneration, EUR 98 thousand (previous year: EUR 88 thousand) were benefits and EUR 369 thousand (previous year: EUR 572 thousand) was variable remuneration or recognized as a provision. The remuneration of the Management Board's active members represents short-term benefits as defined in IAS 24.17 (a). The contributions of EUR 14 thousand (previous year: EUR 14 thousand) are post-employment benefits as defined in IAS 24.17 (b).

Expenses of EUR 0 thousand (previous year: EUR 13 thousand) relating to the setting-up of provisions for share-based payments as defined in IAS 24.17 (e) were recognized for members of the Management Board in the financial year just ended. The fair value at the allotment date was EUR 165 thousand.

Commitments to members of the Management Board upon termination

The Company has not made any pension commitments to the current members of its Management Board. Pension contracts were closed with the members of the Management Board, Kai Bentz and Bernd Lange; the Company makes contributions toward these contracts. Contributions of EUR 14 thousand (previous year: EUR 14 thousand) were paid in the financial year In connection with post-employment benefits as defined in IAS 24.17 (b). No provisions for pensions are required in this case.

Post-contractual non-competition agreements have been made with the members of the Management Board in the event their activities as such are terminated, irrespective of whether it is an ordinary or extraordinary termination. Under these agreements, the Company shall pay remuneration equivalent to 50% of the respective individual's most recent average base salary for the 12-month term of the post-contractual non-competition agreement unless the individual in question is retiring.

If a member of the Management Board dies while in office, the fixed monthly remuneration shall be paid to the heirs for a six-month period.

No other provisions and commitments have been made with respect to the ordinary or extraordinary termination of a member of the Management Board.

Total remuneration of former members of the Management Board
Provisions were recognized for EUR 520 thousand (previous year: EUR 474 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors. A total of EUR 17 thousand (previous year: EUR 17 thousand) in pensions was paid to a former member of the Management Board in 2015.

28. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION

Dr. Heino Büsching (Chairman)	Lawyer/tax consultant at CMS Hasche Sigle Partnerschaft von Rechtsanwälten und Steuerberatern mbH, Hamburg, Germany
Bernd Hackmann (Deputy Chairman)	Consultant to technology companies Previously: Chief Executive Officer of LPKF Laser & Electronics AG Chairman of the Supervisory Board of Viscom AG, Hannover, Germany Member of the Supervisory Board of SLM Solutions Group AG, Lübeck, Germany
Prof. Dr.-Ing. Erich Barke	Retired professor at Leibniz University, Hannover, Germany previously: President of Leibniz University Hannover Member of the Supervisory Board of the following companies: Esso Deutschland GmbH, Hamburg, Germany ExxonMobil Central Europe Holding GmbH, Hamburg, Germany hannoverimpuls GmbH, Hannover, Germany Solvay GmbH, Hannover, Germany

Each member of the Supervisory Board receives fixed basic remuneration for each full financial year of membership on the Supervisory Board that is specified by resolution of the Annual General Meeting and is payable after the end of the financial year. The Chairman of the Supervisory Board receives double and the Deputy Chairman receives one-and-a-half times the amount of the fixed basic remuneration. By resolution of the 2011 Annual General Meeting, the fixed basic remuneration of each member of the Supervisory Board was set at EUR 40 thousand effective 1 January 2011.

In addition, for every full financial year, in accordance with Article 20 (1) sentence 2 of the Articles of Incorporation each member of the Supervisory Board receives performance-based remuneration equal to EUR 1,000.00 for every EUR 0.01 by which the average of the (basic) earnings per share (EPS) for the financial year for which the remuneration is granted and for the two preceding financial years exceeds a minimum amount of EUR 0.25, whereby the minimum amount increases annually by 10% p.a. for the first time on the financial year beginning on 1 January 2015. The determination of earnings per share is based on the (basic) earnings per share (EPS) calculated in accordance with International Financial Reporting Standards and reported in the adopted consolidated financial statements. This variable remuneration is limited to the amount of the basic remuneration.

According to the consolidated financial statements certified on 23 March 2016 by Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, the (basic) consolidated earnings per share amount to EUR –0.16 per share. This results in variable remuneration of EUR 6 thousand for the 2015 financial year. A dividend of EUR 0.12 per share was paid in 2015 for the 2014 financial year based on the regulation above, resulting in variable remuneration of EUR 93 thousand for the Supervisory Board.

The remuneration of the Supervisory Board's active members solely concerns short-term benefits as defined in IAS 24.17 (a). Further disclosures regarding the remuneration of the Supervisory Board (particularly individual disclosures) are set forth in the remuneration report which is an integral part of the Group management report.

29. DISCLOSURE OF REPORTED SHAREHOLDINGS IN THE COMPANY

The following entities and persons have notified us that their shareholdings exceeded the 3% threshold in 2015:

Foyer Finance S.A., Leudelange, Luxembourg on 16 November 2015 with an interest of 3.036% that is fully attributable to it. These shares are held by Luxempart S.A., Leudelange, Luxembourg.

Lazard Frères Gestion S.A.S., Paris, France, on 31 July 2015 with an interest of 5.65%. Of this, a 5.19% interest is attributable to Sicav Objectif Small Caps Euro, Paris, France.

Die Société Générale S.A., Paris, France, on 21 August 2015 with an interest of 3.45%.

Allianz Global Investors Europe GmbH, Frankfurt/Main, Germany, on 1 July 2014 with an interest of 3.32% that is fully attributable to it.

All other notifications of voting rights in accordance with the German Securities Trading Act concerned cases in which the interest in the voting shares had fallen below the 3% threshold. They have been published at http://www.lpkf.com/investor-relations/share/notification-of-voting-rights.htm

30. AUDITOR FEES INVOICED IN THE FINANCIAL YEAR JUST ENDED

The Company is obligated under the German Commercial Code (Section 314 (1) no. 9) to disclose Group auditor's fees for auditing the annual financial statements invoiced during the financial year:

EUR thsd.	2015	2014
Audits of financial statements	110	104
Tax consultancy services	0	0
Other services	4	0
	114	**104**

31. EVENTS AFTER THE REPORTING PERIOD

Please see the disclosures in the Group management report for events after the reporting period.

Garbsen, Germany, 22 March 2016

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements - comprising the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and the notes - as well as the Group management report, which has been combined with the Company's management report, prepared by LPKF Laser & Electronics Aktiengesellschaft, Garbsen, Germany, for the financial year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the combined management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a (1) of the German Commercial Code (Handelsgesetzbuch) is the responsibility of the Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the financial position, cash flows and profit or loss in the consolidated financial statements in accordance with the applicable financial reporting standards and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the Management Board as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a (1) of the German Commercial Code and give a true and fair view of the financial position, cash flows and profit or loss of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, Germany, 22 March 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Helmuth Schäfer	Prof. Dr. Mathias Schellhorn
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

INCOME STATEMENT
SINGLE-ENTITY FINANCIAL STATEMENTS OF LPKF LASER & ELECTRONICS AG
FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

EUR thsd.	2015	2014
Revenue	61,577	86,711
Changes in inventories of finished goods and work in progress	–1,959	–228
Other own work capitalized	92	62
Other operating income	7,335	4,138
	67,045	**90,683**
Cost of materials		
Cost of raw materials, consumables and supplies, and of purchased merchandise	25,328	27,527
Staff costs		
Wages and salaries	20,438	23,147
Social security costs and pension costs (of which for pensions: EUR 140 thousand; previous year: EUR 138 thousand)	3,663	3,941
Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	3,840	3,914
Other operating expenses	23,782	28,396
	77,051	**86,925**
Income from equity investments of which from associates (EUR 1,517 thousand; previous year: EUR 560 thousand)	1,517	560
Other interest and similar income (of which from affiliated companies: EUR 35 thousand; previous year: EUR 48 thousand)	50	57
Expenses from loss absorption	2,109	0
Interest and similar expenses (of which to affiliated companies: EUR 8 thousand; previous year: EUR 34 thousand)	474	570
Profit from ordinary operations	**–11,022**	**3,805**
Taxes on income	–3,883	1,088
Other taxes	49	44
Net loss/profit for the year	**–7,188**	**2,673**
Retained earnings brought forward from the previous year	11,521	11,521
Net retained profits	**4,333**	**14,194**

BALANCE SHEET AS OF 31 DECEMBER 2015
SINGLE-ENTITY FINANCIAL STATEMENTS OF LPKF LASER & ELECTRONICS AG

Assets in EUR thsd.	31 Dec. 2015	31 Dec. 2014
Fixed assets		
Intangible assets		
Software	793	1,681
Rights of use	37	41
	830	**1,722**
Tangible fixed assets		
Land, similar rights and buildings	18,959	19,632
Plant and machinery	2,537	1,973
Other equipment, operating and office equipment	4,537	4,603
Advances paid and construction in progress	0	431
	26,033	**26,639**
Long-term financial assets		
Shares in affiliated companies	15,804	15,804
	15,804	**15,804**
	42,667	**44,165**
Current assets		
Inventories		
Raw materials, consumables and supplies	10,047	12,913
Work in progress	1,288	1,955
Finished goods and merchandise	3,957	5,271
Prepayments	595	269
	15,887	**20,408**
Receivables and other assets		
Trade receivables (of which due within more than one year: EUR 258 thousand; previous year: EUR 69 thousand)	3,923	9,356
Receivables from affiliated companies	17,151	16,178
Other assets (of which due within more than one year: EUR 46 thousand; previous year: EUR 91 thousand)	1,437	2,086
	22,511	**27,620**
	38,398	**48,028**
Cash-in-hand, bank balances and checks	258	1,222
	38,656	**49,250**
Prepaid expenses (of which discounts: EUR 0 thousand; previous year: EUR 4 thousand)	**419**	**442**
Deferred taxes	**3,869**	**122**
Excess of plan assets over pension liability	**232**	**250**
	85,843	**94,229**

BALANCE SHEET AS OF 31 DECEMBER 2015
SINGLE-ENTITY FINANCIAL STATEMENTS OF LPKF LASER & ELECTRONICS AG

Equity and liabilities in EUR thsd.	31 Dec. 2015	31 Dec. 2014
Equity		
Subscribed capital	22,270	22,270
Capital reserves	2,186	2,186
Revenue reserves		
Statutory reserve	41	41
Other revenue reserves	11,200	11,200
	11,241	**11,241**
Net retained profits	4,333	14,194
	40,030	**49,891**
Provisions		
Provisions for pensions	0	0
Other provisions	3,368	6,094
	3,368	**6,094**
Liabilities		
Liabilities to banks (of which due: within one year: EUR 13,895 thousand (previous year: EUR 18,683 thousand) 1 to 5 years: EUR 14,152 thousand (previous year: EUR 3,923 thousand) more than 5 years: EUR 1,609 thousand (previous year: EUR 2,002 thousand))	29,656	24,608
Payments received on account of orders	606	669
Trade payables	889	2,743
Liabilities to affiliated companies	10,579	8,228
Other liabilities (of which from taxes: EUR 240 thousand; previous year: EUR 962 thousand) (of which from social security: EUR 0 thousand; previous year: EUR 24 thousand)	712	1,955
	42,442	**38,203**
Deferred taxes	**3**	**41**
	85,843	**94,229**

GLOSSARY OF TECHNICAL TERMS

THIN FILM SOLAR PANELS
Thin film solar panels are manufactured by coating a sheet of glass or a film with extremely thin layers. A laser divides each layer into strips to enable the series connection of cells in the finished module.

LDS METHOD
(LDS: laser direct structuring) A laser-based manufacturing process for three-dimensional circuit carriers, otherwise known as molded interconnect devices (MIDs), made of plastic, which also handle mechanical functions.

LTP METHOD
Laser Transfer Printing (LTP) A method for digitally printing functional pastes as an alternative to screen printing.

MID
see LDS method

PCB PRODUCTION EQUIPMENT
Laser systems for depanelling individual printed circuit boards from a larger multi-image board. Lasers depanel rigid, flexible and rigid-flex PCBs very cleanly and precisely in a stress-free process.

RAPID PROTOTYPING
A method for the chemical-free manufacture of prototype printed circuit boards in in-house laboratories.

SOLAR MODULE EQUIPMENT
Laser systems for structuring thin film solar panels.

STENCILLASER EQUIPMENT
Laser systems for cutting fine, highly precise openings in a stainless steel stencil. Stencils are used for the precision printing of solder paste onto printed circuit boards – a vital technique for today's closely packed PCBs.

TGV METHOD
(TGV: Through-Glass-Via) A laser method for creating ultrafine holes in glass.

WELDING EQUIPMENT
Laser systems for plastic welding. A laser beam welds together two plastic components by shining through the upper component and releasing its energy on the surface of the lower component. Thermal conduction and pressure create a secure and clean join.

FINANCIAL CALENDAR

23 March 2016	Publication of the 2015 annual report
12 May 2016	Publication of the three-month report
02 June 2016	Annual General Meeting
15 August 2016	Publication of the six-month report
14 November 2016	Publication of the nine-month report

CONTACT

LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Germany
Tel.: +49 5131 7095-0
Fax: +49 5131 7095-9111
investorrelations@lpkf.com
www.lpkf.com

PUBLISHING INFORMATION

Published by	LPKF Laser & Electronics AG, 30827 Garbsen
Concept and design	CAT Consultants, Hamburg, cat-consultants.de
Photos	Christian Schmid, Hamburg; LPKF; Thomas Franz, Hameln
Published	March 2016

Laser & Electronics

LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Germany

Tel.: +49 5131 7095-0
Fax: +49 5131 7095-90

www.lpkf.com