

## Dear Shareholders,

signs of the upswing in the global economy are strengthening further. Our segments have enjoyed a considerable year-on-year increase in the spending of our clients in the electronics market. The positive mood in the electronics sector has therefore gained momentum. In addition to these positive effects, the earnings in the first half 2004 show that LPKF Laser & Electronics AG's investments in new developments and technologies take time to bear fruit.

The development in turnover in the second quarter shows a clear upwards trend. Compared to the same period last year, turnover rose 17% to K€ 11,159 (K€ 9,538), even though the dollar has again decreased in value against the Euro year-on-year. Operating performance rose much further by around 178% to generate a positive EBIT of K€ 229 (K€ -292). The increase in turnover is particularly satisfactory in the Laser Systems segment which boasts an increase of 28%. This growth was mainly attributable to the cutting and drilling lasers. Additional systems were also sold in the 3D-MID segment during the reporting period. The Rapid PCB Prototyping segment also posted clear growth with an increase in turnover of 16%. This rise was largely attributable to the development and market launch of the new H100, a fully automatic system for the production of prototype PCBs. The trend towards full automation means that this segment can be expected to produce a major improvement in turnover and earnings in future. The Services segment reported a decline in turnover mainly attributable to last year's sale of stencil production in Germany. However, an upswing in business is also expected here thanks to the focused expansion of services by LaserMicronics GmbH outside of the stencils business.

The consolidated performance after setting off minority interests is still depressed by the new laser plastic welding technology of Laserquipment AG. Laserquipment AG is expected to produce a break even in 2005 because this is when the strengthened marketing and R&D activities will begin to bite.

All regions except North America reported a strong growth in turnover. Turnover in Germany rose by around 25% to K€ 2,107, whilst in the rest of Europe it rose by 21% to K€ 2,308. The only decline in turnover was

reported by the North American market where the drop was 14% to K€ 2,272. However, we are getting an increasing number of positive signals from this region.


LPKF Laser & Electronics AG is well placed for the second half of the year with a year-on-year increase in orders in hand of around 5.2% to € 3.17 million. The orders received, increased by 39% in the last few weeks, from Asia in particular, confirm that LPKF Laser & Electronics AG is pursuing the right growth strategy. The German and the European market showed even stronger growth. Demands for 3D-MID samples also reflect a considerable rise in interest by the relevant industries so that a further increase in turnover can be expected here in the future. An important aspect in this context is also the recently closed know-how and licence agreement with plastics-maker BASF AG. The combination of new materials with the LPKF 3D laser system opens up a number of new opportunities for the LPKF LDS process (laser direct structuring).

The good growth in orders received and orders in hand is all the more significant when one considers that a major order was received in the comparable period the previous year. LPKF Laser & Electronics AG usually generates its highest turnover in the second half of the financial year, and this is also reflected in the current high level of orders in hand.

Yours faithfully,



Bernd Hackmann



Christoph Wiese

## 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 / 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 30.06.2004

External sales	2004	2003
Laser Systems	6,064	4,735
Rapid PCB Prototyping	4,627	3,986
Services	378	633
Others	90	184
Not distributed	0	0
<b>Total</b>	<b>11,159</b>	<b>9,538</b>

Operating result	2004	2003
Laser Systems	216	-292
Rapid PCB Prototyping	644	322
Services	19	343
Others	81	87
Not distributed	-716	-752
<b>Total</b>	<b>244</b>	<b>-292</b>

## Statement of income (in K€)

	01.04.- 30.06.2004	01.04.- 30.06.2003	01.01.- 30.06.2004	01.01.- 30.06.2003
Turnover	6,074	4,975	11,159	9,538
Other operating income	318	372	536	561
Changes in inventories of finished goods and work in progress	-200	173	-167	470
Production of own fixed assets capitalized	295	8	312	131
Cost of purchased materials and services	1,600	1,233	2,970	2,696
Personnel expenses	2,356	2,333	4,712	4,640
Depreciation on plant (and intangible assets)	442	475	848	968
Amortisation of goodwill	10	51	41	101
Other operating expenses	1,761	1,429	3,025	2,587
<b>Operating result</b>	<b>318</b>	<b>7</b>	<b>244</b>	<b>-292</b>
Interest income	29	32	70	64
Interest expense	43	56	89	108
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	-4	0	-15	0
<b>Result before income taxes (and minority interest)</b>	<b>300</b>	<b>-17</b>	<b>210</b>	<b>-336</b>
Income tax	168	-49	148	-135
Extraordinary income / expenses	0	0	0	0
<b>Result before minority interest</b>	<b>132</b>	<b>32</b>	<b>62</b>	<b>-201</b>
Minority interest	-84	86	-98	102
<b>Net result</b>	<b>48</b>	<b>118</b>	<b>-36</b>	<b>-99</b>

## Earnings per share (in €)

	01.04.- 30.06.2004	01.04.- 30.06.2003	01.01.- 30.06.2004	01.01.- 30.06.2003
Net income per share (basic)	0.00	0.01	0.00	-0.01
Net income per share (diluted)	0.00	0.01	0.00	-0.01
Weighted average shares outstanding (basic)	10,647,895	10,647,895	10,647,895	10,647,895
Weighted average shares outstanding (diluted)	10,706,407	10,647,895	10,706,407	10,647,895

## Workforce

The breakdown of employee numbers is as follows:

	30.06.2004	31.12.2003
Production	53	52
Distribution	45	38
Research & Development	46	46
Engineering and administration	64	64
	<b>208</b>	<b>200</b>

## Number of shares held by board members

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

## Balance sheet (in K€)

Assets	30.06.2004	31.12.2003
<b>Current assets</b>		
Cash and cash equivalents	4,911	4,820
Short-term investments / marketable securities	1,424	1,271
Trade accounts receivable	4,024	4,760
Accounts receivable due from related parties	0	0
Inventories	9,821	9,513
Prepaid expenses and other current assets	596	825
<b>Total current assets</b>	<b>20,776</b>	<b>21,189</b>
<b>Non-current assets</b>		
Property, plant and equipment	8,026	8,045
Intangible assets	735	999
Goodwill	94	135
Investments	2	2
Investments accounted for by the equity method	0	0
Notes receivables / loans	8	9
Deferred taxes	1,202	1,184
Trade accounts receivables	235	267
Other assets	162	162
<b>Total non-current assets</b>	<b>10,464</b>	<b>10,803</b>
<b>Total assets</b>	<b>31,240</b>	<b>31,992</b>
<b>Liabilities and shareholders' equity</b>	<b>30.06.2004</b>	<b>31.12.2003</b>
<b>Current liabilities</b>		
Current portion of finance lease obligation	34	32
Short-term debt and current portion of long-term debt	639	665
Trade accounts payable	832	844
Accounts payable due to related parties	0	0
Advanced payments received	109	337
Accrued expenses	1,148	945
Deferred revenues	0	0
Income tax payable	0	0
Deferred taxes liability	0	0
Other current liabilities	730	835
Deferred income	299	326
<b>Total current liabilities</b>	<b>3,791</b>	<b>3,984</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	2,276	2,468
Finance lease obligations, less current portion	90	119
Deferred revenues	0	0
Deferred taxes liability	507	883
Pension accrual	249	234
<b>Total non-current liabilities</b>	<b>3,122</b>	<b>3,704</b>
<b>Minority interest</b>	<b>1,621</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	0	0
Fair value reserves hedging instruments	0	0
Retained earnings	8,893	9,249
Foreign currency translation adjustments	-603	-918
<b>Total shareholders' equity</b>	<b>22,706</b>	<b>22,747</b>
<b>Total liabilities and shareholders' equity</b>	<b>31,240</b>	<b>31,992</b>

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

	01.01.-30.06.2004	01.01.-30.06.2003
<b>Cash flows from operating activities</b>		
Net loss	-36	-99
Minority interest	98	-102
Depreciation and amortisation	889	1,069
Increase / decrease in provisions and accruals	163	-635
Gains / losses on the disposal of fixed assets	-6	-160
Changes in inventories and accounts receivables and other assets	393	302
Changes in liabilities and other deferred income	-469	-1,006
Other non-payment expense / income	-7	312
<b>Cash flows from operating activities</b>	<b>1,025</b>	<b>-319</b>
<b>Cash flows from investing activities</b>		
Fixed asset investment intangible assets	-52	-26
Fixed asset investment tangible assets	-219	-305
Investment in subsidiaries	0	0
Proceeds from disposal of a subsidiary	0	0
Proceeds from sale of equipment	19	215
<b>Cash flows from investing activities</b>	<b>-252</b>	<b>-116</b>
<b>Cash flows from financing activities</b>		
Dividend payment to shareholders	-320	0
Proceeds from issuance of share capital	0	0
Proceeds from short or long-term borrowings	0	672
Repayments long-time bank borrowings	-198	-198
Payment of capital lease liabilities	-26	0
<b>Cash flows from financing activities</b>	<b>-544</b>	<b>474</b>
<b>Changes in cash and cash equivalents</b>		
Changes in cash and cash equivalents due to exchange rates	34	-140
Changes in cash and cash equivalents	229	39
Cash and cash equivalents as at 01.01.2004	5,999	5,365
<b>Cash and cash equivalents as at 30.06.2004</b>	<b>6,262</b>	<b>5,264</b>
<b>Composition of cash and cash equivalents</b>		
Cash	4,911	4,832
Short-term investments	1,424	586
Bank overdraft	-73	-154
<b>Cash and cash equivalents</b>	<b>6,262</b>	<b>5,264</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 June 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)
Profit-neutral adjustment of OA figures	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)
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)	(0)	(0)	(0)	(0)
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	-36	0	-36
	(0)	(0)	(0)	(0)	(-99)	(0)	(-99)
Foreign currency translation adjustment of net investments in economically-independent foreign subunits	0	0	0	0	0	207	207
	(0)	(0)	(0)	(0)	(0)	(-11)	(-11)
Other foreign currency translation adjustment	0	0	0	0	0	108	108
	(0)	(0)	(0)	(0)	(0)	(-124)	(-124)
per 30.06.2004	10,648	3,768	4,000	0	4,893	-603	22,706
per 30.06.2003	(10,648)	(3,768)	(0)	(26)	(8,382)	(-373)	(22,451)

**Shortened Annex**

The 30 June 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€ 1,508 (previous year K€ 1,537).

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

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