

## Dear Shareholders,

The global economy has generally improved and become more dynamic. And although the overall picture is still patchy, there is already a large number of indicators that the economic motor is increasing speed steadily despite the continuing political uncertainties. This also applies to the electronics market in which LPKF Laser & Electronics AG is active.

The first positive effects of the global economic revival in the electronics industry are happily also reflected in the development of turnover in the first quarter. Turnover has risen year-on-year by 11.4% to K€ 5,085 (K€ 4,563). The growth in turnover would have been even higher year-on-year if there had not been such a decline in the value of the Dollar compared to the Euro over this period. The weak Dollar therefore cost us some of our growth in turnover. The consolidated profit is slightly negative at K€ -84 (K€ -217). This is attributable in part to one-off human resource costs.

The improvement of the quarterly result is largely attributable to the success of the Laser Systems segment, although the profitability of this segment of K€ 82 is not satisfactory because of an investment in the new plastic laser welding technology. However, the development of this product line is completely on schedule and will generate much better results in future. In the Rapid PCB Prototyping segment, turnover at K€ 2,115 (K€ 2,149) is largely unchanged year-on-year. The reduction in public sector R&D budgets has again had a negative effect here. The decline in the Services segment is attributable to the sale of the stencils production in the last financial year, which makes a direct year-on-year comparison difficult in this segment.

On a regional basis, the European and German markets in particular have made the largest contributions to growth. Turnover in Europe (without Germany) developed very positively with an increase of 66.4% to K€ 1,298 (K€ 780). Turnover in Germany rose by 37.6% to K€ 991 (K€ 720). The picture in North America is different with hardly any sign of a sustainable growth in the electronics sector: turnover was K€ 892 (K€ 1,200). Business in Asia in the first quarter also only rose slightly by 1.6% year-on-year.

However, more service contracts were acquired in both regions and these will have an impact on the following quarters. In addition, there were also many concrete enquiries about laser systems which are interpreted as the first promising signs of an economic upturn. An improvement in turnover is therefore expected in Asia in particular in the second quarter.

LPKF Laser & Electronics AG's current level of orders in hand of € 3.64 million is down 13.2% compared with the same time last year. However, when adjusted for last year's major MicroLine Laser order, the current level of orders in hand is higher year-on-year.

Orders received in recent weeks, from Asia in particular, underpin LPKF Laser & Electronics AG's growth strategy. There has been an increase in demand for the new laser technologies such as MicroLine Drill and MicroLine Cut. There are also signs of an improvement in the investment climate and a bigger demand for the high-end systems in the Rapid PCB Prototyping segment – which can lead to an improvement in this division. 3D-MID technology is enjoying a high level of interest thanks to its special market position. This confirms LPKF Laser & Electronics AG's global marketing activities in this sector. The unique character of 3D-MID technology and the first successes in series applications have already generated many orders for samples – opening up excellent opportunities for moving on to series production.

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	86.4	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 31.03.2004

External sales	2004	2003
Laser Systems	2,713	2,045
Rapid PCB Prototyping	2,115	2,149
Services	179	346
Others	78	23
Not distributed	0	0
<b>Total</b>	<b>5,085</b>	<b>4,563</b>

Operating result	2004	2003
Laser Systems	82	-249
Rapid PCB Prototyping	186	273
Services	1	87
Others	5	-36
Not distributed	-348	-374
<b>Total</b>	<b>-74</b>	<b>-299</b>

## Statement of income (in K€)

	01.01.- 31.03.2004	01.01.- 31.03.2003
Turnover	5,085	4,563
Other operating income	218	189
Changes in inventories of finished goods and work in progress	33	297
Production of own fixed assets capitalized	17	123
Cost of purchased materials and services	1,370	1,463
Personnel expenses	2,356	2,307
Depreciation on plant (and intangible assets)	406	493
Amortisation of goodwill	31	50
Other operating expenses	1,264	1,158
<b>Operating loss</b>	<b>-74</b>	<b>-299</b>
Interest income	41	32
Interest expense	46	52
Income from investments and participations	0	0
Income / expense from investments accounted for by the equity method	0	0
Other income / expenses	-11	0
<b>Result before income taxes (and minority interest)</b>	<b>-90</b>	<b>-319</b>
Income tax	-20	-86
Extraordinary income / expenses	0	0
<b>Result before minority interest</b>	<b>-70</b>	<b>-233</b>
Minority interest	14	-16
<b>Net loss</b>	<b>-84</b>	<b>-217</b>

## Earnings per share

	01.01.- 31.03.2004	01.01.- 31.03.2003
Net income per share (basic)	-0.01 €	-0.02 €
Net income per share (diluted)	-0.01 €	-0.02 €
Weighted average shares outstanding (basic)	10,647,895	10,647,895
Weighted average shares outstanding (diluted)	11,056,751	10,647,895

## Workforce

The breakdown of employee numbers is as follows:

	31.03.2004	31.12.2003
Production	54	52
Distribution	44	38
Research & Development	46	46
Engineering and administration	64	64
	<b>208</b>	<b>200</b>

## Number of shares held by board members

	31.03.2004	31.12.2003
<b>Board of managing directors</b>		
Bernd Hackmann	190,000	190,000
Christoph Wiese	2,050	3,050
<b>Supervisory board</b>		
Bernd Hildebrandt	874,250	888,550
Klaus Sülter	808,800	808,800

## Balance sheet (in K€)

Assets	31.03.2004	31.12.2003
<b>Current assets</b>		
Cash and cash equivalents	3,744	4,820
Short-term investments / marketable securities	1,412	1,271
Trade accounts receivable	4,641	4,760
Accounts receivable due from related parties	0	0
Inventories	9,764	9,513
Prepaid expenses and other current assets	1,164	825
<b>Total current assets</b>	<b>20,725</b>	<b>21,189</b>
<b>Non-current assets</b>		
Property, plant and equipment	7,918	8,045
Intangible assets	863	999
Goodwill	104	135
Investments	2	2
Investments accounted for by the equity method	0	0
Notes receivables / loans	8	9
Deferred taxes	1,114	1,184
Trade accounts receivables	265	267
Other assets	162	162
<b>Total non-current assets</b>	<b>10,436</b>	<b>10,803</b>
<b>Total assets</b>	<b>31,161</b>	<b>31,992</b>
<b>Liabilities and shareholders' equity</b>	<b>31.03.2004</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	607	665
Trade accounts payable	684	844
Accounts payable due to related parties	0	0
Advanced payments received	179	337
Accrued expenses	1,069	945
Deferred revenues	0	0
Income tax payable	0	0
Deferred taxes liability	0	0
Other current liabilities	561	835
Deferred income	292	326
<b>Total current liabilities</b>	<b>3,426</b>	<b>3,984</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	2,361	2,468
Finance lease obligations, less current portion	111	119
Deferred revenues	0	0
Deferred taxes liability	590	883
Pension accrual	241	234
<b>Total non-current liabilities</b>	<b>3,303</b>	<b>3,704</b>
<b>Minority interest</b>	<b>1,537</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	1	0
Retained earnings	9,165	9,249
Foreign currency translation adjustments	-687	-918
<b>Total shareholders' equity</b>	<b>22,895</b>	<b>22,747</b>
<b>Total liabilities and shareholders' equity</b>	<b>31,161</b>	<b>31,992</b>

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

	01.01.-31.03.2004	01.01.-31.03.2003
<b>Cash flows from operating activities</b>		
Net loss	-84	-217
Minority interest	14	-16
Depreciation and amortisation	437	543
Increase / decrease in provisions and accruals	86	-257
Gains / losses on the disposal of fixed assets	-10	7
Changes in inventories and accounts receivables and other assets	-353	-220
Changes in liabilities and other deferred income	-721	-836
Other non-payment expense / income	-64	142
<b>Cash flows from operating activities</b>	<b>-695</b>	<b>-854</b>
<b>Cash flows from investing activities</b>		
Fixed asset investment intangible assets	-21	-17
Fixed asset investment tangible assets	-94	-236
Investment in subsidiaries	0	0
Proceeds from disposal of a subsidiary	0	0
Proceeds from sale of equipment	17	53
<b>Cash flows from investing activities</b>	<b>-98</b>	<b>-200</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital	0	0
Proceeds from short or long-term borrowings	0	672
Repayments long-time bank borrowings	-115	-115
Payment of capital lease liabilities	-8	0
<b>Cash flows from financing activities</b>	<b>-123</b>	<b>557</b>
<b>Changes in cash and cash equivalents</b>		
Changes in cash and cash equivalents due to exchange rates	31	-63
Changes in cash and cash equivalents	-916	-497
Cash and cash equivalents as at 01.01.2004	5,999	5,365
<b>Cash and cash equivalents as at 31.03.2004</b>	<b>5,114</b>	<b>4,805</b>
<b>Composition of cash and cash equivalents</b>		
Cash	3,744	4,930
Short-term investments	1,412	205
Bank overdraft	-42	-330
<b>Cash and cash equivalents</b>	<b>5,114</b>	<b>4,805</b>

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

Consolidated statement of the changes in shareholders' equity for the financial year ended 31. March 2004 (previous year in brackets)

	Share capital	Additional paid-in capital	Fair value reserves hedging instruments	Retained earnings	Foreign currency translation adjustments	Total
per 01.01.2004	10,648	3,768	0	9,249	-918	22,747
per 01.01.2003	(10,648)	(3,768)	(0)	(8,481)	(-238)	(22,659)
Profit-neutral adjustment of OA figures	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)
Fair value cash flow hedges	0	0	1	0	0	1
	(0)	(0)	(9)	(0)	(0)	(9)
Dividend payment to shareholders	0	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)	(0)
Net result	0	0	0	-84	0	-84
	(0)	(0)	(0)	(-217)	(0)	(-217)
Foreign currency translation adjustment of net investments in economically-independent foreign subunits	0	0	0	0	124	124
	(0)	(0)	(0)	(0)	(-18)	(-18)
Other foreign currency translation adjustment	0	0	0	0	107	107
	(0)	(0)	(0)	(0)	(-57)	(-57)
per 31.03.2004	10,648	3,768	1	9,165	-687	22,895
per 31.03.2003	(10,648)	(3,768)	(9)	(8,264)	(-313)	(22,376)

**Shortened Annex**

The 31 March 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.

No dividend was paid in the reporting period.

As part of a capital increase, additional Laserquipment AG shares were acquired in the first quarter for K€ 350, so that 86.4% of the share capital of this company is now held.

R&D expenses in the reporting period were K€ 685 (previous year K€ 771).

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

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