

Strong growth in second quarter

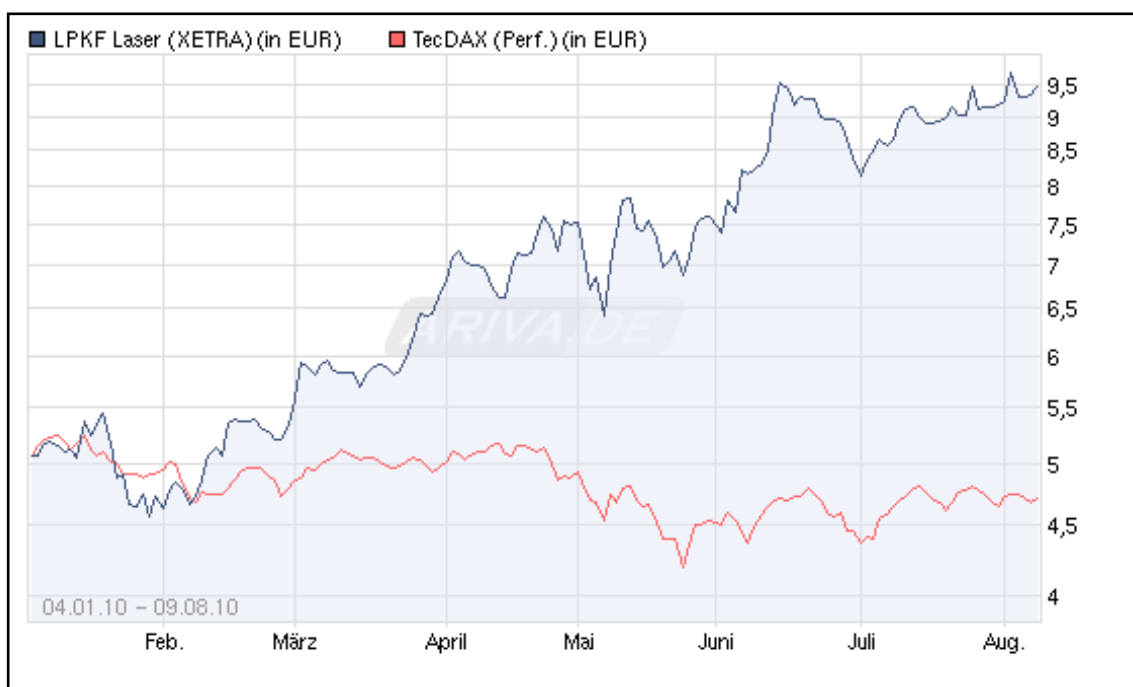
- Turnover forecast for whole year raised from € 60 million to at least € 68 million
- Earnings forecast raised from 14 % EBIT margin to at least 17 %
- Incoming orders and orders in hand more than doubled



Key Group figures

	6 months 2010	6 months 2009	Change (%)	Year 2009
Turnover (€ million)	36.5	22.5	62.5	50.7
Net margin (%)	16.2	8.2		9.3
EBIT (€ million)	8.4	2.8	202.5	7.0
EBIT margin (%)	22.9	12.3		13.7
Net income after minority interests (€ million)	6.1	1.6	274.1	4.7
Net Working capital (€ million)	24.6	21.2	16.0	20.4
ROCE (%)	16.9	6.3		15.7
EPS diluted (€)	0.55	0.15	273.3	0.43
Cash and cash equivalents (€ million)	10.8	7.5	44.5	10.3
Capital ratio (%)	67.8	69.1		69.7
Orders in hand (€ million)	23.9	11.0	116.2	14.7
Orders received (€ million)	45.6	23.2	96.4	56.0

Share price development in 2010



Source: www.ariva.de

Group Management Report

Macroeconomic framework

According to the Kiel Global Economic Institute (IfW), the global economy has recovered faster from the worldwide economic crisis than expected. IfW's June 2010 forecast is for the global gross domestic product to rise by 4.4 % in 2010, but with a palpable weakening of the global economic dynamism in the second half of 2010 and in 2011. Experts are making optimistic forecasts for the state of Germany's economy on the back of positive signals coming from the key automotive, mechanical engineering and chemical sectors. The German Mechanical Engineering Federation (VDMA) reported a 56 % leap in orders at the start of July 2010, although turnover is still down by – 23 %. The German laser industry is also again optimistic about the ongoing year and the future outlook. The key markets of India and China, where the economies are focussed on rapid and intense industrialization, represent a very large demand and considerable sales potential for modern production technology. Only around one fifth of the feasible applications for lasers have been opened up so far.

Development in turnover

Consolidated turnover in the first six months of 2010 rose from € 22.5 million to € 36.5 million – a jump of 63 % compared with the same period last year. The second quarter accounted for € 18.9 million or a rise of around 53 %. All segments enjoyed a growth in turnover with the exception of Thin-film Technologies. Cutting & Structuring Lasers made the biggest contribution with a year-on-year growth of 142 %, primarily due to the strong business with laser direct structuring systems (LDS).

External Sales (T€)	6 months 2010	6 months 2009
Cutting and Structuring Lasers	24,675	10,194
Rapid Prototyping	7,663	6,174
Joining Technologies	2,872	2,034
Thin-film Technologies	120	3,016
Other segments	1,199	1,056
	36,529	22,474

Development in earnings

At € 4.1 million and an EBIT margin of 22 %, the quarterly earnings before interest and tax were again better than forecast. Last year, the second quarter EBIT was only € 1.6 million. The very positive development in turnover and a new product mix played a major part in the improvement in earnings. The material usage ratio in the first 6 months of 2010 was 28 % (previous year: 27 %). Adjusted for the effects of changes in inventories, this ratio actually dropped by 3 percentage points.

The other operating income rose primarily due to higher income from insurance refunds (€ 0.2 million), and higher income from the disposal of fixed assets (€ 0.1 million). The capitalized production for own plant and equipment declined by € 0.2 million because fewer development costs were capitalized.

The recruitment of new staff in recent months in the development, production and service departments, particularly in Garbsen, as well as a large amount of overtime, and variable remuneration components which rose alongside earnings, led to an increase in personnel costs of € 2.0 million or 23 %. The rise in the second quarter was € 1.1 million or 25 %. The

increase in the scheduled depreciation of capitalized development costs in particular produced a rise in depreciation of € 0.4 million.

The other operating expenses rose by € 3.5 million largely in response to the increase in turnover and expansion of business activity. The advertising and sales costs, including travel expenses, rose by € 1.4 million, alongside rises in sales commissions of € 0.4 million and a climb in allocations for warranty provisions of € 0.3 million. In addition, a rise in the number of temporary staff has increased the costs for contracted work by € 0.5 million.

Segment report

EBIT is divided into the following segments:

EBIT (T€)	6 months 2010	6 months 2009
Cutting and Structuring Lasers	8,625	2,312
Rapid Prototyping	1,559	887
Joining Technologies	176	-79
Thin-film Technologies	-1,227	160
Other segments	-759	-512
EBIT acc. P&L-Statement	8,374	2,768

The assets have changed as follows:

Total assets (T€)	30.06. 2010	31.12. 2009
Cutting and Structuring Lasers	25,097	21,833
Rapid Prototyping	13,068	12,351
Joining Technologies	4,778	3,516
Thin-film Technologies	5,559	6,019
Other segments	18,400	13,904
Total assets	66,902	57,623

Asset situation

The increase in construction in process (software) reported under intangible assets primarily concerns the new ERP system. Tangible assets have risen since the start of the year by the acquisition of land and rebuilding work in Garbsen. The investment of free liquidity reserves has increased the value of securities reported under long term assets by € 1.0 million. Inventories and trade accounts receivable have risen by € 4.6 million and € 0.9 million respectively in line with the expansion in business. This has been associated with a further rise in the inventory turnover rate and a significant reduction in the accounts receivables durations.

Equity has risen by € 5.2 million mainly because of the positive earnings, even with the outflow of € 2.2 million to pay the dividend. In addition, the share capital and the additional paid-in capital have risen as a result of employees exercising their share options. Short-term provisions for taxes have also risen by € 1.9 million in line with the rise in earnings. The change in short-term trade accounts payable is also attributable to the strong business in Q2 2010.

Financial situation

The capital ratio of 68 % remains higher than the sector average and demonstrates the solid financial structure of LPKF Laser & Electronics AG.

The cash inflow generated by ongoing operating activities totaled € 5.9 million (previous year: € 3.9 million). This is primarily attributable to the higher consolidated earnings against the background of a rise in inventories and trade receivables. Investment costs on balance totaled € 4.1 million (previous year: € 1.8 million), of which € 1.0 million invested in liquid assets. Against the background of a cash outflow from financial activities of € 2.1 million (previous year: € 0.5 million) there has been virtually no change in the level of cash and cash equivalents during the course of the year.

Investments

The high capacity utilization in Garbsen in particular, and the expected growth has to be matched by investment, especially in development, service and production. Money will also be invested this year and next in new buildings and rebuilding measures at the Garbsen site. The processes and workflows are to be optimized by the current implementation of an ERP system at the Garbsen and Erlangen locations. Investments in intangible and tangible assets in the first half year totaled € 3.3 million, around € 1.5 million up on the previous year's level. The management plans to start up a subsidiary in Japan during the course of this financial year to satisfy the growing demand in the Asian market.

Employees

The following table shows the change in the number of employees in the first six months of 2010:

Department	30.06.2010	31.12.2009
Production	95	79
Sales	83	80
Development	88	82
Service	78	66
Administration	85	77
	429	384

Opportunities and risks

There have been no substantial changes in the opportunities and risks affecting the LPKF Group compared to the end of 2009 – the statements made in the 2009 annual report are therefore still applicable. No risks which could jeopardize the future of the company existed on 30 June 2010.

Business development per segment

Rapid Prototyping

The business with ProtoMats for the production of prototype printed circuit boards has recovered from the recession in the last financial year, and grew stronger than expected in the first half of 2010. In particular, the technically more advanced ProtoLasers, which are also used for the production of small batches, are establishing a much stronger presence in the market.

The order situation is developing positively and bodes well for good business over the year as a whole.

Cutting and Structuring Lasers segment

The Cutting and Structuring Lasers Segment includes laser systems for the production of stencils, printed circuit board processing, and the manufacture of molded interconnect devices (MID) using the LDS method (Laser Direct Structuring).

The strong growth in turnover in this segment overall continues to depend on the business with the patented LDS technology. The systems delivered to date have proven highly effective under real production conditions, to the extent that LDS technology has now established a leading position in the production of mobile phone antennas and for smart phones. There is also strongly growing demand for the LDS method for the production of laptop antennas and sensoric components in the automotive sector.

On 3 June, LPKF reported a major order totaling nearly € 6 million for laser systems for depaneling printed circuit boards. Laser depaneling systems open up new options for PCB manufacturers. This is seen by the LPKF Group as a business with very promising growth potential.

The positive trend in the first quarter has continued in the StencilLaser division. Turnover has grown significantly, and the order situation has improved in a satisfactory way.

Joining Technologies segment

The business with laser systems for plastic welding has developed positively. Turnover rose almost 40 % in the first half of 2010. The recovery in the automotive sector has had a positive effect on incoming orders which increased by 110 % in the first half. This trend is also being maintained beyond the reporting date.

Thin-film Technologies segment

Positive signals are also increasingly coming from the business with laser systems for scribing thin-film solar panels. Orders totaling € 2.0 million have been received since 1 July 2010. Nevertheless, this segment has not yet recovered from the recession in the solar market, and will not make a positive contribution to earnings during the course of the ongoing financial year.

In the light of the current recovery, the Board of Managing Directors still considers the Thin-film Technologies Segment to have good medium-term growth opportunities in a dynamic market.

General outlook

LPKF is enjoying strong growth which is being boosted further by the dawning recovery of the global economy. The LPKF Group profits in all of its segments from the increasing demand for high-tech production solutions. There is still no end in sight to the opportunities open to lasers as production tools.

Against the background of the stabilization of the overall economic conditions, and the continuing excellent level of orders, the Board of Managing Directors has raised the turnover forecast for the ongoing financial year to at least € 68 million, and set the target EBIT margin higher, to at least 17 %.

Interim Group financial statements

Consolidated Group

In addition to the parent company LPKF Laser & Electronics AG, Garbsen, the following subsidiaries are also included in the consolidated financial statements:

Company Name	Domicile	Country	Holding	Acquired
LaserMicronics GmbH	Garbsen	Germany	100.0 %	1989
LPKF Laser & Elektronika d.o.o.	Naklo	Slovenia	75.0 %	1995
LPKF Distribution, Inc.	Tualatin	USA	85.0 %	1994/1999/2005
LPKF Motion & Control GmbH	Suhl	Germany	50.9 %	1991/1999
LPKF France S.A.R.L.	Créteil	France	100.0 %	1999/2007
LPKF (Tianjin) Co. Ltd.	Tianjin	PR China	86.0 %	2000
LPKF Laser & Electronics Hong Kong Ltd.	Hong Kong	PR China	100.0 %	2005
LPKF SolarQuipment GmbH	Suhl	Germany	83.7 %	2007



■ Production site

■ Branch

■ Representation

Consolidated balance sheet

Assets		
T€	30.06.2010	31.12.2009
NON-CURRENT ASSETS		
Intangible assets		
Software	659	709
Goodwill	74	74
Development costs	4,307	4,278
Construction in process	242	0
	5,282	5,061
Tangible assets		
Land and building	11,235	10,401
Technical equipment and machinery	1,814	1,648
Other equipment, factory and office equipment	1,512	1,067
Construction in process	410	297
	14,971	13,413
Financial assets		
Securities of the fixed assets	992	0
Other loans	62	20
	1,054	20
Assets subject to disposal restrictions		
	245	236
Accounts receivable and other assets		
Tax refund claims	278	293
Other assets	16	0
	294	293
Deferred taxes		
	1,062	550
	22,908	19,573
CURRENT ASSETS		
Inventories		
(System) components	10,944	7,894
Work-in-process	2,225	1,236
Finished goods and merchandise	5,505	5,214
Prepayments	388	148
	19,062	14,492
Accounts receivable and other assets		
Trade accounts receivable	11,816	10,929
Tax refund claims	432	230
Other assets	1,875	1,627
	14,123	12,786
Cash on hand		
	10,809	10,772
	43,994	38,050
	66,902	57,623

Liabilities and shareholders' equity		
T€	30.06.2010	31.12.2009
SHAREHOLDERS' EQUITY		
Share capital	10,926	10,858
Additional paid-in capital	4,198	3,953
Other earnings reserves	7,000	7,000
Market value of securities	2	-18
Reserves for share-based payments	472	460
Foreign currency translation adjustments	-331	-1,379
Net income for the year	19,733	15,791
Minority interests	3,385	3,509
	45,385	40,174
NON-CURRENT LIABILITIES		
Provisions for pensions	0	14
Liabilities due to banks	2,533	2,752
Deferred grants	438	483
Other liabilities	123	134
Deferred taxes	1,259	1,332
	4,353	4,715
CURRENT LIABILITIES		
Tax provisions	3,106	1,188
Other provisions	2,652	1,869
Liabilities due to banks	1,368	1,324
Trade accounts payable	3,991	2,162
Other liabilities	6,047	6,191
	17,164	12,734
	66,902	57,623

Consolidated statement of income

T€	04-06/2010	04-06/2009	01-06/2010	01-06/2009
Sales	18,925	12,389	36,529	22,474
Changes in inventories of finished goods and work-in-process	746	-892	1,090	-606
Other work capitalized	667	266	1,123	1,277
Other operating income	435	131	1,057	540
Costs of materials	5,644	2,481	10,354	5,814
Personnel expenses	5,575	4,450	10,706	8,686
Depreciation and amortization	957	702	1,766	1,351
Other operating expenses	4,527	2,707	8,599	5,066
Results from ordinary activities	4,070	1,554	8,374	2,768
Financial income	22	33	48	67
Financial expenditure	46	85	91	167
Result before income taxes	4,046	1,502	8,331	2,668
Income tax	1,163	405	2,407	827
Net income	2,883	1,097	5,924	1,841
Net income thereof				
Shareholders of parent company	2,952	1,084	6,113	1,634
Minority interests	-69	13	-189	207
Earnings per share				
Earnings per share - basic (in €)	0.27 €	0.10 €	0.56 €	0.15 €
Earnings per share - diluted (in €)	0.27 €	0.10 €	0.55 €	0.15 €
Paid dividend per share	0.20 €	0.00 €	0.20 €	0.00 €
Weighted average shares outstanding (basic)	10,869,348	10,858,052	10,869,348	10,858,052
Weighted average shares outstanding (diluted)	11,018,494	10,858,052	11,018,494	10,858,052
Consolidated statement of comprehensive income	(T€)	(T€)	(T€)	(T€)
Profit after tax	2,883	1,097	5,924	1,841
Available-for-sale financial assets	37	9	30	0
Expenditure for granted option rights	5	16	12	33
Exchange differences	754	-149	1,113	-79
Deferred taxes	-10	0	-10	0
Total comprehensive income	3,669	973	7,069	1,795
Net income thereof				
Shareholders of parent company	3,935	1,024	7,335	1,563
Minority interests	-266	-51	-266	232

Consolidated statement of the changes in shareholders' equity

	Share capital (T€)	Additional paid-in- capital (T€)	Other earnings reserves (T€)	Market value of securities (T€)	Reserves for share- based payments (T€)	Foreign currency translation (T€)	Net income for the year (T€)	Minority interests (T€)	Total (T€)
Per 01.01.2010	10,858	3,953	7,000	-18	460	-1,379	15,791	3,509	40,174
Dividend payment to shareholders							-2,171		-2,171
Proceeds from capital increase	68	245							313
Allocation to reserves									
Additions from market valuation of securities				30					30
Net result							6,113	-189	5,924
Expenditure for granted option rights					12				12
Deferred taxes				-10					-10
Foreign currency translation adjustments						1,048		65	1,113
Comprehensive income				20	12	1,048	6,113	-124	7,069
Per 30.06.2010	10,926	4,198	7,000	2	472	-331	19,733	3,385	45,385
Per 01.01.2009	10,858	3,953	7,000	-42	394	-1,344	11,107	3,322	35,248
Dividend payment to shareholders									
Allocation to reserves									
Additions from market valuation of securities				0					0
Net result							1,634	207	1,841
Expenditure for granted option rights					33				33
Deferred taxes									
Foreign currency translation adjustments						-104		25	-79
Comprehensive income				0	33	-104	1,634	232	1,795
Per 30.06.2009	10,858	3,953	7,000	-42	427	-1,448	12,741	3,554	37,043

Consolidated cash flow statement

T€	6 months 2010	6 months 2009
OPERATING ACTIVITIES		
Net income	5,924	1,841
Income tax	2,407	827
Interest charges	91	167
Interest income	-48	-67
Depreciation and amortization of fixed assets	1,766	1,351
Profit from sale of assets, including reclassification into current assets	-128	-13
Cashless currency differences in fixed assets	-396	56
Changes in inventories, accounts receivable and other assets	-6,546	267
Changes in provisions and accrued liabilities	1,562	-561
Changes in liabilities and deferred income	2,690	46
Other non-payment income/expenses	-148	404
Payments from interest	48	67
Paid income tax	-1,281	-478
Net cash flow from operating income	5,941	3,907
INVESTING ACTIVITIES		
Fixed assets investments intangible assets	-1,204	-1,140
Fixed assets investments tangible assets	-2,071	-639
Fixed assets investments financial assets	-1,037	-41
Payment from sale of financial assets	3	0
Receipts on sale of equipment	253	16
Cash flow from investing activities	-4,056	-1,804
FINANCING ACTIVITIES		
Dividends paid	-2,172	0
Interest paid	-91	-167
Change in long-term bank loans	0	591
Proceeds from capital increase	313	0
Repayments long-term bank loans	-192	-876
Cash flow from financing activities	-2,142	-452
CHANGES IN CASH AND CASH EQUIVALENTS		
Changes in cash and cash equivalents due to exchange rates	277	-162
Changes in cash and cash equivalents	-257	1,651
Cash and cash equivalents per 01.01.	10,263	5,989
Cash and cash equivalents per 30.06.	10,283	7,478
COMPOSITION CASH AND CASH EQUIVALENTS		
Cash	10,809	7,919
Short-term investments	0	0
Bank overdraft	-526	-441
Cash and cash equivalents per 30.06.	10,283	7,478

Details on the compilation of the interim financial report

The interim financial report per 30 June 2010 fully complies with the provisions of IAS 34. It reflects the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All past figures have been determined using the same principles.

The same accounting methods and evaluation 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, and in previous financial years remain unchanged in this interim report.

During the reporting period, the expenditure for R&D was € 3.5 million (previous year € 2.8 million).

Since the last balance sheet date, there have been no changes to contingent liabilities and receivables.

No events of significance with substantial impacts on the asset, financial and earnings situation have taken place since the reporting date 30 June 2010.

This interim financial report has not been audited and has not been subject to an examining review.

Related parties transactions

A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 100 % of the shares in Zeltra Naklo d.o.o.. Services totaling T€ 5 were received from this related company in the first 6 months of 2010.

50 % of the shares in PMV d.o.o. are held by a shareholder of the subsidiary LPKF Laser & Elektronika d.o.o., and 50 % by other related parties. In the first three months of 2010, business relations with this company covered purchase of material and production services totaling T€ 11, services totaling T€ 19 were provided. For remaining receivables of T€ 75 a long term payment target with usual interest rates has been granted.

A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 50 % of the shares in Detel plus d.o.o.. This company purchased materials and services totaling T€ 208 to and received T€ 50 from group companies.

The managing director of LPKF Distribution, Inc. granted the company a long-term loan totaling TUS\$ 350 in the 2007 financial year to finance construction measures. The interest rates and the provision of security are at prevailing market rates.

On the reporting date, LPKF Laser & Electronics AG had liabilities due to members of the Supervisory Board totaling T€ 69.

With the exception of the aforementioned, there are no other significant claims or liabilities against LPKF Group companies with respect to paid remunerations or benefits granted to related parties.

Number of shares held by Board members

Managing Directors	30.06. 2010	31.12. 2009
Dr. Ingo Bretthauer	25,000	25,000
Bernd Lange	18,010	11,010
Kai Bentz	4,500	3,000
Supervisory Board		
Bernd Hildebrandt	850,000	871,746
Prof. Dr. Ing. Erich Barke	1,000	1,000

Responsibility statement by the Board of Managing Directors

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities and financial position of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Garbsen, August 13, 2010

LPKF Laser & Electronics AG

The Board of Managing Directors

Dr. Ingo Bretthauer

Bernd Lange

Kai Bentz

Calendar

13 August 2010

Publication of Q2 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

09 November 2010

Publication of Q3 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

30 March 2011

Publication Annual Report 2010
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

13 May 2011

Publication of Q1 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

01 June 2011

Annual General Meeting
Hannover Congress Centrum

12 August 2011

Publication of Q2 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

11 November 2011

Publication of Q3 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

Imprint

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Internet

For further information on LPKF Laser & Electronics AG please visit our website at www.lpkf.com.

You can download this interim report and other financial information from our website under Investor Relations.

Languages

This interim report is also available in German.

