# THE POTENTIAL OF LASERS

QUARTERLY FINANCIAL REPORT
1 JANUARY – 30 JUNE 2015

- Weak LDS business puts strain on business in first half-year
- Taken together, all other product groups are developing in line with expectations
- Development of new technologies is being pursued with great intensity


LPKF
Laser & Electronics

# LPKF LASER & ELECTRONICS AG AT A GLANCE

## Key Group figures 1st half-year 2015

| | | 6 months 2015 | 6 months 2014 |
|---|---|---|---|
| Revenue | EUR million | 42.4 | 45.6 |
| EBIT | EUR million | – 3.2 | 1.6 |
| EBIT margin | % | – 7.4 | 3.5 |
| EPS, diluted | EUR | – 0.13 | 0.04 |
| Incoming orders | EUR million | 42.6 | 79.7 |

| | | As of 30 June 2015 | As of 30 June 2014 |
|---|---|---|---|
| Free cash flow | EUR million | – 2.7 | – 12.4 |
| Net working capital | EUR million | 39.9 | 41.7 |
| ROCE | % | – 3.0 | 1.7 |
| Cash and cash equivalents | EUR million | – 0.7 | 1.3 |
| Equity ratio | % | 51.2 | 51.5 |
| Orders on hand | EUR million | 17.9 | 51.8 |
| Employees | Number | 784 | 774 |

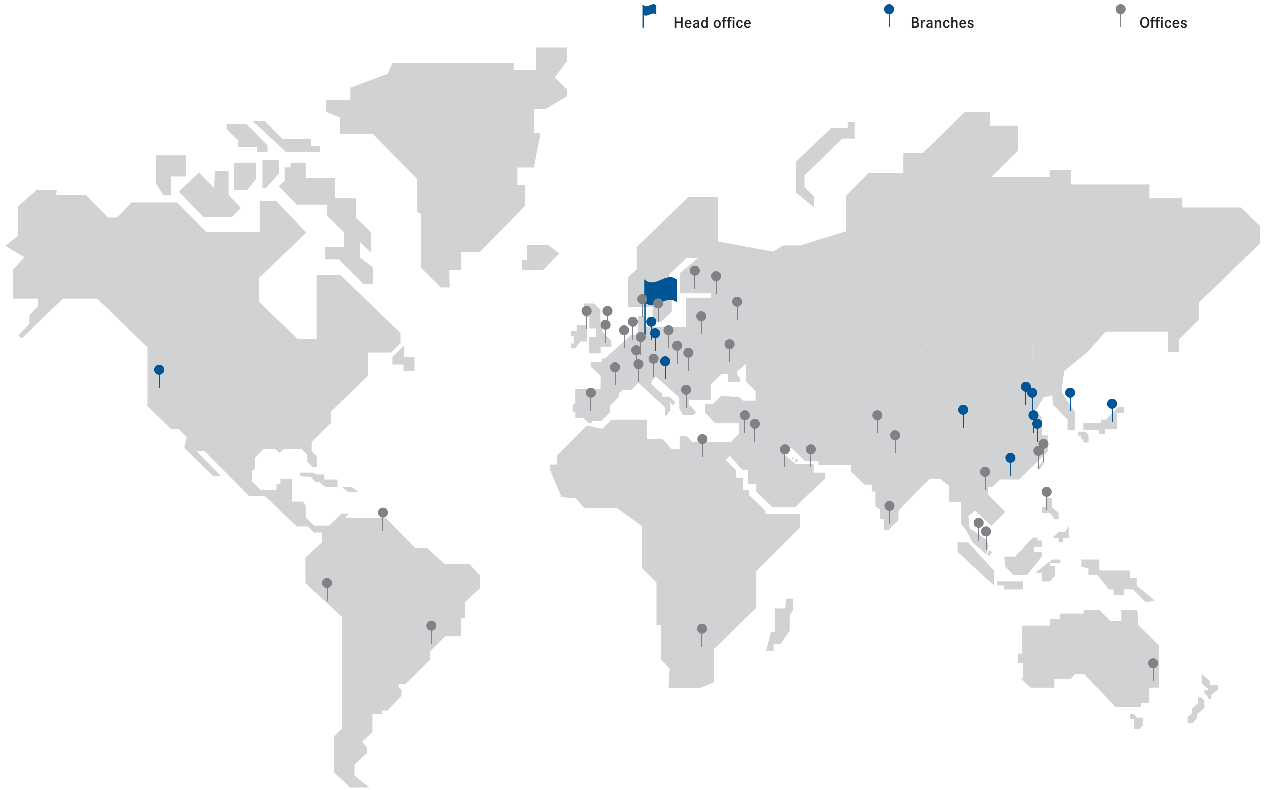
## Markets, segments and product groups

**MARKETS**
- Electronics
- Plastics
- Solar

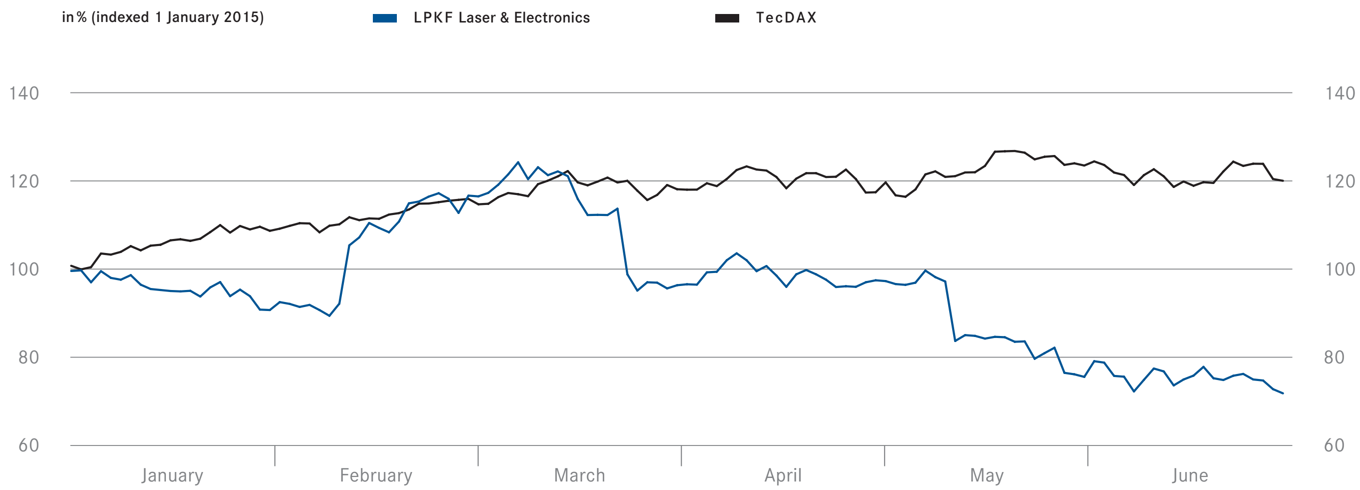
**SEGMENTS**
- Electronics Development Equipment
- Electronics Production Equipment
- Other Production Equipment

**PRODUCT GROUPS**
- Rapid Prototyping Equipment
- StencilLaser Equipment
- PCB Production Equipment
- LDS Production Equipment
- Welding Equipment
- Solar Module Equipment

## LPKF sites worldwide




## Performance of the LPKF share in the reporting period (1 January – 30 June 2015)



# SHORT PORTRAIT
# PRECISION WITH LASERS

LPKF Laser & Electronics AG designs and engineers machinery for micro material processing. At the heart of such equipment lies a tool, the laser beam, which offers high-precision surface machining. The ongoing trend for miniaturization is paving the way for the use of laser technology in the industrial production of especially small or delicate parts.

LPKF's laser systems are used in various sectors: in the electronics and automotive industry, in polymer technology applications, and for the manufacture of solar panels. Machines made by LPKF not only design, process and cut out PCBs but can even replace them entirely by employing laser direct structuring (LDS) techniques. In many areas, laser technology is replacing conventional methods of production.

The Group's success stems from its expertise and experience in the fields of laser technology and drive/control systems, supplemented by in-house software development work. A process of continuous improvement and the discovery of new application scenarios have made LPKF into what it always has been and should be in the future: a profitable mechanical engineering business and a world-class laser specialist.

LPKF is headquartered in Garbsen near Hanover, Germany. The company maintains a broad-based global presence, with a workforce of 784 based at sites in Europe, Asia and the US.

LPKF
Laser & Electronics

# CHAIRMAN'S STATEMENT

DR. INGO BRETTHAUER
*Chief Executive Officer*

## Ladies and Gentlemen,

Five weeks ago, we were forced to downgrade our forecast for the year due to persistently weak LDS revenue. I can assure you that it brings no pleasure to me or my fellow Management Board members to disappoint the capital market with news like this. Ultimately, predicting the future outlook for a high-tech mechanical engineering company like LPKF remains extremely difficult. This is underscored by the fact that we had to correct our annual guidance upward a total of six times from 2009 to 2013.

The boom in LDS technology was the driver of our extraordinarily strong sales growth and very robust profits during this period. Even though we had projected at least temporary market saturation sooner or later, the abrupt decline in demand from 2014 onward hit us harder than we expected. Our experience shows that forecasting in the laser equipment business in particular is very challenging. Our electronics manufacturing customers operate in a highly volatile market and must continually contend with new competitors. This creates opportunities as well as risks for LPKF. The fact is that this financial year, only LDS revenue lagged well behind expectations; all other product groups are, on the whole, developing in line with expectations.

At EUR 42.4 million, consolidated revenue for the first six months was down 7% from the previous year's level. Due to lower revenue numbers, a shift in the product mix and a slight rise in costs, EBIT was negative in the first half-year, amounting to EUR –3.2 million. Incoming orders were down significantly from the prior-year period, mainly due to the fact that in addition to weak LDS orders in the current year incoming orders were dominated by a large solar contract in early 2014.

Weak revenue in the first half-year is attributable solely to Electronics Production Equipment (EPE) and the LDS business that dominates this segment. The other two product groups in this segment performed largely as expected. In the second half of the year, sales of our new UV laser cutting systems especially appear to be picking up. Our newly introduced 2000-series systems were received very positively by the market.

Revenue in the Electronics Development Equipment (EDE) and Other Production Equipment (OPE) segments developed favorably. At 5.1%, the EDE segment‘s growth rate continued the positive trend of previous years. The OPE segment saw an increase in revenue of 25%, to which both product groups (Solar and Welding Equipment) contributed. In the solar business, this was mainly down to completing the remainder of a large contract from 2014 and will not be repeated in the second half of the year. The solid performance of the plastic welding business is expected to continue in the second six months, however.

We are working full steam ahead on developing new technologies, such as Through Glass Via (TGV) and Laser Transfer Printing (LTP). Potential customers are already very interested, so we expect these products to contribute to revenue starting in 2016. LPKF believes that the demand for new LDS systems will pick up again in the medium term. One key factor here will be the entirely new antenna technologies such as MIMO (Multiple Input Multiple Output), which comprises multiple very fine antenna structures capable of transmitting greater amounts of data at considerably faster rates. LDS should be an excellent fit for the manufacture of such antennas for these new technologies, and therefore also have a bright outlook going forward.

The attractiveness of our technologies is evident not least in the continuing legal disputes concerning our LDS patent. We are pursuing patent infringement proceedings against Motorola in Germany, a case the lower court initially decided against Motorola. A decision by Karlsruhe Higher Regional Court is now pending. Motorola in turn filed suit against our patent before the Federal Patent Court in Munich. China-based BYD, a Motorola supplier, joined this lawsuit a few weeks ago. However, on July 9, the case was decided in our favor. In our view this increases the chances for a positive outcome in the patent infringement case against Motorola.

We therefore have reason to look to the future with optimism. Our markets and our business model are intact. Our main growth driver, the miniaturization of electronic components, is in full swing and requires lasers with greater precision than ever before.

Currently, internally all signs point to saving, streamlining and focusing on core activities. Numerous initiatives are already underway that will lower costs in 2015 and therefore reduce the break-even point to below EUR 100 million revenue. According to our new forecast, we aim to generate revenue of EUR 90 to 110 million in 2015.

My fellow Management Board members and I are responsible for staying the Company's course even during difficult periods. Accomplishing this goal requires us to thoroughly consider all possible scenarios and work through all of the consequences. Maintaining profitability and returning to our growth path are our most important objectives.

Despite the current weakness of the LDS-business, we expect profitable growth again in the coming years. The forecast for 2016 and subsequent years is being reviewed at present and will be published on November 11 together with the quarterly financial report.

Yours sincerely,

Dr. Ingo Bretthauer
*Chief Executive Officer*

LPKF Group and LPKF AG

# INTERIM MANAGEMENT REPORT AS OF 30 JUNE 2015

## I. Fundamental information about the Group

### 1.1 GROUP STRUCTURE AND BUSINESS MODEL

The LPKF Group develops and produces material processing systems. The mechanical engineering company has become one of the world‘s leading laser technology providers on the strength of its technical leadership in a number of areas of laser micro material processing. The LPKF Group has specialist know-how in the fields of laser technology, optics, precision drive systems, control technology and software as well as materials engineering. LPKF’s laser systems are used primarily in the electronics industry, in polymer technology applications and for the manufacture of solar panels. In many sectors, the innovative processes developed by LPKF replace established conventional techniques. The Group generates 87 % of its revenue abroad. LPKF Laser & Electronics AG (LPKF AG) is listed in the TecDax segment of the German Stock Exchange. The Group had 784 employees worldwide on the reporting date.

In the reporting period, the Group‘s structure and business remained as described in the 2014 combined management report. The basis of consolidation is presented in the Notes to this interim report.

### 1.2 CORPORATE GOALS AND STRATEGY

The Group’s fundamental, overarching corporate goal is to increase the value of the Company in the long term. The Group‘s technical edge is to be sharpened continually to achieve this goal. Promoting and expanding LPKF’s own development activities is therefore a top priority.

In the reporting period, the contents of LPKF’s corporate strategy and management essentially remained as described in the 2014 combined management report. Due to the current development of business, LPKF will have to focus even more on efficiency.

### 1.3 RESEARCH AND DEVELOPMENT

Continuous investment in near-to-market developments are of crucial importance to a technology oriented Group such as LPKF. The course pursued by R&D is described in the 2014 Annual Report; no fundamental changes were made to this course in the first six months of the current year. R&D expenses in the reporting period amounted to EUR 5.5 million (previous year: EUR 5.7 million).

The LPKF Group‘s R&D segment is currently working on a range of projects for new laser processes, with the long-term goals of usefully supplementing the LPKF product portfolio and opening up new markets. Highlights of this development work include the following:

### Through Glass Via (TGV)

The TGV process is used to rapidly produce a large number of tiny holes in thin glass. Such glass can then be used in microelectronics, for example, for contact redistribution in complex circuitry.

The market launch for the TGV process is scheduled for 2015. This product group is expected to generate revenue starting in 2016.

### Laser Transfer Printing (LTP)

LTP (Laser Transfer Printing) is the name for a new digital printing process for functional pastes being developed by LPKF as an alternative to screen printing.

In addition to the obvious benefits of a digital direct printing system in terms of its flexibility, the Laser Transfer Printing (LTP) method also offers higher-resolution printing and can therefore contribute to reducing the consumption of pastes containing expensive metals. In early 2015, LPKF enhanced its presence in this field with an acquisition.

This product group is expected to generate revenue starting in 2016.

# II. Report on economic position

## 2.1 OVERVIEW OF THE COMPANY'S DEVELOPMENT

### 2.1.1 General economic environment

According to the summer forecast by the Kiel Institute for the World Economy (IfW – Institut für Weltwirtschaft), the global economy got off to an extremely weak start in 2015. The pace of economic growth should pick up again later this year and will likely gain further strength in the coming year. The rise in global production (calculated based on purchasing power parities) will be quite weak again this year at 3.4% and reflect only a moderate pace of expansion in historical terms at 3.8% in the coming year. Several months ago, various forecasts had projected stronger growth. According to the IfW, industrialized economies in particular will gather speed. Monetary policy, which continues to be very expansive overall, is anticipated to increasingly produce results in view of progress in the private sector's deleveraging process. A marked upturn can be expected in capital expenditure above all. However, it is the Institute's opinion that the resulting economic upswing will not be able to hide the considerable risks to stability associated with ultraexpansive monetary policy around the globe. In contrast, the emerging economies are unlikely to experience a significant increase in production growth due to structural hurdles. In many countries, an added factor is a long-term decline in export earnings due to lower prices for commodities.

In the euro zone, economists are holding firm on their positive outlook for growth despite the crisis in and involving Greece. The gross domestic product is said to grow by 0.5% in both the third and the fourth quarter. Domestic demand, i.e., private consumption, is expected to be the main driver of the recovery. For 2015, the Ifo Institute in Munich, Insee in Paris, and Istat in Rome collectively forecast economic growth of 1.4%.

The IfW reports that Germany's economy is continuing its upswing. For the current year, researchers believe the gross domestic product will expand by 1.8%, with this rate accelerating to 2.1% in the coming year. Private consumption continues to grow apace, although not quite as fast as in previous quarters. The most important engine next year will be an increase in investments, the researchers say. This trend will take hold against the backdrop of still-favorable monetary policy, particularly low interest rates.

### 2.1.2 Sector-specific environment

After Federal Statistical Office in Germany sharply downgraded its production outlook for the country's mechanical engineering sector, May 2015 incoming orders fell by 6.8% year on year. The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, or VDMA) thus felt forced to revise its overall forecast for 2015 as well. It now amounts to 0% in real terms and is expected to stay at that level. Moderate production growth is anticipated for the second half of 2015 in an unstable environment.

### 2.1.3 Effects on the LPKF Group

The situation in the economy as a whole and most of the industries relevant to LPKF has been varied in the current financial year. There has been a palpable loss of economic momentum in some areas and capital spending has declined further. Among others, this applies to the electronics industry in Asia. LPKF is feeling the effects across a range of business segments, particularly in the EPE segment. Customers continue to respond to the growing uncertainty in the markets by postponing both orders and projects.

The Group generally benefits from trends such as mobile communication with smartphones and other mobile devices, the struggle toward optimal efficiency in solar cells – fueled by fiercer competition – and lightweight construction in the automotive industry. These trends continue to persist and should result in a return to profitable growth in the next years.

## 2.2 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS OF THE GROUP

### 2.2.1 Results of operations

LPKF started off 2015 with orders on hand of some EUR 17.7 million, a level almost identical to that of the previous year. The second quarter of 2015 diverged from this trend, however, and closed lower than in the prior year. On the whole, revenue in the first half of 2015 was down 7% year on year, mainly due to the sharp drop in revenue in the Electronics Production Equipment segment. The LDS business lagged behind the previous year by more than 50%. Despite the more successful PCB business, revenue in this segment was still down 30% from the prior-year figure. The other operating segments outperformed last year‘s revenue figures, but this was not enough to compensate for the decline in EPE. Stable demand for ProtoMat and ProtoLaser units as well as the launch of the high-end D104 model helped the Electronics Development Equipment segment grow revenue by 5,1% over the prior-year period. The improvement in the second quarter was therefore significant and more than offset the downturn in the first quarter. The gratifyingly stable performance of the plastic welding business and completion of the remainder of a large solar order received last year led to total growth of 25% in the Other Production Equipment segment.

Incoming orders were down considerably year on year. The large solar order valued at EUR 15 million in the prior year must be considered a one-off item. However, even after adjusting for this item, incoming orders and orders on hand were significantly lower than in the previous year. The current book-to-bill rate is 1.0. The soft revenue figures in the first half of the year and a shift in the product mix coupled with higher operating expenses and staff costs than in the prior-year quarter resulted in an operating loss of EUR 3.2 million. The EBIT margin decreased from 3.5% in the prior year to – 7.4%.

Own work capitalized in the reporting period includes development costs of EUR 3.2 million. Other operating income was up slightly from the previous year due to a portion of the compensation received for the loss suffered by the fire in Garbsen totaling EUR 1.0 million and currency gains (+EUR 0.9 million).
The lower volume of sales for LDS systems in the reporting period and the higher solar revenue resulted in a year-on-year increase in the material cost ratio from 29.8% to 31.3%.

In the first half of 2015, the workforce decreased by 11 employees to its present total of 784. The primary reason for the rise in staff costs is the expansion to the workforce that was carried out last year. Extraordinary expenses were also recognized in the amount of EUR 0.3 million. The staff cost ratio rose from 45.5% after 6 months in the previous year to 53.6%.

Since the amortization period of some capitalized development costs ended in 2014, depreciation and amortization in the first half of 2015 was lower than in the prior-year period. Overall, depreciation and amortization in the reporting period totaled EUR 3.3 million, compared to EUR 4.1 million in the prior-year period.

Other operating expenses rose year-on-year from EUR 12.4 million to EUR 14.3 million. While advertising and sales expenses (primarily license expenses) fell slightly (– EUR 0.5 million) as a result of the development of revenue, increases were seen in exchange rate costs (+ EUR 0.8 million), third-party work (+ EUR 0.6 million) and repairs (+ EUR 0.5 million, mostly due to the fire in Garbsen). Trade fair costs and other operating expenses (primarily bad debt losses) also rose by a total of EUR 0.6 million.

Despite a higher net debt, low interest rates ensured interest expenses remained at last year‘s level.

Tax expenses include an extraordinary expense stemming from the reversal of deferred tax assets due to the Japanese subsidiary’s loss carryforward. This resulted in a consolidated net loss after taxes of EUR 2.9 million, compared with a consolidated net profit of EUR 0.9 million in the previous year.

### 2.2.2 Financial position

The Group‘s cash and cash equivalents decreased in the reporting period from EUR 6.0 million to EUR – 0.7 million. The net loss for the period was more than balanced out by the settlement of receivables, resulting in a significant cash inflow from operating activities. The cash outflow from investing activities was EUR 8.0 million. Together with a cash outflow from financing activities in the amount of EUR 3.8 million, this resulted in a decrease in cash and cash equivalents of EUR 6.5 million.

The Group‘s financial position remains stable. Alongside its own funds, sufficient undrawn lines of credit are available for meeting funding requirements.

### 2.2.3 Net assets

*Analysis of net assets and capital structure*

The net loss for the period was the main factor in the change in the equity ratio from 53.5% on 31 December 2014 to 51.2% as of 30 June 2015. This means that the Group‘s own funds account for more than half of its financing, which puts it in a strong position.

LPKF SolarQuipment GmbH acquired assets worth a total of EUR 1.5 million from a company outside the Group. Intangible development costs of EUR 3.2 million were capitalized in the first quarter. The new administrative building at the Fürth location was dedicated in June, marking completion of the expansion of the facilities there, apart from some minor remaining work.

Compared with the end of the prior year, current assets declined due especially to the reduction in trade receivables (– EUR 11.0 million). In contrast, claims for reimbursement of corporate income tax and VAT rose (+ EUR 3.8 million). Inventories changed little overall. Cash and cash equivalents decreased by EUR 1.2 million in the first half-year.

The reduction in trade receivables was the driving force behind the decline in net working capital from EUR 50.1 million to EUR 39.9 million as of the reporting date. Compared with the previous year, the net working capital ratio now is 34.3%, down considerably from 41.9% just six months ago. LPKF reached the goal of keeping this figure below 35% in the first half of 2015.

There was only a marginal change in equity on account of the lower net retained profits for the year and the distribution of profits after the Annual General Meeting. LPKF AG has refinanced the majority of its short-term working capital financing into medium- to long-term loans from two banks. Non-current liabilities to banks therefore increased by EUR 10.0 million, while current liabilities to banks decreased by the same amount. In addition to the refinancing, this is also the result of a decline in trade payables by EUR 2.3 million and the provision by EUR 1.5 million.

With these exceptions, there has been no substantial change in the structure of the statement of financial position.

*Capital expenditures*

In the first six months of 2015, capital spending on intangible assets and property, plant and equipment increased by EUR 0.3 million year on year to EUR 8.0 million. This expenditure was incurred in particular by the – now finished – construction of a building in Fürth, and the purchase of patents and other items of property, plant and equipment already mentioned. Intangible assets also include capitalized development costs in the amount of EUR 3.2 million.

In January, the Development Center in Garbsen suffered a fire that rendered a part of one building unusable. An estimate of the total costs of restoration is currently underway. These costs, together with the losses due to the interruption to business, should largely be covered by appropriate insurance policies.

### 2.2.4 Segment performance

The following table provides an overview of the operating segments' performance:

| EUR thsd. | | Electronics Production Equipment | Electronics Development Equipment | Other Production Equipment | Other | Total |
|---|---|---|---|---|---|---|
| External revenue | 6 mo 2015 | 16,286 | 11,179 | 14,392 | 526 | 42,383 |
| | 6 mo 2014 | 23,241 | 10,633 | 11,518 | 253 | 45,645 |
| Operating result | 6 mo 2015 | −2,401 | 688 | – 472 | – 972 | – 3,157 |
| (EBIT) | 6 mo 2014 | 3,973 | 1,405 | – 2,987 | – 812 | 1,579 |

The considerable decline in revenue for the Electronics Production Equipment segment resulted in a lower figure for EBIT. The Other Production Equipment segment posted substantial year-on-year growth in both revenue and earnings.

The Electronics Development Equipment segment was able to exceed last year‘s revenue figure. Due, among other things, to smaller contributions to earnings made by the sales subsidiaries, EBIT fell from EUR 1.4 million in the first half of 2014 to EUR 0.7 million. The EBIT margin was 6.2% after last year‘s figure of 13.2%. The segment result was depressed by extraordinary expenses of EUR 0.2 million.

## 2.3 EMPLOYEES

Motivated, highly-qualified staff that identifies with the Company is the key to success – especially for a technology company like LPKF. Low levels of sick leave and employee turnover are important indicators of LPKF's success in achieving this goal. Even after a flu outbreak, the sick leave percentage of 3.96% in the LPKF Group in the first six months was again below the average for the metal working and electronics industry (2013: 4.6%). The employee turnover rate in the Group was 4.19%.

The following table shows the development in the employee numbers in the first six months of 2015:

| Area | 30 June 2015 | 31 Dec. 2014 |
|---|---|---|
| Production | 186 | 191 |
| Development | 169 | 171 |
| Administration | 172 | 174 |
| Sales | 153 | 142 |
| Services | 104 | 117 |
| | **784** | **795** |

In addition, there were 17 workers in minor employment, 37 trainees, and 13 students and interns as of 30 June 2015.

Demographic change makes it important for LPKF to hire and retain qualified young staff early on. This is why LPKF trains a constant stream of young people across a range of professions and enables university and high school students to gain valuable practical experience in internships and student-employee arrangements.

## 2.4 OVERALL APPRAISAL OF THE GROUP'S ECONOMIC SITUATION

Despite a subdued start to the current financial year, the Group's economic situation in the first six months of 2015 can once again be considered robust. Building on that, LPKF aims at posting positive earnings and achieving a corresponding return on the capital employed for the full year.

# III. Opportunities and risks

## 3.1 REPORT ON OPPORTUNITIES AND RISKS

In the combined management report for 2014, the opportunities and risks of the LPKF Group are presented and explained in detail in separate reports.

## 3.2 ASSESSMENT BY THE MANAGEMENT BOARD OF THE RISK SITUATION AFFECTING THE GROUP

The global economy continues to be exposed to high risks largely consisting of a slump in investment worldwide, the fallout from the financial crisis and weakening of the Chinese economy. Global economic growth of 3.4% is estimated for the current year.

Despite several positive signals, the solar sector as a whole is still a market in crisis. The Management Board anticipates a revenue and profit downturn in the solar segment for the current financial year. Major orders are anticipated once again in 2016 and subsequent years based on current projects.

In China, the competitor BYD took action against an LDS customer, among others, and filed suit for infringement of its own patents. Since BYD describes LPKF's LDS patent as the state of the art in its own patents, the Company's lawyers believe that this poses only a small risk to LPKF. However, there is a danger that LPKF's customers could be unsettled, and this could in turn negatively influence their investment choices.

In the legal dispute concerning the infringement of the patent for Laser Direct Structuring (LDS), the case is now pending before the Karlsruhe Higher Regional Court following the lodging of an appeal after Motorola and others were ordered in the first instance to refrain from selling cell phones in Germany that infringe the patent. After being suspended for a period, the case will soon resume. On 9 July 2015 the Federal Patent Court in Germany confirmed the legal validity of the German patent to the greatest possible extent on a parallel action for declaration of nullity filed by Motorola.

Continuation of the currently subdued business performance would have an adverse effect on the LPKF Group's results of operations, financial position and net assets. There is also a possibility that the effects of a flare-up of the sovereign debt crisis on the economy could negatively impact the further development of the Group.

In all other respects, however, there were no material changes in the risks and opportunities of the LPKF Group in the reporting period compared to 2014. The corresponding disclosures in the 2014 annual report therefore continue to apply. There were no going-concern risks as of 30 June 2015.

# IV. Report on expected developments

## 4.1 OVERALL APPRAISAL OF THE GROUP'S PROBABLE PERFORMANCE

### 4.1.1 Economic environment

Although the crisis in Greece and the situation in China continue to create uncertainty, economic signs are also positive. The International Monetary Fund (IMF) lifted its 2016 growth forecast for the euro zone slightly. Out of the 19 euro zone countries, Spain's economy should show especially robust expansion, growing by 3.1% this year and 2.5% next year. The IMF also revised its outlook for Italy upward somewhat. For Germany, the IMF's prediction remains the same: growth of 1.6% for 2015 and 1.7% for the coming year.

### 4.1.2 Group performance

Forecasts by economic research institutes have worsened overall not only for the global economy, but also for LPKF's target sales markets. Particularly in China, economic uncertainty is currently high. The risks of a negative impact on business by economic weakness in end markets increase accordingly. The cloudy economic situation is reflected in the uncertainty shown by LPKF's customers, some of whom have postponed capital spending decisions. The persistent weakness of the euro generally has a positive effect on the LPKF Group's business.

In 2014, LPKF showcased, among others, Through Glass Via (TGV) and Laser Transfer Printing (LTP), two innovative processes for entirely new applications. Both processes are based on the Company's core know-how and offer opportunities to enter totally new markets.

### 4.1.3 Significant indicators

At EUR 42.4 million, revenue in the first half of the current financial year remained below the previous year's figure of EUR 45.6 million. The EBIT margin of – 7.4% was considerably lower than in the previous year (3.5%). The operating income (EBIT) fell to EUR – 3.2 million.

According to the forecast announced on 8 July 2015, the Group expects to generate revenue of EUR 90 million to EUR 110 million in 2015. The company needs revenue of just under EUR 100 million to break even. The LPKF Group's incoming orders and orders on hand continue to underperform expectations, and visibility is still low for new LDS projects. This situation may still change if a small number of major orders are implemented. The Management Board confirms this adjusted guidance.

The net working capital ratio is expected to fall below 35%, which corresponds to net working capital of less than EUR 32 million for the forecast period. This would represent a considerable year-on-year decrease. Regarding the error rate, LPKF expects it to improve slightly.

Despite the current weakness of the LDS-business, the Management Board anticipates profitable growth again in the coming years. The forecast for 2016 and subsequent years is being reviewed at present and will be published on November 11 together with the quarterly financial report.

LPKF Laser & Electronics AG

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated statement of financial position

as of 30 June 2015

### Assets

| EUR thsd. | 30 June 2015 | 31 Dec. 2014 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | | |
| Goodwill | 74 | 74 |
| Development costs | 9,336 | 6,643 |
| Other intangible assets | 2,389 | 1,830 |
| | **11,799** | **8,547** |
| Property, plant and equipment | | |
| Land, similar rights and buildings | 36,646 | 37,026 |
| Plant and machinery | 3,966 | 3,841 |
| Other equipment, operating and office equipment | 6,370 | 6,168 |
| Advances paid and construction in progress | 3,567 | 1,945 |
| | **50,549** | **48,980** |
| Receivables and other assets | | |
| Trade receivables | 226 | 68 |
| Income tax receivables | 46 | 91 |
| Other assets | 135 | 74 |
| | **407** | **233** |
| Deferred taxes | 2,548 | 2,565 |
| | **65,303** | **60,325** |
| **Current assets** | | |
| Inventories | | |
| (System) parts | 15,683 | 16,987 |
| Work in progress | 4,867 | 3,791 |
| Finished products and goods | 11,323 | 11,102 |
| Advances paid | 916 | 359 |
| | **32,789** | **32,239** |
| Receivables and other assets | | |
| Trade receivables | 14,709 | 25,659 |
| Income tax receivables | 5,099 | 2,082 |
| Other assets | 2,876 | 1,896 |
| | **22,684** | **29,637** |
| Cash and cash equivalents | 4,779 | 6,021 |
| | **60,252** | **67,897** |
| | **125,555** | **128,222** |

# Consolidated statement of financial position

**as of 30 June 2015**

## Equity and liabilities

| EUR thsd. | 30 June 2015 | 31 Dec. 2014 |
|---|---|---|
| **Equity** | | |
| Subscribed capital | 22,270 | 22,270 |
| Capital reserves | 1,489 | 1,489 |
| Other retained earnings | 10,945 | 10,945 |
| Reserve for cash flow hedges | –6 | –17 |
| Share-based payment reserve | 490 | 490 |
| Currency translation reserve | 2,111 | 858 |
| Net retained profits | 26,966 | 32,527 |
| | **64,265** | **68,562** |
| **Non-current liabilities** | | |
| Provisions for pensions and similar obligations | 275 | 276 |
| Other provisions | 92 | 83 |
| Non-current liabilities to banks | 26,019 | 16,099 |
| Deferred income from grants | 760 | 787 |
| Deferred taxes | 3,068 | 2,020 |
| | **30,214** | **19,265** |
| **Current liabilities** | | |
| Tax provisions | 452 | 657 |
| Other provisions | 2,989 | 4,488 |
| Current liabilities to banks | 14,818 | 20,126 |
| Trade payables | 2,532 | 4,829 |
| Other liabilities | 10,285 | 10,295 |
| | **31,076** | **40,395** |
| | **125,555** | **128,222** |

# Consolidated income statement
**from 1 January to 30 June 2015**

| EUR thsd. | 04–06/2015 | 04–06/2014 | 01–06/2015 | 01–06/2014 |
|---|---|---|---|---|
| Revenue | 20,939 | 24,051 | 42,383 | 45,645 |
| Changes in inventories of finished goods and work in progress | – 97 | 1,001 | 1,928 | 3,527 |
| Other own work capitalized | 1,827 | 1,094 | 3,222 | 2,273 |
| Other operating income | 709 | 1,281 | 3,497 | 1,983 |
| Cost of materials | 6,679 | 8,149 | 13,847 | 14,635 |
| Staff costs | 11,290 | 10,334 | 22,726 | 20,779 |
| Depreciation and amortization | 1,660 | 2,065 | 3,310 | 4,071 |
| Other operating expenses | 7,117 | 6,385 | 14,303 | 12,364 |
| **Operating result** | **– 3,368** | **494** | **– 3,156** | **1,579** |
| Finance income | 11 | 5 | 11 | 12 |
| Finance costs | 168 | 179 | 317 | 332 |
| **Earnings before tax** | **– 3,525** | **320** | **– 3,462** | **1,259** |
| Income taxes | – 564 | 105 | – 573 | 379 |
| **Consolidated net profit** | **– 2,961** | **215** | **– 2,889** | **880** |
| **Earnings per share** | | | | |
| Earnings per share (basic, EUR) | – 0.13 | 0.01 | – 0.13 | 0.04 |
| Earnings per share (diluted, EUR) | – 0.13 | 0.01 | – 0.13 | 0.04 |
| Weighted average number of shares outstanding (basic, €) | 22,269,588 | 22,269,588 | 22,269,588 | 22,269,588 |
| Weighted average number of shares outstanding (diluted, €) | 22,269,588 | 22,269,588 | 22,269,588 | 22,269,588 |

# Consolidated statement of comprehensive income

**from 1 January to 30 June 2015**

| EUR thsd. | 04–06/2015 | 04–06/2014 | 01–06/2015 | 01–06/2014 |
|---|---|---|---|---|
| **Consolidated net profit** | **– 2,961** | **215** | **– 2,899** | **880** |
| Revaluations (mainly actuarial gains and losses) | 0 | 0 | 0 | 0 |
| Deferred taxes | 0 | 0 | 0 | 0 |
| **Sum total of changes which will not be reclassified to the income statement in the future** | **0** | **0** | **0** | **0** |
| Gains and losses on the market valuation of available-for-sale financial assets | 0 | – 6 | 0 | 0 |
| Gains and losses on the market valuation of available-for-sale financial assets that were reclassified to the income statement | 0 | – 5 | 0 | – 5 |
| Fair value changes from cash flow hedges | 7 | 13 | 16 | 30 |
| Currency translation differences | – 605 | 221 | 1,253 | – 86 |
| Deferred taxes | – 2 | – 1 | – 5 | – 8 |
| **Sum total of changes which will be reclassified to the income statement in the future if certain conditions are met** | **– 600** | **222** | **1,264** | **– 69** |
| **Other comprehensive income after taxes** | **– 600** | **222** | **1,264** | **– 69** |
| **Total comprehensive income** | **– 3,561** | **437** | **– 1,625** | **811** |

# Consolidated statement of changes in equity

**as of 30 Juni 2015**

| EUR thsd. | Subscribed capital | Capital reserve | Other retained earnings | Cash flow hedge reserve |
|---|---|---|---|---|
| **Balance on 01 Jan. 2015** | 22,270 | 1,489 | 10,945 | – 17 |
| **Consolidated total comprehensive income** | | | | |
| Consolidated net profit | 0 | 0 | 0 | 0 |
| Change from measurement of cash flow hedge | 0 | 0 | 0 | 16 |
| Revaluations (mainly actuarial gains and losses) | 0 | 0 | 0 | 0 |
| Deferred taxes on changes recognized directly in equity | 0 | 0 | 0 | – 5 |
| Currency translation differences | 0 | 0 | 0 | 0 |
| **Consolidated total comprehensive income** | **0** | **0** | **0** | **11** |
| **Transactions with owners** | | | | |
| Distributions to owners | 0 | 0 | 0 | 0 |
| **Balance on 30 June 2015** | **22,270** | **1,489** | **10,945** | **– 6** |

| EUR thsd. | Subscribed capital | Capital reserve | Other retained earnings | Cash flow hedge reserve |
|---|---|---|---|---|
| **Balance on 01 Jan. 2014** | 22,270 | 1,489 | 11,115 | – 55 |
| **Consolidated total comprehensive income** | | | | |
| Consolidated net profit | 0 | 0 | 0 | 0 |
| Change from measurement of cash flow hedge | 0 | 0 | 0 | 30 |
| Change from market valuation of securities | 0 | 0 | 0 | 0 |
| Deferred taxes on changes recognized directly in equity | 0 | 0 | 0 | – 9 |
| Currency translation differences | 0 | 0 | 0 | 0 |
| **Consolidated total comprehensive income** | **0** | **0** | **0** | **21** |
| Distributions to owners | 0 | 0 | 0 | 0 |
| **Balance on 30 June 2014** | **22,270** | **1,489** | **11,115** | **– 34** |

| Revaluation reserve | Share-based payment reserve | Currency translation reserve | Net retained profits | Total Equity |
|---|---|---|---|---|
| 0 | 490 | 858 | 32,528 | 68,563 |
| 0 | 0 | 0 | – 2,889 | – 2,889 |
| 0 | 0 | 0 | 0 | 16 |
| 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | – 5 |
| 0 | 0 | 1,253 | 0 | 1,253 |
| **0** | **0** | **1,253** | **– 2,889** | **– 1,625** |
| 0 | 0 | 0 | – 2,672 | – 2,672 |
| **0** | **490** | **2,111** | **26,966** | **64,265** |

| Revaluation reserve | Share-based payment reserve | Currency translation reserve | Net retained profits | Total Equity |
|---|---|---|---|---|
| 4 | 490 | – 826 | 29,579 | 64,066 |
| 0 | 0 | 0 | 880 | 880 |
| 0 | 0 | 0 | 0 | 30 |
| – 5 | 0 | 0 | 0 | – 5 |
| 1 | 0 | 0 | 0 | – 8 |
| 0 | 0 | – 86 | 0 | – 86 |
| **– 4** | **0** | **– 86** | **880** | **811** |
| 0 | 0 | 0 | – 5,567 | – 5,567 |
| **0** | **490** | **–912** | **24,892** | **59,310** |

# Consolidated statement of cash flows

**from 1 January to 30 June 2015**

| EUR thsd. | 01–06/2015 | 01–06/2014 |
|---|---|---|
| **Operating activities** | | |
| Consolidated net profit | – 2,889 | 880 |
| Income taxes | – 573 | 379 |
| Interest expense | 317 | 332 |
| Interest income | – 11 | – 12 |
| Depreciation and amortization | 3,310 | 4,071 |
| Gains/losses from the disposal of non-current assets including reclassification to current assets | 108 | 27 |
| Changes in inventories, receivables and other assets | 7,788 | – 6,490 |
| Changes in provisions | – 1,039 | –2,732 |
| Changes in liabilities and other equity and liabilities | 606 | 705 |
| Other non-cash expenses and income | – 149 | – 168 |
| Interest received | 11 | 8 |
| Income taxes paid | –2,176 | – 1,764 |
| **Cash flows from operating activities** | **5,303** | **– 4,764** |
| **Investing activities** | | |
| Investments in intangible assets | – 4,505 | –2,423 |
| Investments in property, plant and equipment | – 3,508 | – 5,241 |
| Proceeds from disposal of non-current assets | 4 | 0 |
| **Cash flows from investing activities** | **– 8,009** | **– 7,664** |
| **Cash flows from financing activities** | | |
| Dividend payment | –2,672 | – 5,567 |
| Interest paid | –317 | – 332 |
| Proceeds from borrowings | 12,400 | 9,000 |
| Cash repayments of borrowings | – 13,196 | – 2,004 |
| **Cash flows from financing activities** | **– 3,785** | **1,097** |
| **Change in cash and cash equivalents** | | |
| Change in cash and cash equivalents due to changes in foreign exchange rates | – 159 | 114 |
| Change in cash and cash equivalents | – 6,491 | – 11,331 |
| **Cash and cash equivalents on 01 Jan.** | **5,983** | **12,520** |
| **Cash and cash equivalents on 30 June** | **– 667** | **1,303** |
| **Composition of cash and cash equivalents** | | |
| Cash and cash equivalents | 4,779 | 4,473 |
| Overdrafts | – 5,446 | – 3,170 |
| **Cash and cash equivalents on 30 June** | **– 667** | **1,303** |

## NOTES ON THE PREPARATION OF THE HALF-YEARLY FINANCIAL REPORT

This half-yearly financial report for the period ended 30 June 2015 is in full compliance with the provisions of IAS 34. Due consideration is given to the interpretations of the International Financial Interpretations Committee (IFRIC). All prior-period figures were determined according to the same principles. In these interim financial statements, the same accounting policies and calculation methods were used as in the most recent annual financial statements.

Estimates of amounts presented in earlier interim reporting periods of the current financial year, the most recent annual financial statements or previous financial years have not been changed in this financial report. Since the most recent reporting date, no changes have occurred with regard to contingent liabilities and receivables.

No significant events having a material effect on the financial position, cash flows and profit or loss of LPKF have taken place since the 30 June 2015 reporting date.

This half-yearly financial report has neither been audited nor reviewed.

## BASIS OF CONSOLIDATION

In addition to the Group's parent company, LPKF Laser & Electronics AG, Garbsen, the following subsidiaries have also been included in the consolidated statements:

| Company name | Registered seat | Country | Equity interest |
|---|---|---|---|
| LaserMicronics GmbH | Garbsen | Germany | 100.0% |
| LPKF SolarQuipment GmbH | Suhl | Germany | 100.0% |
| LPKF WeldingQuipment GmbH | Fürth | Germany | 100.0% |
| LPKF Laser & Electronics d.o.o. | Naklo | Slovenia | 100.0% |
| LPKF Distribution Inc. | Tualatin (Portland) | USA | 100.0% |
| LPKF (Tianjin) Co. Ltd. | Tianjin | China | 100.0% |
| LPKF Laser & Electronics Trading (Shanghai) Co. Ltd. | Shanghai | China | 100.0% |
| LPKF Laser & Electronics (Hong Kong) Ltd. | Hong Kong | China | 100.0% |
| LPKF Laser & Electronics K.K. | Tokyo | Japan | 100.0% |
| LPKF Laser & Electronics Korea Ltd. | Seoul | Korea | 100.0% |

## TRANSACTIONS WITH RELATED PARTIES

There are no reportable business relationships with parties related to the LPKF Group.

## SHARES HELD BY MEMBERS OF THE COMPANY'S CORPORATE BODIES

| Management Board | 30 June 2015 | 31 Dec. 2014 |
|---|---|---|
| Dr. Ingo Bretthauer | 56,000 | 56,000 |
| Bernd Lange | 25,000 | 75,000 |
| Kai Bentz | 15,200 | 15,200 |
| Dr.-Ing. Christian Bieniek | 0 | 0 |

| Supervisory Board | 30 June 2015 | 31 Dec. 2014 |
|---|---|---|
| Dr. Heino Büsching | 10,000 | 10,000 |
| Bernd Hackmann | 125,600 | 125,600 |
| Prof. Dr.-Ing. Erich Barke | 2,000 | 2,000 |

## RESPONSIBILITY STATEMENT

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, financial position and profit or loss of the group in accordance with German accepted accounting principles, 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 material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Garbsen, 11 August 2015

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

Dr. Ingo Bretthauer    Bernd Lange    Kai Bentz    Dr.-Ing. Christian Bieniek

# Financial calendar

| | |
|---|---|
| 11 November 2015 | Publication of the nine-month report |
| 23 March 2016 | Publication of the 2015 annual report |
| 12 May 2016 | Publication of the three-month report |
| 02 June 2016 | Annual General Meeting |
| 11 August 2016 | Publication of the six-month report |
| 14 November 2016 | Publication of the nine-month report |

# Publishing Information


### PUBLISHED BY

LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Germany
Tel.: +49 5131 7095-0
Fax: +49 5131 7095-90
E-Mail: info@lpkf.com

### INVESTOR RELATIONS CONTACT

LPKF Laser & Electronics AG
Bettina Schäfer
Osteriede 7
30827 Garbsen
Germany
Tel.: +49 5131 7095-1382
Fax: +49 5131 7095-90
E-Mail: investorrelations@lpkf.com

### INTERNET

For more information on LPKF Laser & Electronics AG and the addresses of our subsidiaries, please go to www.lpkf.com.

This financial report can also be downloaded in pdf format from our website.

### CONCEPT AND DESIGN

CAT Consultants, Hamburg, www.cat-consultants.de

Laser & Electronics

LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Deutschland

Telefon: +49 5131 7095-0
Telefax: +49 5131 7095-90

www.lpkf.com