

## Dear Shareholders,

LPKF Laser & Electronics AG continues to grow. The positive development of the global economy, the continuing improvement in the position of our clients in the electronics industry and LPKF's major innovation strength create a good environment for the commercial success of our company.

LPKF's turnover in the first nine months of the 2004 financial year grew by around 6.0%. This growth in turnover was largely attributable to the 9.7% growth in the Laser segment. Here, the laser drilling and cutting systems for PCB production were a typical example of how new products in particular can positively influence the growth of the LPKF Group. The increase in sales is all the more impressive when the turnover in the same period last year is adjusted for the two major Laser segment orders completed in the third quarter which also had a great influence on last year's earnings. In the Rapid PCB Prototyping segment, turnover was increased by 6.1% mainly because of the success of newly developed products. However, turnover and results were again depressed by the weakness of the Dollar which cost us approx. € 0.3 million in turnover and reduced the margins by a similar level. Because LPKF's sales in North America are billed in Dollars, the reduction in value of the Dollar compared to the Euro gives rise to lower reported sales in Euros. The consolidated performance was also depressed by around € 0.3 million because of the increased share of minority interests in the consolidated profit.

The marketing expenditure has increased by approx. € 0.6 million as a part of LPKF's strategy to boost its sales further. Marketing has been strengthened also by the addition of more staff, e.g. in China, as part of the opening of a second marketing office in Shenzhen.

LPKF boasted a strong increase in turnover of 55.0% in Asia. Also in the rest of Europe (excluding Germany) turnover grew significantly by around 17.0%. A decline of growth was only reported by Germany and America with 2.9% and 36.5% respectively. Adjusted for last year's major medical technology orders in both these regions as already mentioned above, Germany would have reported strong growth this year, and the downturn in the USA would have been much smaller. Both Germany and the USA, however, are showing a positive development in sales which is already reflected in the third quarter figures.

We are expecting a further increase in LPKF's growth on the strength of our excellent product pipeline and the further positive development in the level of orders received which are up 24.9% year-on-year to € 18.5 million.

New and further developed products in almost all product groups will be presented at trade fairs and other events starting this autumn. For the PCB production systems in particular, LPKF stands at the threshold of an imminent success story and is opening up new markets – in addition to subcontractors, we are also increasingly talking with the PCB producers themselves. Asia in particular will again be the engine of growth. We expect that the fourth quarter 2004 and the 2005 financial year in particular will be marked by considerable year-on-year improvements in turnover and earnings.

Management is forecasting a rise in turnover of approx. 10% year-on-year for 2004. Based on the new product range the management aims at a turnover of € 30 million in 2005 and a doubling of the 2004 turnover until 2007.

Bernd Lange, who has been Business Development Manager at LPKF for a long time now with responsibility for marketing, is appointed to the Board of Managing Directors with immediate effect. His main responsibilities will be for development and marketing. The former Chief Financial Officer Christoph Wiese has left the Board of Managing Directors on 30 September 2004.

Yours faithfully,



Bernd Hackmann

## 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 d.o.o.	Kranj / Slovenia	75.0	1995
LPKF Benelux N.V.	Brussels / Belgium	100.0	1995/1999
LPKF Laser & Electronics Inc.	Wilsonville / USA	60.0	1994/1999
A-Laser Inc.	Beaverton / USA	100.0	1995/1999
LPKF Motion & Control GmbH	Suhl / Germany	50.9	1991/1999
LPKF Properties LLC	Portland / 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 / People's Republic of China	100.0	2000
Laserquipment AG	Erlangen / Germany	89.2	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	9.09	2000

## Segment reporting (in K€)

According to product lines per 30.09.2004

External sales	2004	2003
Laser Systems	9,945	9,068
Rapid PCB Prototyping	6,417	6,047
Services	631	804
Others	186	281
Not distributed	0	0
<b>Total</b>	<b>17,179</b>	<b>16,200</b>

Operating result	2004	2003
Laser Systems	581	1,033
Rapid PCB Prototyping	936	590
Services	68	281
Others	106	108
Not distributed	-1,005	-880
<b>Total</b>	<b>686</b>	<b>1,132</b>

## Statement of income (in K€)

	01.07.- 30.09.2004	01.07.- 30.09.2003	01.01.- 30.09.2004	01.01.- 30.09.2003
Turnover	6,020	6,662	17,179	16,200
Other operating income	228	429	764	990
Changes in inventories of finished goods and work in progress	370	-295	203	175
Production of own fixed assets capitalized	203	275	515	406
Cost of purchased materials and services	2,285	1,594	5,255	4,290
Personnel expenses	2,343	2,229	7,055	6,869
Depreciation on plant (and intangible assets)	409	484	1,257	1,452
Amortisation of goodwill	10	51	51	152
Other operating expenses	1,332	1,289	4,357	3,876
<b>Operating result</b>	<b>442</b>	<b>1,424</b>	<b>686</b>	<b>1,132</b>
Interest income	25	33	95	97
Interest expense	43	54	132	162
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	5	-3	-10	-3
<b>Result before income taxes (and minority interest)</b>	<b>429</b>	<b>1,400</b>	<b>639</b>	<b>1,064</b>
Income tax	167	568	315	433
Extraordinary income / expenses	0	0	0	0
<b>Result before minority interest</b>	<b>262</b>	<b>832</b>	<b>324</b>	<b>631</b>
Minority interest	-94	-3	-192	99
<b>Net result</b>	<b>168</b>	<b>829</b>	<b>132</b>	<b>730</b>

## Earnings per share (in €)

	01.07.- 30.09.2004	01.07.- 30.09.2003	01.01.- 30.09.2004	01.01.- 30.09.2003
Net income per share (basic)	0.02	0.08	0.01	0.07
Net income per share (diluted)	0.02	0.08	0.01	0.07
Weighted average shares outstanding (basic)	10,638,502	10,647,895	10,644,764	10,647,895
Weighted average shares outstanding (diluted)	10,638,502	10,724,601	10,644,764	10,673,464

## Staff

The breakdown of employee numbers is as follows:

	30.09.2004	31.12.2003
Production	55	52
Distribution	44	38
Research & Development	46	46
Engineering and administration	65	64
	<b>210</b>	<b>200</b>

## Number of shares held by board members

	30.09.2004	30.06.2004	31.03.2004
<b>Board of managing directors</b>			
Bernd Hackmann	190,000	190,000	190,000
Christoph Wiese	5,050	5,050	2,050
<b>Supervisory board</b>			
Bernd Hildebrandt	874,250	874,250	874,250
Klaus Sülter	808,800	808,800	808,800

## Balance sheet (in K€)

Assets	30.09.2004	31.12.2003
<b>Current assets</b>		
Cash and cash equivalents	4,494	4,820
Short-term investments / marketable securities	1,647	1,271
Trade accounts receivable	4,040	4,760
Accounts receivable due from related parties	0	0
Inventories	10,167	9,513
Prepaid expenses and other current assets	769	825
<b>Total current assets</b>	<b>21,117</b>	<b>21,189</b>
<b>Non-current assets</b>		
Property, plant and equipment	7,953	8,045
Intangible assets	717	999
Goodwill	83	135
Investments	2	2
Investments accounted for by the equity method	0	0
Notes receivables / loans	7	9
Deferred taxes	1,184	1,184
Trade accounts receivables	218	267
Other assets	162	162
<b>Total non-current assets</b>	<b>10,326</b>	<b>10,803</b>
<b>Total assets</b>	<b>31,443</b>	<b>31,992</b>
<b>Liabilities and shareholders' equity</b>	<b>30.09.2004</b>	<b>31.12.2003</b>
<b>Current liabilities</b>		
Current portion of finance lease obligation	35	32
Short-term debt and current portion of long-term debt	515	665
Trade accounts payable	1,149	844
Accounts payable due to related parties	0	0
Advanced payments received	173	337
Accrued expenses	1,197	945
Deferred revenues	0	0
Income tax payable	0	0
Deferred taxes liability	0	0
Other current liabilities	588	835
Deferred income	285	326
<b>Total current liabilities</b>	<b>3,942</b>	<b>3,984</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	2,168	2,468
Finance lease obligations, less current portion	80	119
Deferred revenues	0	0
Deferred taxes liability	493	883
Pension accrual	261	234
<b>Total non-current liabilities</b>	<b>3,002</b>	<b>3,704</b>
<b>Minority interest</b>	<b>1,704</b>	<b>1,557</b>
<b>Shareholders' equity</b>		
Share capital	10,648	10,648
Additional paid-in capital	3,768	3,768
Treasury stock	-80	0
Fair value reserves hedging instruments	0	0
Retained earnings	9,061	9,249
Foreign currency translation adjustments	-602	-918
<b>Total shareholders' equity</b>	<b>22,795</b>	<b>22,747</b>
<b>Total liabilities and shareholders' equity</b>	<b>31,443</b>	<b>31,992</b>

**Consolidated cash flow statement (in K€)**

	01.01.-30.09.2004	01.01.-30.09.2003
<b>Cash flows from operating activities</b>		
Net loss	132	730
Minority interest	192	-99
Depreciation and amortisation	1,308	1,604
Increase / decrease in provisions and accruals	209	-140
Gains / losses on the disposal of fixed assets	-18	-156
Changes in inventories, accounts receivables and other assets	-101	542
Changes in liabilities and other deferred income	-267	-2,181
Other non-payment expense / income	26	307
<b>Cash flows from operating activities</b>	<b>1,481</b>	<b>607</b>
<b>Cash flows from investing activities</b>		
Fixed asset investment intangible assets	-152	-21
Fixed asset investment tangible assets	-471	-688
Investment in subsidiaries	0	0
Proceeds from disposal of a subsidiary	0	0
Proceeds from sale of equipment	63	19
<b>Cash flows from investing activities</b>	<b>-560</b>	<b>-690</b>
<b>Cash flows from financing activities</b>		
Dividend payment to shareholders	-319	0
Proceeds from issuance of share capital	0	0
Purchasing of treasury stock	-81	0
Repayment convertible bonds	-62	-3
Proceeds from short or long-term borrowings	0	672
Repayments long-time bank borrowings	-313	-313
Payment of capital lease liabilities	-35	125
<b>Cash flows from financing activities</b>	<b>-810</b>	<b>481</b>
<b>Changes in cash and cash equivalents</b>		
Changes in cash and cash equivalents due to exchange rates	14	-136
Changes in cash and cash equivalents	111	398
Cash and cash equivalents as at 01.01.2004	5,999	5,365
<b>Cash and cash equivalents as at 30.09.2004</b>	<b>6,124</b>	<b>5,627</b>
<b>Composition of cash and cash equivalents</b>		
Cash	4,494	4,538
Short-term investments	1,647	1,157
Bank overdraft	-17	-68
<b>Cash and cash equivalents</b>	<b>6,124</b>	<b>5,627</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 2004 (previous year in brackets)

	Share capital	Additional paid-in capital	Other earnings reserves	Fair value reserves hedging instruments	Retained earnings	Foreign currency translation adjustments	Total
per 01.01.2004	10,648	3,768	0	0	9,249	-918	22,747
per 01.01.2003	(10,648)	(3,768)	(0)	(0)	(8,481)	(-238)	(22,659)
Proceeds from capital increase	0	0	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Purchasing of treasury stock	0	-80	0	0	0	0	-80
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Fair value cash flow hedges (addition)	0	0	0	1	0	0	1
	(0)	(0)	(0)	(26)	(0)	(0)	(26)
Fair value cash flow hedges (disposal)	0	0	0	-1	0	0	-1
	(0)	(0)	(0)	(-26)	(0)	(0)	(-26)
Earnings transferred to reserves	0	0	4,000	0	-4,000	0	0
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Dividend payment to shareholders	0	0	0	0	-320	0	-320
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net result	0	0	0	0	132	0	132
	(0)	(0)	(0)	(0)	(730)	(0)	(730)
Foreign currency translation adjustment of net investments in economically-independent foreign subunits	0	0	0	0	0	244	244
	(0)	(0)	(0)	(0)	(0)	(-1)	(-1)
Other foreign currency translation adjustment	0	0	0	0	0	72	72
	(0)	(0)	(0)	(0)	(0)	(-203)	(-203)
per 30.09.2004	10,648	3,688	4,000	0	5,061	-602	22,795
per 30.09.2003	(10,648)	(3,768)	(0)	(0)	(9,211)	(-442)	(23,185)

**Shortened Annex**

The 30 September 2004 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 3 June 2004 a dividend of K€ 320 was paid.

As part of a capital increase, additional Laserquipment AG shares were acquired in the first half-year for K€ 600, so that 89.2% of the share capital of this company are now held.

R&D expenses in the reporting period were K€ 2,273 (previous year K€ 2,393).

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

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