



LPKF NEWSLETTER 02/06

Ladies and Gentlemen,

The LPKF Group generated a turnover of € 18.3 million in the first half of 2006. This corresponds to a rise of 15.8%. The operative profit rose 12.7% year-on-year to € 3.1 million. The good performance in the first 6 months is attributable to expanded turnover in almost all segments, as well as the rigorous advancement of important development projects, and implementing our corporate strategy aimed at profitable growth.

We boosted turnover in the Laser Systems segment by 29.7% to € 11.2 million. Significant and promising growth was posted by the 3D MID division, as well as the Laser Plastic-Welding division in Erlangen.

Laser Plastic-Welding succeeded in achieving its planned breakthrough into international markets, and was able to increase turnover by 90% to €1.7 million. The 3D-MID division also made another important step forward: the patented technology for the production of three dimensional moulded interconnect devices is now well on the way to replacing the older established production processes. The systems are now being used by clients for the mass production of mobile phone antennae. Turnover rose to € 1.8 million.

Turnover dropped in the Inspection Systems segment. In addition, bad debt allowances totalling T€ 121 were reported in the accounts for this segment. We attribute the slight decline in turnover in the StencilLaser segment to the preannounced change in models scheduled for this autumn.

All the more reason for enjoying the continuing good performance of other product segments: turnover in Rapid PCB Prototyping rose by 11.6%, whilst turnover in PCB processing systems grew strongly by 41%.

In recent months we have been actively involved in bringing the logistics and space available to the company into line with the planned growth. This includes essential investment in new warehousing and office space at company headquarters in Garbsen. Real estate was also purchased in the USA to further expand the distribution structures in the North American market. The smaller property used to date is scheduled for sale next year.

The level of orders received by the Group is slightly up at T€ 17,271 on last year's level (T€ 17,018). The decline in the StencilLaser segment and Inspection Systems is compensated by the strong demand for Laser Plastic-Welding systems and 3D MID systems. This clearly highlights the planned benefits of our diversification strategy which is already bearing fruit.

In the StencilLaser segment we are expecting renewed growth to be stimulated in the ongoing quarter by the launch of the already announced new system generation. We are not only delighted by the huge interest in this product shown by our clients, but primarily by the numerous orders we have already received. The level of orders in hand has grown by 12.3% to T€ 6,325.

Dear Shareholders, together with our dedicated staff, we are wholeheartedly committed to maintaining the solid level of growth enjoyed by LPKF Laser & Electronics AG. We fully expect to achieve our overall annual target, and stand by to the published medium term turnover forecasts. Turnover in the ongoing financial year is forecast to reach € 41 million, and grow to € 50 million by the end of 2007.

Bernd Hackmann

Bernd Lange



Statement of income (in T€)

	01.04.- 30.06.2006	01.04.- 30.06.2005	01.01.- 30.06.2006	01.01.- 30.06.2005
Turnover	10,138	8,829	18,279	15,787
Other operating income	251	335	458	855
Changes in inventories of finished goods and work-in-progress	-361	-550	552	-694
Production of own fixed assets capitalized	410	70	593	170
Cost of purchased materials and services	3,029	2,248	5,619	3,878
Personnel expenses	3,320	2,920	6,414	5,312
Depreciation on plant (and intangible assets)	365	393	717	733
Amortisation of goodwill	0	0	0	0
Other operating expenses	2,119	1,994	4,020	3,433
Operating income	1,605	1,129	3,112	2,762
Interest income	46	42	92	88
Interest expenses	42	38	84	77
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)	1,609	1,133	3,120	2,773
Income tax	673	389	1,263	1,033
Extraordinary income / expenses	0	0	0	0
Result before minority interest	936	744	1,857	1,740
Minority interest	82	249	303	305
Net result	854	495	1,554	1,435

Balance sheet (in T€)

Assets	30.06.2006	31.12.2005
Current assets		
Cash and cash equivalents	2,337	5,572
Short-term investments / marketable securities	2,622	3,049
Trade accounts receivable	6,051	6,313
Accounts receivable due to related parties	0	0
Inventories	14,958	13,010
Prepaid expenses and other current assets	1,131	938
Total current assets	27,099	28,882
Non-current assets		
Property, plant and equipment	10,632	8,074
Intangible assets	1,169	761
Goodwill	74	74
Investments	0	0
Investments accounted for by the equity method	0	0
Notes receivables / loan	2	3
Deferred taxes	467	426
Trade accounts receivable	119	153
Other assets	204	204
Total non-current assets	12,667	9,695
Total assets	39,766	38,577

Earnings per share (in €)

	01.04.- 30.06.2006	01.04.- 30.06.2005	01.01.- 30.06.2006	01.01.- 31.03.2005
Net income per share (basic)	0.08	0.05	0.14	0.13
Net income per share (diluted)	0.08	0.05	0.14	0.13
Weighted average shares outstanding (basic)	10,838,443	10,672,895	10,838,395	10,635,395
Weighted average shares outstanding (diluted)	11,009,147	10,726,007	10,838,395	10,688,507

Segment reporting (in T€)

According to product lines per 30.06.2006

External Sales	2006	2005
Laser Systems	11,247	8,674
Rapid PCB Prototyping	5,050	4,525
Inspection/Special systems	1,338	1,550
Production services	513	853
Others	131	185
Not distributed	0	0
Total	18,279	15,787

Operating result	2006	2005
Laser Systems	2,952	1,946
Rapid PCB Prototyping	405	585
Inspection/Special systems	166	388
Production services	78	390
Others	56	57
Not distributed	-545	-604
Total	3,112	2,762

Liabilities and shareholders' equity	30.06.2006	31.12.2005
Current liabilities		
Current portion of finance lease obligation	44	61
Short-term debt and current portion of long term debt	858	517
Trade accounts payable	1,816	1,612
Accounts payable due to related parties	0	0
Advanced payments received	778	491
Accrued expenses	2,320	2,720
Deferred revenues	0	0
Income tax payable	0	0
Deferred taxes liability	0	0
Other current liabilities	1,171	1,684
Deferred income	71	43
Total current liabilities	7,058	7,128
Non-current liabilities		
Long-term debt, less current portion	2,314	1,736
Finance lease obligations, less current portion	8	10
Deferred revenues	0	0
Deferred taxes liability	675	549
Pension accrual	287	284
Deferred income	327	316
Total non-current liabilities	3,611	2,895
Minority interest	2,439	2,173
Shareholders' equity		
Share capital	10,839	10,838
Additional paid-in capital	3,901	3,901
Treasury stock	0	0
Fair value reserves hedging instruments	0	-3
Market value of securities	0	-29
Reserves for share based payments	119	93
Retained earnings	12,615	12,145
Foreign currency translation adjustments	-816	-564
Total shareholders' equity	26,658	26,381
Total liabilities and shareholders' equity	39,766	38,577



Consolidated statement of the changes in shareholders' equity (in T€)

Consolidated statement of the changes in shareholders' equity for the financial year ended 30 June 2006 (previous year in brackets)

	Share capital	Additional paid-in capital	Other earnings reserves	Market value of hedging transactions	Market value of securities	Reserves for share based payments	Retained earnings	Foreign currency translation adjustments	Total
As at 1.1.2006 before setting-off own stock and market valuation of securities	10,838	3,901	4,700	-3	-29	93	7,445	-564	26,381
As at 1.1.2005 before setting-off own stock	(10,598)	(3,671)	(4,000)	(-1)	(0)	(42)	(5,518)	(-961)	(22,867)
Setting-off own stock	0	0	0	0	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Additions from market valuation of securities	0	0	0	0	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
As at 01.01.2006 after setting-off own stock and market valuation of securities	10,838	3,901	4,700	-3	-29	93	7,445	-564	26,381
As at 01.01.2005 after setting-off own stock and market valuation of securities	(10,598)	(3,671)	(4,000)	(-1)	(0)	(42)	(5,518)	(-961)	(22,867)
Costs of capital increase	0	0	0	0	0	0	0	0	0
	(0)	(-6)	(0)	(0)	(0)	(0)	(0)	(0)	(-6)
Proceeds from capital increase	1	0	0	0	0	0	0	0	1
	(175)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(175)
Buying back own stock	0	0	0	0	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Issue of own stock	0	0	0	0	0	0	0	0	0
	(50)	(97)	(0)	(0)	(0)	(0)	(0)	(0)	(147)
Additions from valuation of cash flow hedge	0	0	0	0	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Reductions from valuation of cash flow hedge	0	0	0	0	0	0	0	0	0
	(0)	(0)	(0)	(-35)	(0)	(0)	(0)	(0)	(-35)
Additions from market valuation from securities	0	0	0	0	29	0	0	0	29
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Allocations to reserves	0	0	0	0	0	0	0	0	0
	(0)	(0)	(1,000)	(0)	(0)	(0)	(-1,000)	(0)	(0)
Transfer of earnings reserves	0	0	0	3	0	0	0	0	3
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Dividend payment to shareholders	0	0	0	0	0	0	-1,084	0	-1,084
	(0)	(0)	(0)	(0)	(0)	(0)	(-424)	(0)	(-424)
Net result	0	0	0	0	0	0	1,554	0	1,554
	(0)	(0)	(0)	(0)	(0)	(0)	(1,435)	(0)	(1,435)
Expenditure for granted option rights	0	0	0	0	0	26	0	0	26
	(0)	(0)	(0)	(0)	(0)	(21)	(0)	(0)	(21)
Settlement of difference from acquisition of minority shares	0	0	0	0	0	0	0	0	0
	(0)	(110)	(0)	(0)	(0)	(0)	(0)	(0)	(110)
Foreign currency translation adjustments	0	0	0	0	0	0	0	-252	-252
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(390)	(390)
As at 30.06.2006	10,839	3,901	4,700	0	0	119	7,915	-816	26,658
As at 30.06.2005	(10,823)	(3,872)	(5,000)	(-36)	(0)	(63)	(5,529)	(-571)	(24,680)

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 Laser & Elektronika d.o.o.	Kranj / Slovenia	75.0	1995
LPKF Laser & Electronics Inc.	Wilsonville / USA	85.0 (prev.year: 60.0)	1994/1999/2005
LPKF Services Inc. (formerly: A-Laser Inc.)	Beaverton / USA	100.0	1995/1999
LPKF Motion & Control GmbH	Suhl / Germany	50.9	1991/1999
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	100.0 (prev.year: 80.0)	1999/2005
LPKF (Tianjin) Co. Ltd.	Tianjin / China	100.0	2000
LPKF Laser & Electronics (ASIA) Ltd.	Hongkong / China	100.0	2005

Number of shares held by board members

	30.06.2006	31.12.2005
Board of managing directors		
Bernd Hackmann	195,200	193,200
Bernd Lange	4,080	500
Supervisory board		
Bernd Hildebrandt	881,746	874,246
Klaus Sülter (until 15.06.2006)	n.a.	658,800
Prof. Dr.-Ing. Erich Barke (from 16.06.2006)	1,000	n.a.

Workforce

The breakdown of employee numbers is as follows

	30.06.2006	31.12.2005
Production	70	63
Distribution	63	58
Research & Development	57	54
Engineering and administration	76	73
	266	248



Consolidated cash flow statement (in T€)

	01.01. - 30.06.2006	01.01. - 30.06.2005
Cash flows from operating activities		
Net profit / loss	1,554	1,435
Minority interest	301	305
Depreciation and amortisation	717	733
Changes in provisions and accruals	-349	756
Gains/losses on the disposal of fixed assets	5	-356
Changes in inventories, accounts receivables and other assets	-2,038	-3,218
Changes in liabilities and other deferred income	-109	1,122
Other non-payment expense/income	219	-348
Cash flows from operating activities	300	429
Cash flows from investing activities		
Fixed assets investment intangible assets	-538	-143
Fixed assets investment tangible assets	-3,159	-461
Investments in subsidiaries	0	-162
Proceeds from disposal of a subsidiary	0	0
Proceeds from sale of equipment	3	669
Cash flows from investing activities	-3,694	-97
Cash flows from financing activities		
Dividend payment to shareholders	-1,084	-425
Proceeds from issuance of share capital	1	0
Purchasing of treasury stock	0	0
Repayment convertible bonds	0	0
Costs of capital increase	0	-6
Proceeds from short or long-term borrowings	960	0
Repayments long-time bank borrowings	-193	-192
Payment of capital lease liabilities	-19	-17
Cash flows from financing activities	-335	-640
Changes in cash and cash equivalents		
Changes in cash and cash equivalents due to exchange rates	-44	170
Changes in cash and cash equivalents	-3,729	-308
Cash and cash equivalents as at 01.01.2006	8,564	7,125
Cash and cash equivalents as at 30.06.2006	4,791	6,987
Composition of cash and cash equivalent		
Cash	2,337	5,873
Short-term investments	2,622	1,295
Bank overdraft	-168	-181
Cash and cash equivalents	4,791	6,987

Shortened Annex

The 30 June 2006 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 same accounting methods and valuation 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, or in previous financial years remain unchanged in this interim report.

According to the resolution of the shareholders' general meeting on 8 June 2006 a dividend of T€ 1,084 was paid.

R&D expenses in the reporting period were T€ 1,739 (previous year T€ 1,597).

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

Imprint:

Publisher

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