



Dear Shareholders,

after the first six months of the 2003 financial year, the weakness of the global economy has left its mark as expected on the development of LPKF's turnover. Nevertheless, the second quarter was better than the first and the company succeeded in achieving a positive quarterly result of K€ 118. An even higher profit is forecasted for the third quarter.

However, the reluctance to invest associated with the uncertain economic situation is still having a broad impact. The repercussions of the SARS epidemic also had a negative effect on turnover in Asia – slowing down the growth potential in the first half in China in particular. In addition to the mentioned effects, the weakness of the dollar also had a negative impact on turnover figures.

On the positive side, a know-how and licence agreement was signed with Degussa which will considerably improve the marketing opportunities for laser systems for 3D-MID circuits.

In the reporting period turnover dropped by 25.9% to K€ 9,538 (K€ 12,870). Earnings before interest and tax (EBIT) are K€ -292 (K€ 1,684). The consolidated profit was therefore K€ -99 (K€ 1,053). This corresponds to a profit per share of € -0.01 (€ 0.10).

The quarterly result was largely achieved on the strength of successful cost-cutting measures compared to the same period the previous year, and despite the negative impact of redundancy payments in the second quarter. In addition, the Laser Systems segment was able to increase its turnover from K€ 2,045 in the first quarter to K€ 2,690 in the second quarter. The Rapid PCB Prototyping segment continues to suffer from the effects of tighter R&D budgets, but still managed to generate a turnover of K€ 3,986 in the first half (previous year: K€ 4,687). In the MicroLine Laser segment the ordered biosensoric equipment will be delivered in the third quarter. All important new products launched on the market in the first half have been

rewarded by first orders for the Rapid PCB Prototyping and Laser Cutting segments. More positive effects are expected in the second half.

The cash on hand situation has also significantly improved compared to the first half of 2002. The capital ratio is 70% (69%). The financial resources as at 30.06.2003 are K€ 5,264 (K€ 4,386).

The current orders in hand at LPKF Laser & Electronics AG are € 3.25 million, down 4% year-on-year.

It continues to be very difficult to make a reliable prognosis for the ongoing financial year because of the current situation. However, LPKF still considers that it will be possible to achieve a similar turnover as the previous year. The impact of cost-cutting measures implemented throughout the Group will have a major impact in the second half.

Results after the balance sheet date

LPKF has also signed a licence agreement with Bayer AG which will considerably improve the marketing opportunities for special laser systems for 3D-MID applications. This is the second contract following the one with Degussa AG. The licence agreement therefore enhances the prospects for the 3D-MID laser systems by increasing the availability of special doped plastics on the global market.

Yours faithfully,

Bernd Hackmann

Christoph Wiese

Dr. Jörg Kickelhain

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
ELASER Gesellschaft für Elektronik, Laser und Automation mbH	Suhl / 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	1999
A-Laser Inc.	Beaverton / USA	100.0	1999
LPKF Motion & Control GmbH	Suhl / Germany	50.9	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
Laserquipment AG	Erlangen / Germany	65.3	2000/2002/2003

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 30.06.2003

External sales	2003	2002
Laser Systems	4,735	6,992
Rapid PCB Prototyping	3,986	4,687
Services	633	959
Others	184	232
Not distributed	0	0
Total	9,538	12,870

Operating result	2003	2002
Laser Systems	-292	1,583
Rapid PCB Prototyping	322	636
Services	343	238
Others	87	100
Not distributed	-752	-873
Total	-292	1,684

Consolidated statement of income (in K€)

	01.04.- 30.06.2003	01.04.- 30.06.2002	01.01.- 30.06.2003	01.01.- 30.06.2002
Turnover	4,975	6,020	9,538	12,870
Other operating income	372	283	561	525
Changes in inventories of finished goods and work in progress	173	-249	470	374
Production of own fixed assets capitalized	8	238	131	239
Cost of purchased materials and services	1,233	1,252	2,696	3,550
Personnel expenses	2,333	2,521	4,640	4,843
Depreciation on plant (and intangible assets)	475	524	968	1,022
Amortisation of goodwill	51	41	101	83
Other operating expenses	1,429	1,499	2,587	2,826
Operating income / loss	7	455	-292	1,684
Interest income	32	36	64	70
Interest expense	56	37	108	103
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)	-17	454	-336	1,651
Income tax	-49	342	-135	736
Extraordinary income / expenses	0	0	0	0
Result before minority interest	32	112	-201	915
Minority interest	86	277	102	138
Net income / loss	118	389	-99	1,053

Earnings per share

	01.04.- 30.06.2003	01.04.- 30.06.2002	01.01.- 30.06.2003	01.01.- 30.06.2002
Net income per share (basic)	0.01 EUR	0.04 EUR	-0.01 EUR	0.10 EUR
Net income per share (diluted)	0.01 EUR	0.04 EUR	-0.01 EUR	0.10 EUR
Weighted average shares outstanding (basic)	10,647,895	10,637,770	10,647,895	10,637,770
Weighted average shares outstanding (diluted)	10,647,895	10,637,380	10,647,895	10,705,013

Workforce

The breakdown of employee numbers is as follows:

	30.06.2003	31.12.2002
Production	58	62
Distribution	38	40
Research & Development	48	47
Engineering and administration	68	70
	212	219

Numbers of shares held by board members

	31.03.2003	30.06.2003
Board of directors		
Bernd Hackmann	190,000	190,000
Dr. Jörg Kickelhain	92,600	92,600
Christoph Wiese	3,050	3,050
Supervisory board		
Bernd Hildebrandt	904,150	904,150
Klaus Sülter	926,800	926,800

Consolidated balance sheet (in K€)

Assets	30.06.2003	31.12.2002
Current assets		
Cash and cash equivalents	4,832	5,188
Short-term investments / marketable securities	586	198
Trade accounts receivable	3,804	4,603
Accounts receivable due from related parties	0	0
Inventories	10,125	9,700
Prepaid expenses and other current assets	1,402	1,636
Total current assets	20,749	21,325
Non-current assets		
Property, plant and equipment	8,132	8,588
Intangible assets	1,409	1,814
Goodwill	247	348
Investments	2	2
Investments accounted for by the equity method	0	0
Notes receivables / loans	12	13
Deferred taxes	1,051	772
Trade accounts receivable	289	321
Other assets	140	140
Total non-current assets	11,282	11,998
Total assets	32,031	33,323
Liabilities and shareholders' equity	30.06.2003	31.12.2002
Current liabilities		
Current portion of finance lease obligation	0	0
Short-term debt and current portion of long-term debt	808	539
Trade accounts payable	810	1,017
Accounts payable due to related parties	0	0
Advanced payments received	1,053	1,284
Accrued expenses	820	1,553
Deferred revenues	0	0
Income tax payable	32	0
Deferred taxes liability	0	0
Other current liabilities	799	1,005
Deferred income	318	354
Total current liabilities	4,640	5,752
Non-current liabilities		
Long-term debt, less current portion	2,667	2,328
Finance lease obligations, less current portion	0	0
Deferred revenues	0	0
Deferred taxes liability	634	676
Pension accrual	215	203
Total non-current liabilities	3,516	3,207
Minority interest	1,424	1,705
Shareholders' equity		
Share capital	10,648	10,648
Additional paid-in-capital	3,768	3,768
Treasury stock	0	0
Fair value reserves hedging instruments	26	0
Retained earnings	8,382	8,481
Foreign currency translation adjustments	-373	-238
Total shareholders' equity	22,451	22,659
Total liabilities and shareholders' equity	32,031	33,323

Consolidated cash flow statement (in K€)

	01.01.-30.06.2003	01.01.-30.06.2002
Cash flows from operating activities:		
Net loss / profit	-99	1,053
Minority interest	-102	-138
Depreciation and amortisation of fixed assets	1,069	1,105
Increase in provisions and accruals	-635	-45
Losses / gains on the disposal of fixed assets	-160	6
Changes in inventories and accounts receivables and other assets	302	1,641
Changes in liabilities and other deferred income	-1,006	251
Other non-payment expense / income	312	356
Cash flows from operating activities	-319	4,229
Cash flows from investing activities:		
Fixed asset investment intangible assets	-26	-79
Fixed asset investment tangible assets	-305	-653
Investment in subsidiaries	0	0
Proceeds from disposal of a subsidiary	0	0
Proceeds from sale of equipment	215	25
Cash flows from investing activities	-116	-707
Cash flows from financing activities:		
Proceeds from convertible bonds	0	20
Proceeds from short or long-term borrowings	672	0
Repayments long-time bank borrowings	-198	-129
Payment of capital lease liabilities	0	0
Cash flows from financing activities	474	-109
Changes in cash and cash equivalents		
Changes in cash and cash equivalents due to exchange rates	-140	-369
Changes in cash and cash equivalents	39	3,413
Cash and cash equivalents as at 01.01.2003	5,365	1,342
Cash and cash equivalents as at 30.06.2003	5,264	4,386
Composition of cash and cash equivalents		
Cash	4,832	3,899
Short-term investments	586	496
Bank overdraft	-154	-9
Cash and cash equivalents	5,264	4,386

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 2003 (previous year in brackets)

	Subscribed capital	Capital reserve	Fair value reserves hedging instruments	Group retained earnings	Foreign currency translation adjustment	Total
per 01.01.2003	10,648	3,768	0	8,481	-238	22,659
per 01.01.2002	(10,638)	(3,730)	(0)	(7,847)	(472)	(22,687)
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	26	0	0	26
	(0)	(0)	(0)	(0)	(0)	(0)
Dividend payment to shareholders	0	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)	(0)
Net result	0	0	0	-99	0	-99
	(0)	(0)	(0)	(1,053)	(0)	(1,053)
Foreign currency translation adjustment of net investments in economically-independent foreign subunits	0	0	0	0	-11	-11
	(0)	(0)	(0)	(0)	(0)	(0)
Other foreign currency translation adjustment	0	0	0	0	-124	-124
	(0)	(0)	(0)	(0)	(-475)	(-475)
per 30.06.2003	10,648	3,768	26	8,382	-373	22,451
per 30.06.2002	(10,638)	(3,730)	(0)	(8,900)	(-3)	(23,265)

Shortened Annex

The 30 June 2003 interim report has been prepared in accordance with IAS. It reflects the interpretations of the Standard Interpretations Committee (SIC). 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 for K€ 191, so that 65.3% of the share capital of this company is now held.

Because of ELASER Gesellschaft für Elektronik, Laser und Automation mbH sold the in-house generated intangible assets associated with the Stencils segment for K€ 165 with effect from 3 June 2003.

R&D expenses in the reporting period were K€ 1,537 (previous year K€ 1,505).

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

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