

## LPKF NEWSLETTER 03/05

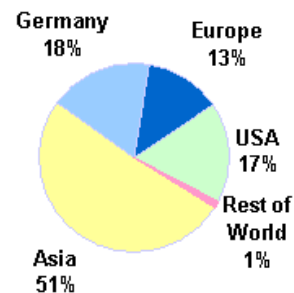
Dear Sir or Madam,

LPKF Laser & Electronics AG boasts an extraordinary growth in turnover and profits in the first nine months of the financial year. Turnover rose by 46.5% thanks to the sales successes of new product developments and the continued strong demand in Asia. Profits climbed to the levels last seen in the boom year 2000. The strategic course set in recent months - to concentrate on distribution and marketing in Asia - has again proved to be correct. Growth in other important sales markets is also satisfactory: business is expanding in America and Europe.

The boom in laser cutting and drilling systems continues into the third quarter. The successful sales of the PCB processing systems and StencilLaser systems made a major contribution to the growth in turnover in the Laser segment which expanded by 51.2% to T€ 13,668 in total. Turnover is also gaining clearly in momentum in the Rapid PCB Prototyping segment although there is still room for more growth with the new systems. Highly satisfactory is also the success of our subsidiary LPKF Motion & Control GmbH in Suhl/Germany where the turnover of their 3D inspection systems (Special Systems segment) rose considerably during the reporting period. These systems are used for the three dimensional measurement of solder bumps on PCBs: thanks to the precision and speed of this equipment, our customers considerably reduce the number of expensive rejects.

Our attendance last week at Productronica in Munich, the leading fair for electronic products, produced very promising results. LPKF had a 120m<sup>2</sup> stand at the fair and was represented by almost the whole marketing and distribution team. Interest was focussed on the laser depaneling systems for PCBs and new developments in Rapid PCB Prototyping.

Turnover by region after 9 months: € 25.2 million



Orders in hand at LPKF Laser & Electronics AG totalled T€ 5,749 on 21 November 2005 corresponding to a rise in 56.6% year-on-year (T€ 3,671). This demonstrates the sustainability of our corporate growth.

Against this background, the Board of Managing Directors raised its turnover forecast for the whole of 2005 by 10% to € 33 million. A turnover target of € 41 million has been set for 2006. Our planned growth target for 2007 is € 50 million. The Board of Managing Directors therefore reinforces the planning figures presented here one year ago.

Yours faithfully

Bernd Hackmann

Bernd Lange



## Statement of income (in K€)

	01.07.- 30.09.2005	01.07.- 30.09.2004	01.01.- 30.09.2005	01.01.- 30.09.2004
Turnover	9,381	6,020	25,168	17,179
Other operating income	330	228	1,185	764
Changes in inventories of finished goods and work in progress	-72	370	-766	203
Production of own fixed assets capitalized	87	203	257	515
Cost of purchased materials and services	2,502	2,285	6,380	5,255
Personnel expenses	3,036	2,354	8,348	7,076
Depreciation on plant (and intangible assets)	389	409	1,122	1,257
Amortisation of goodwill	0	10	0	51
Other operating expenses	2,069	1,332	5,502	4,357
<b>Operating income</b>	<b>1,730</b>	<b>431</b>	<b>4,492</b>	<b>665</b>
Interest income	35	25	123	95
Interest expense	36	43	113	132
Income from investments and participations	0	0	0	0
Other income / expenses	0	5	0	-10
<b>Result before income taxes (and minority interest)</b>	<b>1,729</b>	<b>418</b>	<b>4,502</b>	<b>618</b>
Income tax	620	167	1,653	315
Extraordinary income / expenses	0	0	0	0
<b>Result before minority interest</b>	<b>1,109</b>	<b>251</b>	<b>2,849</b>	<b>303</b>
Minority interest	-262	-94	-567	-192
<b>Net result</b>	<b>847</b>	<b>157</b>	<b>2,282</b>	<b>111</b>

## Earnings per share (in €)

	01.07.- 30.09.2005	01.07.- 30.09.2004	01.01.- 30.09.2005	01.01.- 30.09.2004
Net income per share (basic)	0.08	0.02	0.21	0.01
Net income per share (diluted)	0.08	0.02	0.21	0.01
Weighted average shares outstanding (basic)	10,835,026	10,638,502	10,701,939	10,644,764
Weighted average shares outstanding (diluted)	10,875,407	10,638,502	10,750,474	10,644,764

## Segment reporting (in K€)

According to product lines per 30.09.2005

External sales	2005	2004
Laser Systems	13,668	9,042
Rapid PCB Prototyping	6,876	6,417
Special Systems	3,229	903
Services	1,117	631
Others	278	186
Not distributed	0	0
<b>Total</b>	<b>25,168</b>	<b>17,179</b>

Operating result	2005	2004
Laser Systems	3,350	355
Rapid PCB Prototyping	838	928
Special Systems	886	214
Services	344	67
Others	161	106
Not distributed	-1,087	-1,005
<b>Total</b>	<b>4,492</b>	<b>665</b>

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

Consolidated statement of the changes in shareholders' equity for the financial year ended 30 September 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	-18	0	0	0	0	0	-18
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Proceeds from capital increase	187	23	0	0	0	0	0	210
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Buying back own stock	0	0	0	0	0	0	0	0
	(0)	(-80)	(0)	(0)	(0)	(0)	(0)	(-80)
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	36	0	0	0	36
	(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)
<b>Net result</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,282</b>	<b>0</b>	<b>2,282</b>
	(0)	(0)	(0)	(0)	(0)	(111)	(0)	(111)
Expenditure for granted option rights	0	0	0	0	37	0	0	37
	(0)	(0)	(0)	(0)	(21)	(0)	(0)	(21)
Offset of goodwill from the acquisition of minority shares	0	77	0	0	0	0	0	77
	(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	84	84
	(0)	(0)	(0)	(0)	(0)	(0)	(244)	(244)
Other foreign currency translation adjustment	0	0	0	0	0	0	368	368
	(0)	(0)	(0)	(0)	(0)	(0)	(72)	(72)
30.09.2005	10,835	3,850	5,000	0	79	6,376	-509	-25,631
30.09.2004	(10,648)	(3,688)	(4,000)	(0)	(32)	(5,029)	(-602)	(22,795)



## Balance sheet (in K€)

Assets	30.09.2005	31.12.2004
<b>Current assets</b>		
Cash and cash equivalents	5,991	5,629
Short-term investments / marketable securities	2,315	1,616
Trade accounts receivable	5,914	4,359
Accounts receivable due from related parties	0	0
Inventories	12,102	9,892
Prepaid expenses and other current assets	806	756
<b>Total current assets</b>	<b>27,128</b>	<b>22,252</b>
<b>Non-current assets</b>		
Property, plant and equipment	7,675	7,883
Intangible assets	688	755
Goodwill	74	74
Investments	2	2
Investments accounted for by the equity method	0	0
Notes receivables / loans	4	5
Deferred taxes	1,162	1,264
Trade accounts receivables	170	203
Other assets	185	185
<b>Total non-current assets</b>	<b>9,960</b>	<b>10,371</b>
<b>Total assets</b>	<b>37,088</b>	<b>32,623</b>

Liabilities and shareholders' equity	30.09.2005	31.12.2004
<b>Current liabilities</b>		
Current portion of finance lease obligation	69	36
Short-term debt and current portion or long-term debt	646	618
Trade accounts payable	1,431	1,322
Accounts payable due to related parties	0	0
Advanced payments received	406	311
Accrued expenses	3,151	1,460
Deferred revenues	0	0
Income tax payable	0	0
Deferred taxes liability	0	0
Other current liabilities	715	776
Deferred income	337	298
<b>Total current liabilities</b>	<b>6,755</b>	<b>4,821</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	1,782	2,084
Finance lease obligations, less current portion	11	71
Deferred revenues	0	0
Deferred taxes liability	530	605
Pension accrual	320	266
<b>Total non-current liabilities</b>	<b>2,643</b>	<b>3,026</b>
<b>Minority interest</b>	<b>2,059</b>	<b>1,908</b>
<b>Shareholders' equity</b>		
Share capital	10,835	10,598
Additional paid-in capital	3,850	3,671
Treasury stock	0	0
Fair value reserves hedging instruments	0	-1
Reserves for share based payments	79	42
Retained earnings	11,376	9,519
Foreign currency translation adjustments	-509	-961
<b>Total shareholders' equity</b>	<b>25,631</b>	<b>22,868</b>
<b>Total liabilities and shareholders' equity</b>	<b>37,088</b>	<b>32,623</b>

## 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

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

	30.09.2005	31.12.2004
<b>Board of managing directors</b>		
Bernd Hackmann	196,400	190,000
Bernd Lange	500	500
<b>Supervisory board</b>		
Bernd Hildebrandt	874,250	874,250
Klaus Sülter	658,800	808,800

## Workforce

The breakdown of employee numbers is as follows:

	30.09.2005	31.12.2004
Production	62	57
Distribution	58	49
Research & Development	55	49
Engineering and administration	72	68
	<b>247</b>	<b>223</b>



## Consolidated cash flow statement (in K€)

	01.01.-30.09.2005	01.01.-30.09.2004
<b>Cash flows from operating activities</b>		
Net profit / loss	2,282	111
Minority interest	567	192
Depreciation and amortisation	1,122	1,308
Increase in provisions and accruals	1,925	209
Gains / losses on the disposal of fixed assets	-345	-18
Changes in inventories, accounts receivables and other assets	-3,860	-101
Changes in liabilities and other deferred income	666	-302
Other non-payment expense / income	-327	47
<b>Cash flows from operating activities</b>	<b>2,030</b>	<b>1,446</b>
<b>Cash flows from investing activities</b>		
Fixed asset investment intangible assets	-241	-152
Fixed asset investment tangible assets	-766	-471
Investment in subsidiaries	-162	0
Proceeds from disposal of a subsidiary	0	0
Proceeds from sale of equipment	739	63
<b>Cash flows from investing activities</b>	<b>-430</b>	<b>-560</b>
<b>Cash flows from financing activities</b>		
Dividend payment to shareholders	-425	-320
Proceeds from issuance of share capital	35	0
Purchasing of treasury stock	0	-81
Repayment convertible bonds	0	-62
Costs of capital increase	18	0
Proceeds from short or long-term borrowings	0	0
Repayments long-time bank borrowings	-299	-312
Payment of capital lease liabilities	-26	-35
<b>Cash flows from financing activities</b>	<b>-697</b>	<b>-810</b>
<b>Changes in cash and cash equivalents</b>		
Changes in cash and cash equivalents due to exchange rates	131	14
Changes in cash and cash equivalents	903	111
Cash and cash equivalents as at 01.01.2005	7,125	5,999
<b>Cash and cash equivalents as at 30.09.2005</b>	<b>8,159</b>	<b>6,124</b>
<b>Composition of cash and cash equivalents</b>		
Cash	5,991	4,494
Short-term investments	2,315	1,647
Bank overdraft	-147	-17
<b>Cash and cash equivalents</b>	<b>8,159</b>	<b>6,124</b>

## Shortened Annex

The 30 September 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.

In accordance with IFRS 2, all of the equity compensation benefits issued to employees must be reported since 1 January 2005 as staff costs with an effect on income. The previous year's figures have been amended accordingly.

In all other cases, 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.

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.). The merger of Laserquipment AG, Erlangen, with LPKF Laser & Electronics AG, Garbsen, has now come into force. LPKF Benelux N. V. was successfully wound up after the balance sheet date. Furthermore, all interests of a minority shareholder of LPKF Laser Components GmbH, Garbsen, have been acquired after balance sheet date.

R&D expenses in the reporting period were K€ 2,524 (previous year K€ 2,273).

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

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