



LPKF NEWSLETTER 03/06

Ladies and Gentlemen,

The LPKF Group generated a turnover of € 27.4 million in the first nine months of the 2006 financial year - a rise of 9%. The net result of € 2.2 million was only slightly down year-on-year (-1.6%). The growth in turnover is mainly attributable to the impressive 20% rise in turnover in the Laser Systems segment, where the "new" activities in 3D MID technology and Laser Plastic-Welding in particular posted very good sales.

The business with Laser Plastic-Welding machines run from our branch office in Erlangen/Germany is expanding further at an international level and boosted turnover by 142% to € 3.1 million. Business also developed very satisfactorily in the 3D MID segment. The patented technology for the production of 3D-MIDs is well on the way to ousting conventional production processes. Its application in mass production opens up major opportunities for growth. Antennae for several mobile phones are already being produced by this new technology. The devices are already on the market.

Deliveries of the new "MultiCut" from the StencilLaser segment began at the end of the third quarter. Clients held back orders for other systems in the run up to the launch of this new powerful standard system. The large number of orders received for the new system will ensure a strong growth in turnover in this important product segment in the fourth quarter 2006.

The sales of inspection systems was below target at € 2.0 million. This is due to the small number of clients in this segment at the moment. LPKF has initiated activities to expand the distribution and customer base to place the inspection systems business on a broader footing.

Rapid PCB Prototyping boasted good results with its almost completely renewed product line. LPKF achieved a growth of 16% here to generate a turnover of € 8.0 million.

The strong growth in the last two years, and our ambitious growth targets led to an unavoidable increase in investment. This includes the enlargement of our headquarters in Garbsen, merging the production and administration sites in Slovenia, hiring more staff in the distribution and service department, and the implementation of new CRM software for customer management. These investments are currently impacting the profit line but also form the base for further profitable growth.

EBIT was effected by the already disclosed special factors. Adjusted for these special effects, EBIT would have risen by 3.5%. The refund of interest on tax payments in Q3 2006 boosted the financial performance by € 0.2 million.

Orders on hand of T€ 7,555 create a good platform for a strong fourth quarter. A consolidated turnover of € 41 million is therefore still forecast for the whole of the 2006 financial year.

We expect growth to be given a boost in the 2007 financial year by business in the 3D MID, Laser Plastic-Welding, and Rapid PCB Prototyping segments. Our forecast for growth in 2007 is currently down from around 20% to 10% - corresponding to a forecast turnover of approx. € 45 million.

Ladies and Gentlemen, we are in the middle of negotiations with important clients for 3D MID systems. The outcomes of these discussions could have a larger positive impact on turnover in 2007 than currently factored into the forecast.

Bernd Hackmann

Bernd Lange



Statement of income (in T€)

| | 01.07.- 30.09.2006 | 01.07.- 30.09.2005 | 01.01.- 30.09.2006 | 01.01.- 30.09.2005 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Turnover | 9,138 | 9,381 | 27,417 | 25,168 |
| Other operating income | 246 | 330 | 704 | 1,185 |
| Changes in inventories of finished goods and work-in-progress | 96 | -72 | 648 | -766 |
| Production of own fixed assets capitalized | 284 | 87 | 877 | 257 |
| Cost of purchased materials and services | 3,115 | 2,502 | 8,734 | 6,380 |
| Personnel expenses | 3,187 | 3,036 | 9,601 | 8,348 |
| Depreciation on plant (and intangible assets) | 443 | 389 | 1,160 | 1,122 |
| Amortisation of goodwill | 0 | 0 | 0 | 0 |
| Other operating expenses | 1,921 | 2,069 | 5,941 | 5,502 |
| Operating income | 1,098 | 1,730 | 4,210 | 4,492 |
| Interest income | 245 | 35 | 337 | 123 |
| Interest expenses | 28 | 36 | 112 | 113 |
| 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 interest) | 1,315 | 1,729 | 4,435 | 4,502 |
| Income tax | 486 | 620 | 1,749 | 1,653 |
| Extraordinary income / expenses | 0 | 0 | 0 | 0 |
| Result before minority interest | 829 | 1,109 | 2,686 | 2,849 |
| Minority interest | 138 | 262 | 441 | 567 |
| Net result | 691 | 847 | 2,245 | 2,282 |

Balance sheet (in T€)

| Assets | 30.09.2006 | 31.12.2005 |
|--|---------------|---------------|
| Current assets | | |
| Cash and cash equivalents | 2,625 | 5,572 |
| Short-term investments / marketable securities | 1,928 | 3,049 |
| Trade accounts receivable | 5,733 | 6,313 |
| Accounts receivable due to related parties | 0 | 0 |
| Inventories | 15,083 | 13,010 |
| Prepaid expenses and other current assets | 1,600 | 938 |
| Total current assets | 26,969 | 28,882 |
| Non-current assets | | |
| Property, plant and equipment | 11,650 | 8,074 |
| Intangible assets | 1,508 | 761 |
| Goodwill | 74 | 74 |
| Investments | 0 | 0 |
| Investments accounted for by the equity method | 0 | 0 |
| Notes receivables / loan | 2 | 3 |
| Deferred taxes | 458 | 426 |
| Trade accounts receivable | 102 | 153 |
| Other assets | 204 | 204 |
| Total non-current assets | 13,998 | 9,695 |
| Total assets | 40,967 | 38,577 |

Earnings per share (in €)

| | 01.07.- 30.09.2006 | 01.07.- 30.09.2005 | 01.01.- 30.09.2006 | 01.01.- 30.09.2005 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Net income per share (basic) | 0.06 | 0.08 | 0.21 | 0.21 |
| Net income per share (diluted) | 0.06 | 0.08 | 0.21 | 0.21 |
| Weighted average shares outstanding (basic) | 10,850,251 | 10,835,026 | 10,842,347 | 10,701,939 |
| Weighted average shares outstanding (diluted) | 11,017,413 | 10,875,407 | 10,921,976 | 10,750,474 |

Segment reporting (in T€)

According to product lines per 30.09.2006

| External Sales | 2006 | 2005 |
|----------------------------|---------------|---------------|
| Laser Systems | 16,405 | 13,668 |
| Rapid PCB Prototyping | 7,986 | 6,876 |
| Inspection/Special systems | 1,952 | 3,229 |
| Production services | 906 | 1,117 |
| Others | 168 | 278 |
| Not distributed | 0 | 0 |
| Total | 27,417 | 25,168 |

| Operating result | 2006 | 2005 |
|----------------------------|--------------|--------------|
| Laser Systems | 3,521 | 3,217 |
| Rapid PCB Prototyping | 1,039 | 828 |
| Inspection/Special systems | 226 | 784 |
| Production services | 183 | 334 |
| Others | 28 | 142 |
| Not distributed | -787 | -813 |
| Total | 4,210 | 4,492 |

| Liabilities and shareholders' equity | 30.09.2006 | 31.12.2005 |
|---|---------------|---------------|
| Current liabilities | | |
| Current portion of finance lease obligation | 43 | 61 |
| Short-term debt and current portion of long term debt | 667 | 517 |
| Trade accounts payable | 1,958 | 1,612 |
| Accounts payable due to related parties | 0 | 0 |
| Advanced payments received | 562 | 491 |
| Accrued expenses | 2,559 | 2,720 |
| Deferred revenues | 0 | 0 |
| Income tax payable | 0 | 0 |
| Deferred taxes liability | 0 | 0 |
| Other current liabilities | 1,219 | 1,684 |
| Deferred income | 89 | 43 |
| Total current liabilities | 7,097 | 7,128 |
| Non-current liabilities | | |
| Long-term debt, less current portion | 2,443 | 1,736 |
| Finance lease obligations, less current portion | 0 | 10 |
| Deferred revenues | 0 | 0 |
| Deferred taxes liability | 769 | 549 |
| Pension accrual | 288 | 284 |
| Deferred income | 315 | 316 |
| Total non-current liabilities | 3,815 | 2,895 |
| Minority interest | 2,578 | 2,173 |
| Shareholders' equity | | |
| Share capital | 10,856 | 10,838 |
| Additional paid-in capital | 3,948 | 3,901 |
| Treasury stock | 0 | 0 |
| Fair value reserves hedging instruments | -2 | -3 |
| Market value of securities | 0 | -29 |
| Reserves for share based payments | 132 | 93 |
| Retained earnings | 13,306 | 12,145 |
| Foreign currency translation adjustments | -763 | -564 |
| Total shareholders' equity | 27,477 | 26,381 |
| Total liabilities and shareholders' equity | 40,967 | 38,577 |



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

Consolidated statement of the changes in shareholders' equity for the financial year ended 30 September 2006 (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 | Total |
|---|---------------|----------------------------|-------------------------|--------------------------------------|----------------------------|-----------------------------------|-------------------|--|----------|
| As at 1.1.2006 before setting-off own stock and market valuation of securities | 10,838 | 3,901 | 4,700 | -3 | -29 | 93 | 7,445 | -564 | 26,381 |
| As at 1.1.2005 before setting-off own stock | (10,648) | (3,768) | (4,000) | (-1) | (0) | (42) | (5,519) | (-961) | (23,015) |
| Setting-off own stock | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | (-50) | (-97) | (0) | (0) | (0) | (0) | (0) | (0) | (-147) |
| Additions from market valuation of securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (0) |
| As at 01.01.2006 after setting-off own stock and market valuation of securities | 10,838 | 3,901 | 4,700 | -3 | -29 | 93 | 7,445 | -564 | 26,381 |
| As at 01.01.2005 after setting-off own stock and market valuation of securities | (10,598) | (3,671) | (4,000) | (-1) | (0) | (42) | (5,519) | (-961) | (22,868) |
| Costs of capital increase | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | (0) | (-18) | (0) | (0) | (0) | (0) | (0) | (0) | (-18) |
| Proceeds from capital increase | 18 | 47 | 0 | 0 | 0 | 0 | 0 | 0 | 65 |
| | (187) | (23) | (0) | (0) | (0) | (0) | (0) | (0) | (210) |
| Buying back own stock | 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 |
| | (50) | (97) | (0) | (0) | (0) | (0) | (0) | (0) | (147) |
| Additions from valuation of cash flow hedge | 0 | 0 | 0 | -2 | 0 | 0 | 0 | 0 | -2 |
| | (0) | (0) | (0) | (36) | (0) | (0) | (0) | (0) | (36) |
| Reductions from valuation of cash flow hedge | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 3 |
| | (0) | (0) | (0) | (-35) | (0) | (0) | (0) | (0) | (-35) |
| Additions from market valuation from securities | 0 | 0 | 0 | 0 | 29 | 0 | 0 | 0 | 29 |
| | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (0) |
| Allocations to reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | (0) | (0) | (1,000) | (0) | (0) | (0) | (-1,000) | (0) | (0) |
| Transfer of earnings reserves | 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 | -1,084 | 0 | -1,084 |
| | (0) | (0) | (0) | (0) | (0) | (0) | (-425) | (0) | (-425) |
| Net result | 0 | 0 | 0 | 0 | 0 | 0 | 2,245 | 0 | 2,245 |
| | (0) | (0) | (0) | (0) | (0) | (0) | (2,282) | (0) | (2,282) |
| Expenditure for granted option rights | 0 | 0 | 0 | 0 | 0 | 39 | 0 | 0 | 39 |
| | (0) | (0) | (0) | (0) | (0) | (37) | (0) | (0) | (37) |
| Settlement of difference from acquisition of minority shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | (0) | (77) | (0) | (0) | (0) | (0) | (0) | (0) | (77) |
| Foreign currency translation adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -199 | -199 |
| | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (452) | (452) |
| As at 30.09.2006 | 10,856 | 3,948 | 4,700 | -2 | 0 | 132 | 8,606 | -763 | 27,477 |
| As at 30.09.2005 | (10,835) | (3,850) | (5,000) | (0) | (0) | (79) | (6,376) | (-509) | (25,631) |

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 Laser & Electronics Inc. | Wilsonville / USA | 85.0 (prev. year: 60.0) | 1994/1999/2005 |
| LPKF Services Inc. (formerly: A-Laser 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 (Tianjin) Co. Ltd. | Tianjin / China | 100.0 | 2000 |
| LPKF Laser & Electronics (ASIA) Ltd. | Hongkong / China | 100.0 | 2005 |

Number of shares held by board members

| | 30.09.2006 | 31.12.2005 |
|--|------------|------------|
| Board of managing directors | | |
| Bernd Hackmann | 202,800 | 193,200 |
| Bernd Lange | 4,510 | 500 |
| Supervisory board | | |
| Bernd Hildebrandt | 881,746 | 874,246 |
| Klaus Sülter (until 15.06.2006) | n.a. | 658,800 |
| Prof. Dr.-Ing. Erich Barke (from 16.06.2006) | 1,000 | n.a. |

Workforce

The breakdown of employee numbers is as follows:

| | 30.09.2006 | 31.12.2005 |
|--------------------------------|------------|------------|
| Production | 73 | 63 |
| Distribution | 66 | 58 |
| Research & Development | 62 | 54 |
| Engineering and administration | 82 | 73 |
| | 283 | 248 |



Consolidated cash flow statement (in T€)

| | 01.01. - 30.09.2006 | 01.01. -30.09.2005 |
|---|---------------------|--------------------|
| Cash flows from operating activities | | |
| Net profit / loss | 2,245 | 2,282 |
| Minority interest | 441 | 567 |
| Depreciation and amortisation | 1,160 | 1,122 |
| Changes in provisions and accruals | -108 | 1,925 |
| Gains/losses on the disposal of fixed assets | 0 | -345 |
| Changes in inventories, accounts receivables and other assets | -2,294 | -3,860 |
| Changes in liabilities and other deferred income | 61 | 666 |
| Other non-payment expense/income | 246 | -327 |
| Cash flows from operating activities | 1,751 | 2,030 |
| Cash flows from investing activities | | |
| Fixed assets investment intangible assets | -968 | -241 |
| Fixed assets investment tangible assets | -4,555 | -766 |
| Investments in subsidiaries | 0 | -162 |
| Proceeds from disposal of a subsidiary | 0 | 0 |
| Proceeds from sale of equipment | 12 | 739 |
| Cash flows from investing activities | -5,511 | -430 |
| Cash flows from financing activities | | |
| Dividend payment to shareholders | -1,084 | -425 |
| Proceeds from issuance of share capital | 65 | 35 |
| Purchasing of treasury stock | 0 | 0 |
| Repayment convertible bonds | 0 | 0 |
| Costs of capital increase | 0 | 18 |
| Proceeds from short or long-term borrowings | 1,160 | 0 |
| Repayments long-time bank borrowings | -306 | -299 |
| Payment of capital lease liabilities | -107 | -26 |
| Cash flows from financing activities | -272 | -697 |
| Changes in cash and cash equivalents | | |
| Changes in cash and cash equivalents due to exchange rates | -38 | 131 |
| Changes in cash and cash equivalents | -4,032 | 903 |
| Cash and cash equivalents as at 01.01.2006 | 8,564 | 7,125 |
| Cash and cash equivalents as at 30.09.2006 | 4,494 | 8,159 |
| Composition of cash and cash equivalent | | |
| Cash | 2,625 | 5,991 |
| Short-term investments | 1,928 | 2,315 |
| Bank overdraft | -59 | -147 |
| Cash and cash equivalents | 4,494 | 8,159 |

Shortened Annex

The 30 September 2006 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 same accounting methods and valuation methods were used in the interim accounts as in 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.

LPKF Laser Components GmbH was merged with LPKF LaserMicronics GmbH in the third quarter of 2006.

According to the resolution of the shareholders' general meeting on 8 June 2006 a dividend of T€ 1,084 was paid.

R&D expenses in the reporting period were T€ 2,543 (previous year T€ 2,524).

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

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LPKF Laser & Electronics AG Osteriede 7 D - 30827 Garbsen
Internet: www.lpkf.de Phone +49 (0) 5131 - 7095 - 0

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