Quarterly Financial Report

1 January - 31 March 2019

LPKF Laser & Electronics

Table of contents

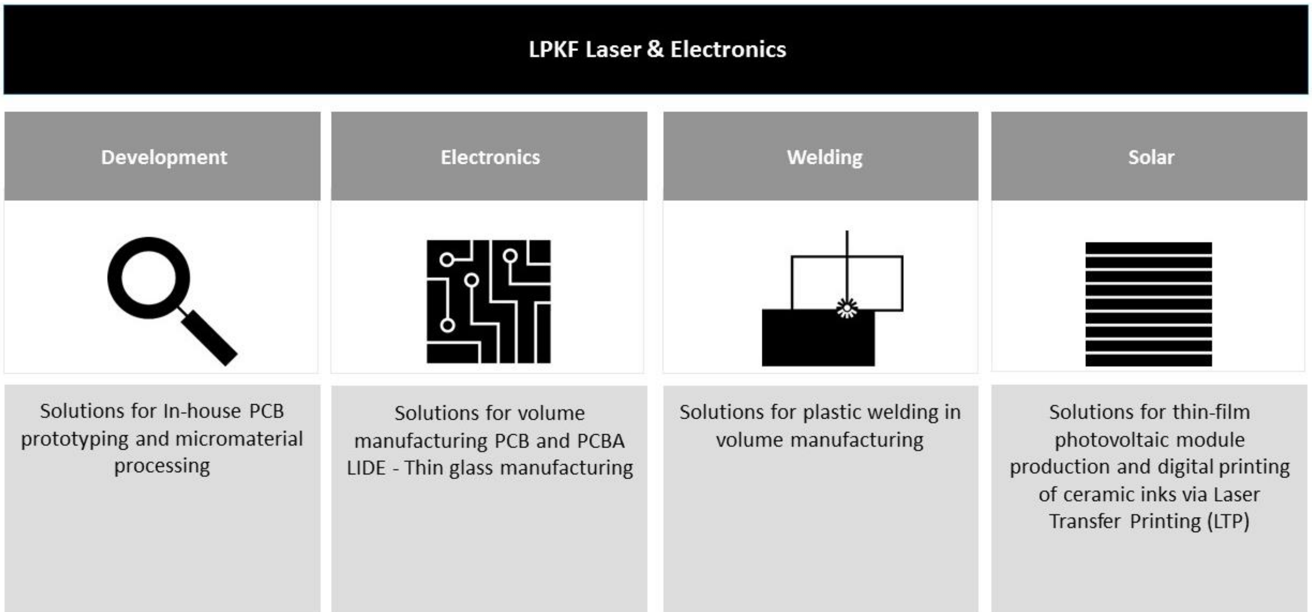
LPKF Laser & Electronics AG at a glance

Key Group figures after 3 months 2019

	3 months 2019	3 months 2018
Revenue (EUR million)	36.4	19.7
EBIT (EUR million)	6.1	-2.3
EBIT margin (%)	16.7	-11.7
Free cash flow (EUR million)	11.5	-4.2
EPS, diluted (EUR)	0.18	-0.10
Incoming orders (EUR million)	21.6	29.0

	As of 31 March 2019	As of 31 March 2018
Net working capital (EUR million)	34.2	37.2
Equity ratio (%)	61.6	43.8
Orders on hand (EUR million)	43.4	47.9
Employees	662	680

Segments and markets



Chairman's Statement

Garbsen, May 14th, 2019

Ladies and gentlemen,

After a little more than a year as Chairman of the Management Board of LPKF Laser & Electronics AG, I am pleased to report the figures for the first three months of the current financial year.

We undoubtedly experienced a strong start to the year. The operational improvements of the past quarters are having an increased impact, demand for our solutions and services is high, and we see increasing financial contributions from our new LIDE technology. The fourth consecutive quarterly profit shows that we are on our way to sustainably positioning LPKF as a profitable business again. I am very pleased about this. We owe this success primarily to the roughly 650 LPKF employees around the world who have worked hard to achieve this.

In the first quarter, the Group's revenue amounted to EUR 36.4 million, and was thus around 85% above the previous year's figure of EUR 19.7 million. Revenue in all four LPKF segments improved compared with the same period of the previous year. In the Development segment, revenue rose by around 10%, and in the Electronics, Solar and Welding segments, it was more than 100% higher. The high revenue in the first quarter had a considerably positive effect on EBIT generated for the quarter. We achieved profit in the amount of EUR 6.1 million, compared with a loss of EUR 2.3 million in the previous year's quarter. At the same time, net working capital fell from EUR 37.9 million at the end of 2018 to EUR 34.2 million. Calculated over the last four quarters, this corresponds to a reduction in the net working capital ratio from 32% to 25%.

On the other hand, at EUR 21.6 million, incoming orders in the first quarter were both below the revenue achieved and below the previous year's figure. Orders on hand as at March 31, 2019 were EUR 43.4 million and thus also slightly below the previous year's figure.

While revenue and profit in the first quarter were positive, incoming orders were significantly weaker. Two of our four segments (Solar and Electronics) are strongly influenced by large orders from individual customers, another (Welding) is also influenced to a lesser extent. Since large individual orders are not received every quarter, they cause clearly visible fluctuations in incoming orders at the quarterly level.

After adjusting the order intake for these large individual orders, there was an increase over the prior-year quarter instead of a reduction. I therefore continue to assess the general market demand for our solutions as fundamentally positive. In any case, we will continue to intensify our efforts in marketing and in commercializing our new technologies as planned.

We expect fluctuations in revenue and earnings at the quarterly level in the future, but especially in incoming orders. In 2019, subject to continued stable growth in the global economy, we continue to estimate revenue of between EUR 130 million and EUR 135 million and an EBIT margin of between 8% and 12%, corresponding to a ROCE of between 10% and 15%. Based on the current order position, we expect revenue of between EUR 30 million and EUR 35 million for the second quarter of 2019 and an EBIT margin of between 8% and 12%.

Over the coming years we want to further increase the company's profitability and generate a sustainable EBIT margin of more than 12%.

I look forward to speaking to you at our Annual General Meeting on June 6 at Hannover Congress Center.

Best regards,

Goetz M. Bendele

Chief Executive Officer

Interim Management Report as of 31 March 2019

1 Basic information on the Group

The basic information on the LPKF Group in the combined management report for 2018 continues to apply unchanged.

2 Report on economic position

2.1 Net assets, financial position and results of operations of the Group

2.1.1 Results of operations

With consolidated revenue of EUR 36.4 million in the first quarter, LPKF got off to a very good start in 2019. Revenue was 85% higher than in the same period of the previous year. All segments contributed to this positive development, albeit in varying proportions. The Electronics segment, which increased the previous year's revenue by 125%, is leading the field. In the first quarter, a major order for cutting systems for printed circuit board processing was successfully delivered. Just behind is the Solar segment, with an increase of 103% year-on-year. In this segment, too, the delivery of a major order fell in the first quarter. The Welding segment is 101% above the very low revenue of the previous year. The Development segment was also up on the previous year, with revenue up 10%.

EBIT (earnings before interest and taxes) developed in line with the positive revenue development. While the first quarter of the previous year closed with a significant loss of EUR 2.3 million, EBIT of EUR 6.1 million was generated in Q1 2019. The EBIT margin rose from -11.7% to 16.7%, a level that has not been achieved for a quarter since Q3 2014.

At EUR 21.6 million, incoming orders in the first quarter were below the previous year's figure of EUR 29.0 million. As of 31 March 2019, orders on hand amounted to EUR 43.4 million (previous year: EUR 47.9 million). The Group's book-to-bill ratio reached 0.6 as two major orders were delivered in the first quarter, but no major orders were booked.

Other operating income included capitalized development costs of EUR 0.7 million in the reporting period (previous year: EUR 0.8 million). A legal dispute was settled in the first quarter, which led to a one-off positive earnings effect of EUR 0.8 million.

The material cost ratio climbed from 37% in the previous year to 42% as a result of the higher proportion of materials in solar systems.

As of 31 March 2019, the Group's workforce comprised 662 people, an increase of seven employees in the first quarter. At EUR 10.9 million, staff costs in the reporting period were only slightly above the previous year's level.

At EUR 1.9 million, depreciation and amortization in the reporting period were at the previous year's level. IFRS 16 rules were applied for the first time to the depreciation of leased assets. Of the depreciation, EUR 0.8 million relates to depreciation on capitalized development costs.

Other operating expenses rose from EUR 4.9 million in the previous year to EUR 5.5 million. This development is attributable, among others, to higher sales expenses.

Due to the improved financial position, no interest expenses were incurred for short-term credit. At EUR -0.1 million, net interest was slightly higher than in the previous year.

Consolidated net profit after interest and taxes amounted to EUR 4.4 million. This corresponds to an improvement of EUR 6.6 million year-on-year (EUR -2.2 million).

2.1.2 Financial position

The Group's cash and cash equivalents rose sharply from EUR 3.7 million to EUR 14.4 million in the reporting period. Net debt dropped from EUR 16.3 million at the end of 2018 to EUR 5.0 million at 31 March 2019. A cash flow from operating activities of EUR 12.4 million was generated as a result of the consolidated net profit. Following negative cash flow from investment activities of EUR 0.9 million, there was a free cash flow of EUR 11.5 million. The positive development of free cash flow is attributable to the significant revenue and earnings growth, while working capital was reduced at the same time.

The Group's financing is currently being restructured. New credit lines are being agreed with three banks. The talks are expected to be concluded by the middle of the second quarter.

This restructuring, the significant reduction in net debt and the current profitability provide LPKF with the necessary financial resources for further growth and investment.

2.1.3 Net assets

Analysis of net assets and capital structure

Positive earnings in the reporting period led to further growth in the equity ratio, which rose from 60.4% at the end of 2018 to 61.6%.

Non-current assets rose to EUR 1.8 million in the first three months of the year. Property plant and equipment increased by a total of EUR 1.2 million. EUR 1.9 million of property plant and equipment was due to the initial recognition of rights of use in accordance with IFRS 16.

The comparatively high level of receivables at the end of the year enabled corresponding incoming payments to be realized. Cash and cash equivalents climbed by EUR 10.7 million, while trade receivables fell by EUR 10.8 million. The EUR 2.9 million increase in inventories led to a rise in current assets of EUR 3.8 million in the first quarter of 2019.

Net working capital was reduced by EUR 3.8 million is the first three months of the reporting period. A major reason for this decline was the reduction in trade receivables. Due to the significant rise in revenue, the net working capital ratio of 25.0% was once again below the figure of 31.6% at the end of the previous year.

As a result of consolidated net profit, equity rose by EUR 5.0 million in the reporting period. Non-current liabilities decreased by EUR 7.3 million. On the one hand, repayment obligations from two fixed-rate loans that ran for a total of five years now fall under current liabilities. On the other hand, non-current liabilities increased by the new lease liabilities to be recognized as liabilities in accordance with IFRS 16. Current liabilities climbed primarily as a result of the reclassification of the fixed-rate loans mentioned above. The decline in advances received, which are shown under the balance sheet item contract liabilities together with the items formed in accordance with IFRS 15 (a total of EUR -4.4 million), had the opposite effect.

Beyond this, the structure of the income statement has not changed significantly.

Capital expenditures

The Group made only limited capital expenditures in the first three months. Other than additions to capitalized development costs in the amount of EUR 0.7 million, the additions related to EUR 0.2 million in property, plant and equipment and other intangible assets.

2.1.4 Segment performance

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

	External revenue		Operating result (EBIT)	
EUR thsd.	**3 months 2019**	**3 months 2018**	**3 months 2019**	**3 months 2018**
Electronics	10,955	4,866	2,864	-830
Development	5,533	5,012	485	137
Welding	5,763	2,873	-372	-2,216
Solar	14,148	6,970	3,099	598
Total	36,399	19,721	6,076	-2,311

The operating result (EBIT) of the segments contains the operating activities of the business units and the attributable intragroup allocations. Compared with the previous year, the Other segment, which contained non-operating components such as Group management functions and exchange rate changes, was allocated to the segments. The Other segment is no longer included in the reporting. The previous year's figure was adjusted accordingly.

2.2 Employees

The following table shows the development in employee numbers in the first three months of 2019:

Area	**As of 31 March 2019**	**As of 31 March 2018**
Production	165	158
Sales	125	120
Development	135	141
Service	101	100
Administration	136	136
Total	**662**	**655**

The total number of employees as of 31 March 2019, was 628 full-time equivalents (FTEs).

2.3 Overall assessment of the Group's economic situation

After two years of losses in 2015 and 2016, and a barely positive EBIT in 2017, LPKF produced significant revenue and earnings growth and a positive cash flow in 2018. The positive trend continued in the first quarter of 2019. EBIT reached EUR 6.1 million, free cash flow also rose significantly due to the improved earnings situation and the lower working capital. The positive development and the capital increase carried out in the previous year further improved the company's financial situation. LPKF is therefore well-equipped to build its market position and to continue to invest in new technology.

3 Supplementary report

No significant events with a material effect on the net assets, financial position, and results of operations of LPKF have occurred since the reporting date on 31 March 2019.

4 Opportunities and risks

In the combined management report and Group management report for 2018, the opportunities and risks of the LPKF Group are presented and explained in detail in separate reports. These explanations continue to apply unchanged.

5 Report on expected developments

5.1 Management's assessment of the Group's expected development

5.1.1 Group performance

Economists expect weakening global economic development during 2019 and 2020. Political uncertainties such as the trade conflicts emanating from the United States and uncertainty about the extent of the economic slowdown in China are weighing on the outlook. This could have an impact on the business performance of the LPKF Group due to its high export share.

With its eight product lines, LPKF AG has a high degree of diversification that limits its dependence on individual market segments. As a provider of cutting-edge technology, technological progress is more important to LPKF than the economy.

LPKF is thus very well positioned for a more difficult overall economic environment. Fluctuations in incoming orders are common in the project business. The Management Board continues to see high demand for the company's products and solutions.

5.1.2 Key financial indicators

At EUR 36.4 million, revenue in the reporting period was above the previous year’s level of EUR 19.7 million. EBIT amounted to EUR 6.1 million after three months and was thus significantly up year-on-year. The EBIT margin came to 16.7% (previous year: -11.7%). Net working capital decreased to EUR 34.2 million (end of 2018: EUR 37.9 million), while the net working capital ratio fell from 31.6% at the end of 2018 to 25.0% (calculated based on the past four quarters).

As announced in an ad hoc disclosure as of 26 April 2019, the Management Board has confirmed the forecast for the current financial year and subsequent years.

Forecast for 2019

In 2019, subject to stable growth in the global economy, the Management Board estimates consolidated revenue of between EUR 130 million and EUR 135 million and an EBIT margin of between 8% and 12%. This corresponds to a ROCE of between 10% and 15%. Based on the current order position, the Management Board expects revenue of between EUR 30 million and EUR 35 million for the second quarter of 2019 and an EBIT margin of between 8% and 12%.

Over the coming years the Management Board wants to further increase the company’s profitability and generate a sustainable EBIT margin of more than 12%.

Consolidated financial statements

Consolidated statement of financial position as of 31 March 2019

Assets		
EUR thsd.	**31 March 2019**	**31 Dec. 2018**
Non-current assets		
Intangible assets		
Goodwill	74	74
Development costs	13,705	13,775
Other intangible assets	1,263	1,362
	15,042	**15,211**
Property, plant and equipment		
Land, similar rights and buildings	37,478	37,769
Plant and machinery	3,208	3,469
Other equipment, operating and office equipment	2,946	3,084
Right of use according to IFRS 16	1,924	0
	45,556	**44,322**
Receivables and other assets		
Trade receivables	118	200
Other assets	636	31
	754	**231**
Deferred taxes	**5,250**	**5,054**
	66,602	**64,818**
Current assets		
Inventories		
(System) parts	13,813	12,811
Work in progress	6,527	5,496
Finished products and goods	8,101	7,192
Advances paid	180	216
	28,621	**25,715**
Receivables and other assets		
Trade receivables	19,699	30,544
Income tax receivables	394	354
Other assets	4,636	3,652
	24,729	**34,550**
Cash and cash equivalents	**14,432**	**3,709**
	67,782	**63,974**
	134,384	**128,792**

Consolidated statement of financial position as of 31 March 2019

Equity and liabilities		
EUR thsd.	**31 March 2019**	**31 Dec. 2018**
Equity		
Subscribed capital	24,497	24,497
Capital reserves	15,463	15,463
Other retained earnings	10,236	10,236
Share-based payment reserve	490	490
Currency translation reserve	943	301
Net retained profits	31,135	26,744
	82,764	**77,731**
Non-current liabilities		
Provisions for pensions and similar obligations	836	267
Non-current liabilities to banks	6,804	17,444
Leasing liabilities according to IFRS 16	1,882	0
Deferred income from grants	566	578
Deferred taxes	1,130	203
	11,218	**18,492**
Current liabilities		
Tax provisions	989	388
Other provisions	5,742	4,880
Current liabilities to banks	12,592	2,603
Trade payables	7,351	6,877
Contract liabilities	8,324	12,762
Other liabilities	5,404	5,059
	40,402	**32,569**
	134,384	**128,792**

Consolidated income statement from 1 January to 31 March 2019

EUR thsd.	01-03 / 2019	01-03 / 2018
Revenue	36,399	19,721
Changes in inventories of finished goods and work in progress	1,891	2,484
Other own work capitalized	714	809
Other operating income	1,407	625
Cost of materials	15,982	8,293
Staff costs	10,900	10,801
Depreciation and amortization	1,941	1,914
Value adjustment according to IFRS 9	48	0
Other operating expenses	5,464	4,942
Operating result	**6,076**	**-2,311**
Finance income	8	1
Finance costs	102	189
Earnings before tax	**5,982**	**-2,499**
Income taxes	1,591	-292
Consolidated net profit/loss	**4,391**	**-2,207**
Earnings per share (basic, EUR)	0.18	-0.10
Earnings per share (diluted, EUR)	0.18	-0.10
Weighted average number of shares outstanding (basic, EUR)	24,496,546	22,269,588
Weighted average number of shares outstanding (diluted, EUR)	24,496,546	22,269,588

Consolidated statement of comprehensive income from 1 January to 31 March 2019

EUR thsd.	01-03 / 2019	01-03 / 2018
Consolidated net profit/loss	**4,391**	**-2,207**
Revaluations (mainly actuarial gains and losses)	0	-11
Deferred taxes	0	1
Currency translation differences	642	-222
Sum total of changes which will be reclassified to the income statement in the future if certain conditions are met	**642**	**-222**
Total comprehensive income	**5,033**	**-2,439**

Consolidated statement of changes in equity as of 31 March 2019

EUR thsd.	Subscribed capital	Capital reserve	Other retained earnings	Share-based payment reserve	Currency translation reserve	Net retained profits	Total Equity
Balance on 01 Jan. 2019	**24,497**	**15,463**	**10,236**	**490**	**301**	**26,744**	**77,731**
Consolidated net profit/loss						4,391	4,391
Currency translation differences					642		642
Consolidated total comprehensive income					**642**	**4,391**	**5,033**
Balance on 31 March 2019	**24,497**	**15,463**	**10,236**	**490**	**943**	**31,135**	**82,764**
Balance on 01 Jan. 2018	**22,270**	**1,489**	**10,942**	**490**	**339**	**18,703**	**54,233**
Adjustment of retained earnings due to IFRS 9						-105	-105
Adjustment of retained earnings due to IFRS 15						-893	-893
Balance after adjustments on 01 Jan. 2018	**22,270**	**1,489**	**10,942**	**490**	**339**	**17,705**	**53,235**
Consolidated net profit/loss						-2,207	-2,207
Revaluations (mainly actuarial gains and losses)			-11				-11
Deferred taxes on changes recognized directly in equity			1				1
Currency translation differences					-222		-222
Consolidated total comprehensive income	**0**	**0**	**-10**	**0**	**-222**	**-2,207**	**-2,439**
Balance on 31 March 2018	**22,270**	**1,489**	**10,932**	**490**	**117**	**15,498**	**50,796**

Consolidated statement of cash flows as of 1 January to 31 March 2019

EUR thsd.	01-03 / 2019	01-03 / 2018
Operating activities		
Consolidated net profit/loss	4,391	-2,207
Income taxes	1,591	-292
Interest expense	103	189
Interest income	-8	-1
Depreciation and amortization	1,941	1,914
Gains/losses from the disposal of non-current assets including reclassification to current assets	0	2
Changes in inventories, receivables and other assets	5,388	-2,866
Changes in provisions	1,431	19
Changes in liabilities and other equity and liabilities	-179	457
Other non-cash expenses and income	-1,990	-46
Interest received	8	1
Income taxes paid	-275	-245
Cash flows from operating activities	**12,401**	**-3,075**
Investing activities		
Investments in intangible assets	-715	-848
Investments in property, plant and equipment	-184	-237
Proceeds from disposal of non-current assets	3	1
Cash flows from investing activities	**-896**	**-1,084**
Cash flows from financing activities		
Interest paid	-103	-189
Cash repayments of borrowings	-649	-643
Cash flows from financing activities	**-752**	**-832**
Change in cash and cash equivalents		
Change in cash and cash equivalents due to changes in foreign exchange rates	-28	97
Change in cash and cash equivalents	10,753	-4,991
Cash and cash equivalents on 01 Jan.	3,707	-4,012
Cash and cash equivalents on 30 September	**14,432**	**-8,906**
Composition of cash and cash equivalents		
Cash and cash equivalents	14,432	2,435
Overdrafts	0	-11,341
Cash and cash equivalents on 30 September	**14,432**	**-8,906**

Notes on the preparation of the quarterly financial report

This financial report as of 31 March 2019 complies in full with the rules set out in IAS 34. The interpretations of the International Financial Interpretations Committee (IFRIC) are observed. The figures of the previous period were calculated according to the same principles, provided that new standards did not require any changes. The same applies to the accounting and valuation methods and the calculation methods used in the interim financial statements. Standards to be applied in the current financial year have already been applied. Estimates of amounts reported in prior interim periods of the current financial year, the last annual financial statements or in previous financial years have not been changed in this financial report. There have been no significant changes to the contingent liabilities and contingent assets since the last balance sheet date. This financial report has not been audited. Likewise, it has not been subject to a review. Information relating to events of particular importance after the balance sheet date are included in the supplementary report of the interim management report.

Basis of consolidation

The scope of consolidation shown on page 91 of the Annual Report for 2018 remains unchanged.

Transactions with related parties

There are no reportable business relations with persons affiliated to the LPKF Group.

Garbsen, 14 May 2019

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

Dr. Goetz M. Bendele

Christian Witt

Financial calendar

14 May 2019	Publication of the three-months report
6 June 2019	Annual General Meeting 2019
14 August 2019	Publication of the six-months report
11 November 2019	Publication of the nine-months report

Publishing information

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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.

Disclaimer

This quarterly financial report contains forward-looking statements that are based on the Management Board's current estimates and forecasts and on information currently available. These forward-looking statements are not to be understood as guarantees of forecast future performance and results. Instead, future performance and results depend on a large number of risks and uncertainties and are based on assumptions that might not prove accurate. We disclaim any obligation to update these forward-looking statements. For mathematical reasons, rounding differences may occur in percentage figures and numbers in the tables, illustrations and texts of this report.

This quarterly financial report is published in German and English. In case of any discrepancies, the German version shall prevail.

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