



LPKF NEWSLETTER 02/05

Ladies and Gentlemen,

The first half of 2005 has not only completely fulfilled our expectations it has even exceeded them in some cases. LPKF Laser & Electronics AG was able to boost its turnover by 41.5% year-on-year to Euro 15.787 million. We have also been so successful in controlling costs that they have risen less than turnover. This satisfactory development is reflected in the increase in EBIT margin in the first half from 2.0% to 17.5%.

Of particular interest is again the excellent business performance of our Cutting and Drilling Laser Systems. The MicroCut, a high-end development in the StencilLaser segment, has made a major contribution to the good sales figures in recent months. The inspection systems of our subsidiary in Suhl are also continuing to gain customers and generate growth thanks to their unique 3D measuring technology. We can also report that our Laser Plastic Welding segment has gone into profit for the first time, and ahead of the original turn-around date set for the end of the year.

The Rapid PCB Prototyping segment shows potential for better results. The sales in the first months of the financial year were slightly depressed by a delay in the delivery of a new Protomat model. However, orders received indicate that this shortfall can be made good in the next months.

The development of Asia into a global production centre for electronics manufacturers continues. This is why Asia, and in particular China, Japan, Korea and Taiwan, remain LPKF's fastest growing markets with a share of turnover of 51.0% (previous year: 33.8%). LPKF AG has continuously expanded its business in Asia and will strengthen its presence further with the opening of new headquarters in Hong Kong. The new company will operate under the name LPKF Laser & Electronics (Asia) Ltd. Despite our major engagement in the Far East, we are not neglecting the European and American markets.

Share price (Xetra): 12 months



Orders in hand at LPKF Laser & Electronics AG at 30 June 2005 totalled T€ 3,667. This is an increase of 49.6% year-on-year (T€ 2,452) and justifies an optimistic outlook. The Board of Managing Directors expects the turnover target of € 30 million to be achieved at the end of the year. According to current estimates, the EBIT margin will be around 14%.

Dear shareholders, LPKF's share price also reflects the continuing improvement in results in recent months. Rest assured that we will continue to work hard to boost the value of your company even further.

Yours faithfully

Bernd Hackmann

Bernd Lange



Statement of income (in K€)

	01.04.- 30.06.2005	01.04.- 30.06.2004	01.01.- 30.06.2005	01.01.- 30.06.2004
Turnover	8,829	6,074	15,787	11,159
Other operating income	335	318	855	536
Changes in inventories of finished goods and work in progress	-550	-200	-694	-167
Production of own fixed assets capitalized	70	295	170	312
Cost of purchased materials and services	2,248	1,600	3,878	2,970
Personnel expenses	2,920	2,356	5,312	4,722
Depreciation on plant (and intangible assets)	393	442	733	848
Amortisation of goodwill	0	10	0	41
Other operating expenses	1,994	1,761	3,433	3,025
Operating income	1,129	318	2,762	234
Interest income	42	29	88	70
Interest expense	38	43	77	89
Beteiligungserträge	0	0	0	0
Income from investments and participations	0	0	0	0
Other income / expenses	0	-4	0	-15
Result before income taxes (and minority interest)	1,133	300	2,773	200
Income tax	389	168	1,033	148
Extraordinary income / expenses	0	0	0	0
Result before minority interest	744	132	1,740	52
Minority interest	249	84	305	98
Net result	495	48	1,435	-46

Earnings per share (in €)

	01.04.- 30.06.2005	01.04.- 30.06.2004	01.01.- 30.06.2005	01.01.- 30.06.2004
Net income per share (basic)	0.05	0.00	0.13	0.00
Net income per share (diluted)	0.05	0.00	0.13	0.00
Weighted average shares outstanding (basic)	10,672,895	10,647,895	10,635,395	10,647,895
Weighted average shares outstanding (diluted)	10,726,007	10,706,407	10,688,507	10,706,407

Segment reporting (in K€)

According to product lines per 30.06.2005

External sales	2005	2004
Laser Systems	8,674	5,848
Rapid PCB Prototyping	4,525	4,627
Special Systems	1,550	216
Services	853	378
Others	185	90
Not distributed	0	0
Total	15,787	11,159

Operating result	2005	2004
Laser Systems	1,946	160
Rapid PCB Prototyping	585	640
Special Systems	388	50
Services	390	19
Others	57	81
Not distributed	-604	-716
Total	2,762	234

Consolidated statement of the changes in shareholders' equity (in K€)

Consolidated statement of the changes in shareholders' equity for the financial year ended 30 June 2005 (previous year in brackets)

	Share capital	Additional paid-in capital	Other earnings reserves	Fair value reserves hedging instruments	Reserves for share based payments	Retained earnings	Foreign currency translation adjustments	Total
01.01.2005 Before setting-off own stock	10,648	3,768	4,000	-1	42	5,519	-961	23,015
01.01.2004	(10,648)	(3,768)	(0)	(0)	(12)	(9,237)	(-918)	(22,747)
Setting-off own stock	-50	-97	0	0	0	0	0	-147
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
01.01.2005 After setting-off own stock	10,598	3,671	4,000	-1	42	5,519	-961	22,868
01.01.2004	(10,648)	(3,768)	(0)	(0)	(12)	(9,237)	(-918)	(22,747)
Costs of capital increase	0	-6	0	0	0	0	0	-6
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Proceeds from capital increase	175	0	0	0	0	0	0	175
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Issue of own stock	50	97	0	0	0	0	0	147
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Addition from valuation of cash flow hedge	0	0	0	0	0	0	0	0
	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(1)
Reduction from valuation of cash flow hedge	0	0	0	-35	0	0	0	-35
	(0)	(0)	(0)	(-1)	(0)	(0)	(0)	(-1)
Allocation to reserves	0	0	1,000	0	0	-1,000	0	0
	(0)	(0)	(4,000)	(0)	(0)	(-4,000)	(0)	(0)
Dividend payment to shareholders	0	0	0	0	0	-425	0	-425
	(0)	(0)	(0)	(0)	(0)	(-320)	(0)	(-320)
Net result	0	0	0	0	0	1,435	0	1,435
	(0)	(0)	(0)	(0)	(0)	(-46)	(0)	(-46)
Expenditure for granted option rights	0	0	0	0	21	0	0	21
	(0)	(0)	(0)	(0)	(10)	(0)	(0)	(10)
Offset of goodwill from the acquisition of minority shares	0	110	0	0	0	0	0	110
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Foreign currency translation adjustment of net investments in economically independent foreign subunits	0	0	0	0	0	0	102	102
	(0)	(0)	(0)	(0)	(0)	(0)	(207)	(207)
Other foreign currency translation adjustment	0	0	0	0	0	0	288	288
	(0)	(0)	(0)	(0)	(0)	(0)	(108)	(108)
30.06.2005	10,823	3,872	5,000	-36	63	5,529	-571	24,680
30.06.2004	(10,648)	(3,768)	(4,000)	(0)	(22)	(4,871)	(-603)	(22,706)



Balance sheet (in K€)

Assets	30.06.2005	31.12.2004
Current assets		
Cash and cash equivalents	5,873	5,629
Short-term investments / marketable securities	1,296	1,616
Trade accounts receivable	6,212	4,359
Accounts receivable due from related parties	0	0
Inventories	11,359	9,892
Prepaid expenses and other current assets	713	756
Total current assets	25,453	22,252
Non-current assets		
Property, plant and equipment	7,697	7,883
Intangible assets	698	755
Goodwill	74	74
Investments	2	2
Investments accounted for by the equity method	0	0
Notes receivables / loans	4	5
Deferred taxes	1,267	1,264
Trade accounts receivables	187	203
Other assets	185	185
Total non-current assets	10,114	10,371
Total assets	35,567	32,623

Liabilities and shareholders' equity	30.06.2005	31.12.2004
Current liabilities		
Current portion of finance lease obligation	37	36
Short-term debt and current portion or long-term debt	680	618
Trade accounts payable	1,567	1,322
Accounts payable due to related parties	0	0
Advanced payments received	441	311
Accrued expenses	2,226	1,460
Deferred revenues	0	0
Income tax payable	0	0
Deferred taxes liability	0	0
Other current liabilities	968	776
Deferred income	331	298
Total current liabilities	6,250	4,821
Non-current liabilities		
Long-term debt, less current portion	1,891	2,084
Finance lease obligations, less current portion	52	71
Deferred revenues	0	0
Deferred taxes liability	532	605
Pension accrual	302	266
Total non-current liabilities	2,777	3,026
Minority interest	1,860	1,908
Shareholders' equity		
Share capital	10,823	10,598
Additional paid-in capital	3,872	3,671
Treasury stock	0	0
Fair value reserves hedging instruments	-36	-1
Reserves for share based payments	63	42
Retained earnings	10,529	9,519
Foreign currency translation adjustments	-571	-961
Total shareholders' equity	24,680	22,868
Total liabilities and shareholders' equity	35,567	32,623

Consolidated group

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

Name	Domicile	Holding %	Acquired
LaserMicronics GmbH	Garbsen / Germany	100.0	1989
LPKF Laser & Elektronika d.o.o.	Kranj / Slovenia	75.0	1995
LPKF Benelux N.V.	Brussels / Belgium	100.0	1995/1999
LPKF Laser & Electronics Inc.	Wilsonville / USA	85.0	1994/1999/2005
LPKF Services, Inc.	Beaverton / USA	100.0	1995/1999
LPKF Motion & Control GmbH	Suhl / Germany	50.9	1991/1999
LPKF Properties LLC	Wilsonville / USA	60.0	1999
LPKF France S.A.R.L.	Lisses / France	94.0	1999
LPKF Laser Components GmbH	Garbsen / Germany	80.0	1999
LPKF (Tianjin) Co. Ltd.	Tianjin / China	100.0	2000
Laserquipment AG	Erlangen / Germany	100.0	2000/2002-2004

Other group companies which are not controlled by majority of LPKF Laser & Electronics AG and have therefore not been fully consolidated are:

Name	Domicile	Holding %	Acquired
PhotonicNet GmbH	Hanover / Germany	8.33	2000

Number of shares held by board members

	30.06.2005	31.12.2004
Board of managing directors		
Bernd Hackmann	190,000	190,000
Bernd Lange	500	500
Supervisory board		
Bernd Hildebrandt	874,250	874,250
Klaus Sülter	808,800	808,800

Workforce

The breakdown of employee numbers is as follows:

	30.06.2005	31.12.2004
Production	60	57
Distribution	58	49
Research & Development	53	49
Engineering and administration	70	68
	241	223



Consolidated cash flow statement (in K€)

	01.01.-30.06.2005	01.01.-30.06.2004
Cash flows from operating activities		
Net profit / loss	1,435	-36
Minority interest	305	98
Depreciation and amortisation	733	889
Increase in provisions and accruals	756	163
Gains / losses on the disposal of fixed assets	-356	-6
Changes in inventories, accounts receivables and other assets	-3,218	393
Changes in liabilities and other deferred income	1,122	-469
Other non-payment expense / income	-348	-7
Cash flows from operating activities	429	1,025
Cash flows from investing activities		
Fixed asset investment intangible assets	-143	-52
Fixed asset investment tangible assets	-461	-219
Investment in subsidiaries	-162	0
Proceeds from disposal of a subsidiary	0	0
Proceeds from sale of equipment	669	19
Cash flows from investing activities	-97	-252
Cash flows from financing activities		
Dividend payment to shareholders	-425	-320
Proceeds from issuance of share capital	0	0
Purchasing of treasury stock	0	0
Repayment convertible bonds	0	0
Costs of capital increase	-6	0
Proceeds from short or long-term borrowings	0	0
Repayments long-time bank borrowings	-192	-198
Payment of capital lease liabilities	-17	-26
Cash flows from financing activities	-640	-544
Changes in cash and cash equivalents		
Changes in cash and cash equivalents due to exchange rates	170	34
Changes in cash and cash equivalents	-308	229
Cash and cash equivalents as at 01.01.2005	7,125	5,999
Cash and cash equivalents as at 30.06.2005	6,987	6,262
Composition of cash and cash equivalents		
Cash	5,873	4,911
Short-term investments	1,295	1,424
Bank overdraft	-181	-73
Cash and cash equivalents	6,987	6,262

Shortened Annex

The 30 June 2005 interim report has been prepared in accordance with IFRS. It reflects the interpretations of the International Financial Interpretations Committee (IFRIC). All past figures have been determined using the same principles.

The interim financial statements follow the same accounting, valuation and calculation methods as the last annual financial statements.

Estimates of amounts reported in earlier interim reporting periods of the current financial year, the last annual financial statements, or in previous financial years remain unchanged in this interim report.

According to the resolution of the shareholders' general meeting on 1 June 2005 a dividend of K€ 425 was paid.

With effect from February 1st, 2005, the group has sold the stencil production in the USA by disposing of the assets of LPKF Services, Inc. (formerly: A-Laser, Inc.).

R&D expenses in the reporting period were K€ 1,597 (previous year K€ 1,508).

No changes have arisen since the last balance sheet date with respect to contingent liabilities and contingent assets.