

LPKF NEWSLETTER

Group interim report for the six months ending 30 June 2008

1. Group interim management report

1.1 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.	Naklo / Slovenia	75.0	1995
LPKF Distribution Inc.	Tualatin / USA	85.0	1994/1999/2005
LPKF Motion & Control GmbH	Suhl / Germany	50.9	1991/1999
LPKF France S.A.R.L.	Lisses / France	94.0	1999
LPKF (Tianjin) Co. Ltd.	Tianjin / China	100.0	2000
LPKF Laser & Electronics (ASIA) Ltd.	Hong Kong / China	100.0	2005
LPKF SolarQuipment GmbH	Suhl / Germany	83.7	2007

The subsidiaries LPKF Services Inc. and LPKF Properties LLC have been closed and are no longer part of the consolidated group.

1.2 Development of business and earnings situation

1.2.1 Economic environment

The knock-on effects of the credit crunch, increasing fears of inflation, and the continuing weakness of the dollar are depressing the economic outlook for the second half of 2008, particularly in the industrial countries of Europe, as well as the USA and Japan. The general feeling of uncertainty has also now affected the capital goods market. Whilst only a year ago, all the experts predicted robust global economic growth, the forecasts today are mixed and difficult to interpret. LPKF's product portfolio covers a range of markets affected by different levels of business activity. The major PCB manufacturers for instance are experiencing a stagnating to declining development in turnover, whilst the solar industry continues to enjoy a very good business outlook with a considerable expansion in capacities. Despite a turnaround in the currency situation at the beginning of the third quarter, the value of the US Dollar compared to the Euro is still much lower than in the same period the previous financial year.

1.2.2 Turnover development

Under increasingly difficult market conditions, LPKF Laser & Electronics AG was able to boost its turnover in the first half of 2008 by 8.2 % to € 19.6 million. The weak US Dollar depressed consolidated turnover by around € 0.4 million. Because of its broad business base, the LPKF Group was able to compensate in part for declines in some segments by strong positive developments in other sectors. However, the growth in turnover overall is less than expected. The development in turnover in the first half of the financial year was depressed by weak business in the MID and PCB Processing segments. In addition, negative currency effects, primarily due to the weak US Dollar, depress the competitiveness of the PCB Processing systems in particular. Sales of StencilLasers was also below the forecasts. However, high orders received (+ 31 %) indicate a turn in fortunes in the second half of the financial year so that business will at least proceed according to plan over the year as a whole. Turnover in the Rapid Prototyping segment was boosted by 22 %. And the business with systems for plastic welding and solar scribes is also very positive as expected. These trends continued in the first weeks of the third quarter 2008.

External Sales	2008	2007
Laser Systems	10,942	10,534
Rapid Prototyping	7,591	6,202
Inspection / Special Systems	3	393
Production Services	766	643
Others	313	356
Total	19,615	18,128

1.2.3 Development in income

Consolidated EBIT in the first quarter 2008 was € - 0.3 million (previous year: € 0.7 million). The Group achieved a positive operating income of € 0.8 million in the second quarter (previous year: € 2.1 million). EBIT in the first half to 30 June 2008 was thus € 0.5 million (previous year: € 2.8 million).

The decline in earnings compared to the previous year is primarily attributable to growth in turnover falling below budget forecasts, combined with a rise in cost items associated with the expansion strategy. In addition, the earnings were also affected by the following one-off effects: income from the sale of real estate in the USA in the second quarter 2007 totalling € 0.4 million; additional costs for sales commissions totalling € 0.1 million in the second quarter 2008 from the brought forward and modified preparation of the accounts.

The other operating income, without any special effects due to the expiry of project grants, declined by € 0.4 million. In addition, € 0.2 million less development work was reported on the asset side mainly because more customer-project related and less general development was undertaken in the Solar segment. The expansion of capacities in line with LPKF AG's long-term growth strategy led to a rise in personnel costs of around 9 % and an increase in depreciation by 18 % compared to the same period the previous year. Other operating expenses rose by 15 % as a result of additional sales and marketing costs. The material usage ratio of 34.8 % remained at roughly the same level as the first half 2007. Minority interests rose to € 0.3 million compared to € 0.1 million the previous year primarily because of the success in the Solar segment.

1.2.4. Segment reporting

The following table shows the distribution of the operating income to each of the segments:

Operating result	2008	2007
Laser Systems	94	2,371
Rapid Prototyping	1,033	729
Inspection / Special Systems	0	-69
Production services	99	77
Others	48	22
Not distributed	-802	-323
Total	472	2,807

1.3. Asset and financial situation

1.3.1 Asset situation

There has been virtually no change in the asset situation compared to the end of 2007. There has, however, been a further increase in inventories, also in the second quarter 2008, attributable to the high level of orders in hand, changes in products, and the provision of demonstration systems to support sales and marketing activities. As a result, the inventories of system components and finished goods in particular have risen. Concentrated work is being undertaken to reduce the inventories as the year progresses. The receivables portfolio has been reduced by € 2.6 million. Liquid funds rose by € 0.6 million to € 3.4 million on the balance sheet date.

As a result of the dividend payment of € 1.3 million in the second quarter, and outflows from the payment of taxes, and settling deferred liabilities, short-term debts have risen by € 3.7 million.

The capital ratio remains high at 64.8 %.

1.3.2 Financial situation

As a result of the lower consolidated net income, as well as the increase in inventories, the Group generated a cash flow of € 0.1 million (previous year: € 0.8 million) from its operating activities in the first half of the 2008 financial year. The outflow of funds from investment activities totalled € 1.7 million was almost entirely financed by borrowings. The cash and cash equivalents overall declined by € 0.2 million to € 2.9 million.

1.3.3 Investments

Comprehensive development work was done during the reporting period in the Solar and Stencil segments in particular. Development costs totalling € 0.8 million were reported on the assets side of the balance sheet. In addition, the construction of the new office for the sales subsidiary in the USA was completed in the first quarter.

1.4 Employees

The following table shows the change in the number of employees in the first half 2008:

	30.06.2008	31.12.2007
Production	80	65
Distribution	71	69
Research & Development	83	81
Service	44	37
Administration	91	87
	369	339

1.5 Opportunities and risk report

The opportunities and risks affecting LPKF Laser & Electronics AG have not changed significantly in the reporting period compared to the report in the 2007 annual report.

1.6 Forecast report

Development in the segments

Basic business

Rapid Prototyping

The Rapid Prototyping segment continues to provide LPKF AG with a solid business foundation with a growth in turnover of 22 % and enjoyed a high level of orders received in the second quarter, which indicates a further positive development of this business. The new ProtoLaser S was presented to trade visitors at a range of international shows and received a positive welcome from the customers.

Stencils

After the successful launch of two new machine models, business in this segment enjoyed a considerable upswing. Because of the stable situation in orders received, and seasonal effects which boost business in the second half of the year, the management expects turnover in the year as a whole to match the previous year's level.

PCB Processing

The PCB Processing segment fell well short of the turnover target in the first half of the financial year. The company is expecting turnover to pick up with the launch of a new cost-optimised product in autumn 2008.

Growth segments

MID

The business with laser systems for the production of MIDs using the LPKF-LDS® method, developed very promisingly during the 2007 financial year and experienced strong growth. This segment has, however, experienced a considerable slump in sales since the beginning of the year. The systems supplied to customers the previous year continue to be underutilised which means that the expected follow-up orders are not coming in.

Plastic welding

The business with laser systems for plastic welding is developing very satisfactorily. The intense commitment to boosting sales in Germany and abroad paid off in continuously growing turnover. Plastic welding is continuing to gain ground on competing methods thanks to the cost advantages. The segment at the Erlangen location will continue to be expanded accordingly.

Solar

The business with laser systems for structuring thin-film solar panels is continuing to develop according to plan. LPKF sees major growth potential in the solar market and expects this business to continue to grow in the future.

General outlook

Orders received throughout the Group to 30 June were up 11 % year-on-year at € 24.1 million. Orders in hand reached € 11.7 million, and therefore 37 % up on the same period in the 2007 financial year. A considerable proportion of the orders in hand involves systems in the Solar segment.

In November 2007, the management issued a sales forecast for the ongoing financial year of € 50 million, with an EBIT margin of 13 - 16 %. The slump in turnover in the MID segment is largely responsible for the failure to achieve the planned growth in sales. This was exacerbated by an unexpectedly weak development in the PCB Processing systems business whose competitiveness has been hit hard by the strong Euro.

The depressed economy and increasing difficulties placed in the way of exporting machines to China will also continue to influence the development of the LPKF Group during the rest of the financial year. The Board of Managing Directors has corrected its sales and earnings forecasts and now expects consolidated turnover for the whole of the 2008 financial year to be in the range of € 43 - 45 million, with an EBIT margin in the upper single figure range.

2. Interim Group financial statements

Consolidated Balance Sheet (in T€)

Assets	30.06.2008	31.12.2007	Liabilities and shareholders' equity	30.06.2008	31.12.2007
Non-current assets			Shareholders' equity		
Goodwill	74	74	Share capital	10,858	10,858
Other intangible assets	3,810	3,366	Additional paid-in capital	3,953	3,953
Tangible assets	13,553	13,675	Market value of hedging transactions	0	0
Investments	0	17	Market value of securities	-19	-7
Deferred taxes	432	531	Reserves for share based payments	334	274
Trade accounts receivable	302	463	Retained earnings	16,288	17,599
Tax refund claims	330	354	Foreign currency translation adjustments	-1,486	-1,289
Other assets	152	224	Minority interest	2,855	2,552
Total non-current assets	18,653	18,704	Total shareholders' equity	32,783	33,940
Current assets			Non-current liabilities		
Inventories	18,358	15,617	Provisions for pensions	348	335
Trade accounts receivable	7,214	9,784	Longterm debt, less current portion	3,693	3,664
Tax refund claims	1,279	615	Deferred grants	363	373
Other current assets	1,281	1,146	Deferred taxes	1,176	1,234
Shortterm investments / marketable securities	420	284	Total non-current liabilities	5,580	5,606
Cash and cash equivalents	3,415	2,824	Current liabilities		
Total current assets	31,967	30,270	Accrued expenses	1,493	2,809
			Short-term debt and current portion or long term debt	5,054	1,347
			Trade accounts payable	2,042	2,101
			Other current liabilities	3,668	3,171
			Total current liabilities	12,257	9,428
Total assets	50,620	48,974	Total liabilities and shareholders' equity	50,620	48,974

Consolidated Statement of Income (in T€)

	01.04.-30.06.2008	01.04.-30.06.2007	01.01.-30.06.2008	01.01.-30.06.2007
Sales	11,153	10,163	19,615	18,128
Other operating income	166	788	320	1,119
Changes in inventories of finished goods and work-in-progress	681	1,196	975	1,453
Own work capitalized	563	1,088	830	1,455
Cost of purchased materials and services	4,429	4,330	7,164	6,699
Personnel expenses	4,073	3,823	7,899	7,265
Depreciation on plant (and intangible assets)	596	559	1,177	1,001
Amortisation of goodwill	0	0	0	0
Other operating expenses	2,676	2,427	5,028	4,383
Operating income	789	2,096	472	2,807
Financial income	28	33	56	67
Financial expenditure	76	55	129	103
Income from investments and participations	0	0	0	0
Income / expense from investments accounted for by the equity method	0	0	0	0
Other income / expenses	0	0	0	0
Result before income taxes (and minority interests)	741	2,074	399	2,771
Income tax	242	628	135	847
Extraordinary income / expenses	0	0	0	0
Result before minority interests	499	1,446	264	1,924
Minority interests	136	165	272	131
Net result	363	1,281	-8	1,793

Earnings per share (in €)

	01.04.-30.06.2008	01.04.-30.06.2007	01.01.-30.06.2008	01.01.-30.06.2007
Earnings per share (basic)	0.03	0.12	0.00	0.17
Earnings per share (diluted)	0.03	0.12	0.00	0.17
Weighted average shares outstanding (basic)	10,858,052	10,858,052	10,858,052	10,858,052
Weighted average shares outstanding (diluted)	10,858,052	10,858,052	10,858,052	10,858,052

Consolidated statement of the changes in shareholders' equity (in T€)

Consolidated statement of the changes in shareholders' equity for the financial year ended 30 June 2008 (previous year in brackets)

	Share capital	Additional paid-in capital	Other earnings reserves	Market value of hedging transactions	Market value of securities	Reserves for share based payments	Retained earnings	Foreign currency translation adjustments	Minority interest	Total
As at 1.1.2008 / 1.1.2007 before setting-off own stock	10,858 (10,858)	3,953 (3,953)	7,000 (6,000)	0 (14)	-7 (0)	274 (161)	10,599 (9,034)	-1,289 (-864)	2,552 (2,559)	33,940 (31,715)
Setting-off own stock	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
As at 1.1.2008 / 1.1.2007 after setting-off own stock	10,858 (10,858)	3,953 (3,953)	7,000 (6,000)	0 (14)	-7 (0)	274 (161)	10,599 (9,034)	-1,289 (-864)	2,552 (2,559)	33,940 (31,715)
Costs of capital increase	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Proceeds from capital increase	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Buying back own stock	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Issue of own stock	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Additions from measurement of cash flow hedge	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Reductions from measurement of cash flow hedge	0 (0)	0 (0)	0 (0)	0 (-14)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (-14)
Additions from market valuation from securities	0 (0)	0 (0)	0 (0)	0 (0)	-12 (-3)	0 (0)	0 (0)	0 (0)	0 (0)	-12 (-3)
Allocations to reserves	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Transfer of earnings reserves	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Dividend payment to shareholders	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	-1,303 (-1,303)	0 (0)	0 (-272)	-1,303 (-1,575)
Net result	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	-8 (1,793)	0 (0)	272 (131)	264 (1,924)
Expenditure for granted option rights	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	60 (39)	0 (0)	0 (0)	0 (0)	60 (39)
Settlement of difference from acquisition of minority shares	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Foreign currency translation adjustments	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	-197 (24)	31 (-66)	-166 (-42)
As at 30.06.2008	10,858	3,953	7,000	0	-19	334	9,288	-1,486	2,855	32,783
As at 30.06.2007	(10,858)	(3,953)	(6,000)	(0)	(-3)	(200)	(9,524)	(-840)	(2,352)	(32,044)

Consolidated cash flow statement according to IAS 7 (in T€)

	01.01. – 30.06.2008	01.01. – 30.06.2007
Operating activities		
Net profit	264	1,924
Income tax	135	847
Interest charges	129	103
Interest income	-56	-67
Depreciation and amortisation	1,177	1,001
Changes in provisions and accruals	-145	-972
Gains/losses on the disposal of fixed assets including reclassification into current assets	141	-400
Cashless currency differences in fixed assets	100	6
Changes in inventories, accounts receivables and other assets	-613	-1,536
Changes in liabilities and other deferred income	203	681
Other non-payment expense/income	11	10
Payments from interest	56	67
Paid income tax	-1,293	-793
Cash flows from operating activities	109	871
Investing activities		
Fixed assets investment intangible assets	-870	-1,256
Fixed assets investment tangible assets	-875	-1,442
Investments in subsidiaries	0	0
Proceeds from disposal of financial assets	17	0
Proceeds from sale of equipment	4	1,030
Cash flows from investing activities	-1,724	-1,668
Financing activities		
Dividend payment to shareholders	-1,303	-1,303
Dividend payment to minorities	0	-272
Interest paid	-129	-103
Proceeds from issuance of share capital	0	0
Purchasing of own stock	0	0
Repayment convertible bond	0	-5
Costs of capital increase	0	0
Proceeds from short or long-term borrowings	3,203	300
Repayments long-time bank loans	-351	-318
Cash flows from financing activities	1,420	-1,701
Changes in cash and cash equivalents		
Changes in cash and cash equivalents due to exchange rates	35	16
Changes in cash and cash equivalents	-195	-2,498
Cash and cash equivalents as at 1. 1.	3,108	5,156
Cash and cash equivalents as at 31.03.	2,948	2,674
Composition of cash and cash equivalent		
Cash	3,415	2,582
Short-term investments / securities	420	289
Bank overdraft	-887	-197
Cash and cash equivalents	2,948	2,674

3. Shortened annex

3.1 Details on the compilation of the interim-annual report

The interim report as at 30 June 2008 has been prepared in accordance with IFRS. It reflects the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All past figures have been determined using the same principles.

The same accounting methods and evaluation methods were used in the interim accounts as in the last annual financial statements.

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

In accordance with the AGM resolution dated 11 June 2008 a dividend payment of T€ 1,303 (previous year: T€ 1,303) was made.

During the report period, the expenditure for R&D was T€ 2,483 (previous year: T€ 2,337).

Since the last balance sheet date, there have been no changes to contingent liabilities and receivables.

No events of significance with substantial impacts on the asset, financial and earnings situation have taken place since key date 30 June 2008.

This present interim six months report has not been audited and has not been subject to an examining review.

3.2 Related parties transactions

A shareholder of the subsidiary LPKF Laser & Electronika d.o.o. holds 100% of the shares in Zeltra Naklo d.o.o.. In the first half of 2008 materials and equipment, merchandise and services totalling T€ 4 were purchased from this related party by Group companies.

50% of the shares in PMV d.o.o. are held by a shareholder of the subsidiary LPKF Laser & Electronika d.o.o. and 50% by other related parties. In the first half of 2008, business relations with this company covered development and production services and rentals and/or license agreements totalling T€ 379. In addition, Group companies carried out orders totalling T€ 67 for PMV d.o.o..

The Managing Director of LPKF Distribution Inc. granted the company a long-term loan totalling TUS\$ 350, for the financing of a construction measurement. Interest rates and provision of security are at prevailing market rates.

On balance sheet date, LPKF Laser & Electronics AG has liabilities due to members of the supervisory board totalling T€ 68.

With the exception of the aforementioned, there are no other significant claims or liabilities against LPKF Group companies with respect to paid remunerations or benefits granted to related parties.

Number of shares held by Board members

	30.06.2008	31.12.2007
Board of Managing Directors		
Bernd Hackmann	222,800	222,800
Bernd Lange	10,010	7,010
Kai Bentz	725	725
Supervisory Board		
Bernd Hildebrandt	871,746	871,746
Prof. Dr.-Ing. Erich Barke	1,000	1,000

4. Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements for the first six months to 30 June 2008 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

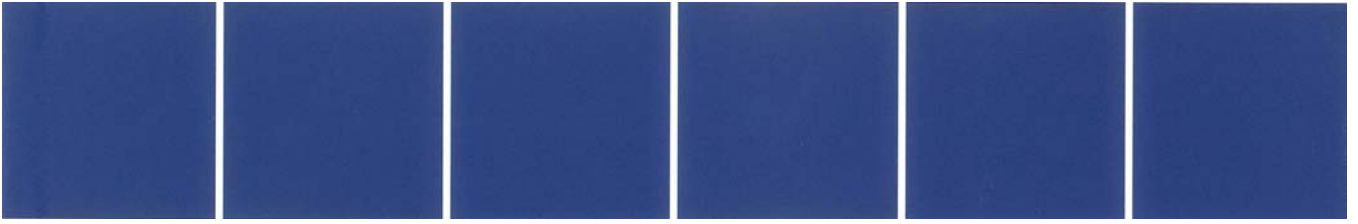
Garbsen, 15 August 2008

LPKF Laser & Electronics AG, Garbsen
Managing Board of Directors

Bernd Hackmann

Bernd Lange

Kai Bentz



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