

LPKF Laser & Electronics AG NEWS LETTER



Dear shareholders,

The third quarter 2002 was unfortunately not marked by the expected recovery in the electronics market. There is still a tendency for investments in the electronics market to be deferred. This particularly affected the Rapid PCB Prototyping segment, as well as the Stencils segment. The third quarter is seasonally the one with the weakest turnover at LPKF and produced a negative result. This is primarily attributable to the decline in turnover in the USA. However, despite the postponement of investment decisions, there is still unbroken interest in LPKF products. This meant a very good start to the fourth quarter – also in the USA. A very positive indicator was also provided by the elec-

tronics trade fair in Munich, which is a major showcase for the electronics development sector. The number of visitors to the LPKF stand matched the boom year 2000. We were able to present several innovations at the trade fair which strengthen the Rapid PCB Prototyping and StencilLaser segments. We are confident of finishing 2002 with a good result and figures clearly in the black.

Yours faithfully,

Bernd Hackmann

New group member aims at technological leadership

An interview with Laserequipment board member Kai Lenfert

LPKF has been involved in Laserequipment AG since it was founded in 2000 and now has a majority shareholding in the Erlangen-based company.

Mr. Lenfert, Laserequipment AG concentrates exclusively on laser plastic welding. Why is the company so specialised?

Lenfert: This involves an innovative method with extraordinary potential. Relevant market analysis reveals that laser plastic welding can look forward to a great future. In our opinion, specialisation considerably increases the chances of achieving technological leadership in this segment.

Which are the application areas of laser plastic welding?

Users include car component subcontractors, medical technology manufacturers and companies in the household goods industry. Because of its specific properties, the method is particularly suited for the sealing of housings which contain sensitive electronics.

How does laser plastic welding differ from classic joining methods?

The principle is based on transmission welding. What this means in effect is that of the two overlapping parts to be welded, one is transparent to laser light. The energy-rich light is absorbed by the second plastic which melts. The thermal conduction then plastifies the second plastic to create the join.

What are the advantages of this method?

It considerably improves the quality of the welded seams. In addition, laser plastic welding is extremely flexible when it comes to the geometry of the welded seams – even three-dimensional contours can easily be realised.

And what are the economic benefits for the user?

Because cycle times and the reject rates are considerably lower when using this technique, production costs can be extremely reduced. A major factor here is the online process monitoring developed by Laserequipment AG. This not only ensures higher process reliability, it also dispenses with the need for downstream checking and the associated costs involved.

What range of products and services do you offer your clients?

Laserequipment AG provides the complete spectrum of process and technical development from contract production in the job shop, right through to fully automatic welding systems, including the integration of the system in the production lines on site.

How has the response been in the market?

Very good. We have now sold eight systems. And given the very short time we have been active in the market, this is an enormous success. The feedback from trade fairs has also shown that there is a huge amount of interest in this method and our products.



What are your plans for the immediate future?

Laserequipment AG with the support of LPKF is currently starting the international distribution in France, Benelux countries, Italy and North America. Our goal is to turn the company into a global player.

People



Kai Lenfert has been chairman of the board of Laserequipment AG in Erlangen since its founding in 2000. The graduate physicist specialised in laser technology is responsible for engineering, marketing and strategy. Kai Lenfert was previously the technical manager of the Bavarian Laser Centre.



Dr. Jürgen Klein, BA graduate specialised in marketing and industrial management, is the second board member of Laserequipment AG responsible for finance, marketing and human resources. Laserequipment AG benefits from his experience as a management consultant and former managing director of the science and technical transfer office of the University of Erlangen.

Highest quality and low production costs

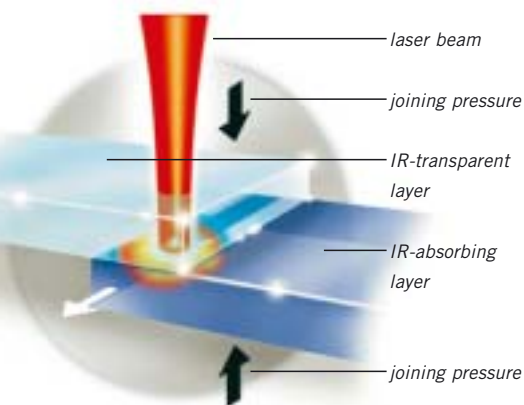
Laser plastic welding opens up a new era in joining technology.

This new method not only avoids the disadvantages of conventional techniques for joining plastics, it is also much more economic.

The principle on which this technology is based differs radically from conventional methods: two plastics which react differently to laser light are welded together with an overlap. Whilst one of the plastics is transparent to laser light, the energy-rich

light is absorbed by the second. This causes the second plastic to melt and the thermal conduction then plastifies the second plastic creating a join. Unlike alternative joining techniques such as ultrasonic welding, the laser beam in this technique is extremely precise and localised which reduces the thermal load and gives rise to virtually no mechanical stress. There is therefore minimal distortion of the material and the quality of the welded seams is optimal.

The economic benefits arise from the short cycle time and especially the permanent process monitoring. The welding process is constantly controlled through the continuous measurement of the setting path, the temperature and the reflected laser light. This enables errors to be identified already during the production process. Because laser plastic welding is a particle-free process, it is also highly advantageous in areas where abrasion and other



contamination must be avoided at all costs - such as in the production of components for ventilation ducts, fuel systems or in medical engineering.

LPKF research director Dr. Jörg Kickelhain is also confident of leveraging technical synergy effects from the involvement in Laserequipment AG: "But the main thing," according to Kickelhain, "lies in the potential for gaining global market leadership in another promising area of laser technology."



Dear Shareholders,

The third quarter 2002 is the quarter with LPKF's weakest turnover to date and it has made a negative contribution to overall results.

However, compared to the previous year, the turnover has been boosted by 12.2% to KEUR 18,266 (KEUR 16,278). This corresponds to a consolidated result of KEUR 822 (KEUR 808), and equates to a return on sales after tax of 4.5% (5.0%).

The positive 9-month result is primarily attributable to the successful sales in the Laser segment. There is still no revival in demand in the Rapid PCB Prototyping and Stencil segments and the figures here are still down on the previous year. Turnover in North America has declined considerably, although there has been growth year-on-year in Europe/Germany and Asia. Cash and cash equivalents were stabilised very close to the level of the first quarter, which is a considerable improvement compared to the same period the previous year.

The current orders in hand of LPKF Laser & Electronics AG are EUR 5.87 million (EUR 1.01 million) and are thus 481,2% up year-on-year. Despite the global recession, there continues to be unbroken interest in LPKF products

although there is still an observable tendency amongst our customers to delay investments. The fourth quarter has started well for LPKF but it is already clear that the turnover and profit targets for 2002 will not be achievable because the expected recovery in the electronics market has not come about as forecast. We are confident of generating a good result for 2002 with figures clearly in the black. Our target is still to pay our shareholders a dividend.

In the 2003 financial year, LPKF will supplement its range with more innovative products as a pro-active response to the continuing weakness in the electronics and PCB markets. The US business will be strengthened on the basis of new strategies.

Results after the balance sheet date

LPKF Laser & Electronics AG exercised its option of increasing its stake in Laserequipment AG from 19.99% to 51%.

Personnel has been reduced at the Belgium branch LPKF Franklin N.V. in response to the economic situation with the aim of bringing the cost structure into line with the continuing weakness in turnover.

Consolidated group

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

Name	Domicile	Holding %	Acquired
ELASER Gesellschaft für Elektronik, Laser und Automation GmbH	Suhl / Germany	100.0	1989
LPKF d.o.o.	Kranj / Slovenia	75.0	1995
LPKF Franklin Industries N.V.	Mechelen / Belgium	100.0	1999
LPKF Laser & Electronics Inc.	Wilsonville / USA	60.0	1999
A-Laser Inc.	Beaverton / USA	100.0	1999
LPKF Motion & Control GmbH	Suhl / Germany	50.9	1999
LPKF Properties LLC	Wilsonville / USA	60.0	1999
LPKF France S.A.R.L.	Lisses / France	94.0	1999
LPKF Laser Components GmbH	Garbsen / Germany	80.0	1999
LPKF (Tianjin) Co. Ltd.	Tianjin / China	100.0	2000
Laserequipment AG	Erlangen / Germany	19.99 (51.0)	2000

Other group companies which are not controlled by majority of LPKF Laser and Electronics AG and have therefore not been fully consolidated are:

Name	Domicile	Holding %	Acquired
PhotonicNet GmbH	Hanover / Germany	9.09	2000

Segment reporting (in KEUR)

according to product lines per 30.09.2002

External sales	2002	2001
Laser Systems	9,986	5,567
Rapid PCB Prototyping	6,638	8,336
Stencils	1,388	1,870
Others	254	505
Not distributed	0	0
Total	18,266	16,278

Operating result	2002	2001
Laser Systems	878	-125
Rapid PCB Prototyping	440	1,045
Stencils	305	627
Others	-29	81
Not distributed	29	57
Total	1,623	1,685

Consolidated statement of income (in KEUR)

	01.07.- 30.09.2002	01.07.- 30.09.2001*	01.01.- 30.09.2002	01.01.- 30.09.2001*
Turnover	5,396	4,484	18,266	16,278
Other operating income	558	334	1,060	812
Changes in inventories of finished goods and work in progress	-560	-270	126	3,579
Production of own fixed assets capitalised	131	140	370	310
Cost of purchased materials and services	1,215	707	5,077	6,831
Personnel expenses	2,540	2,192	7,383	6,377
Depreciation on plant (and intangible assets)	515	554	1,538	1,646
Amortisation of goodwill	41	44	123	132
Other operating expenses	1,270	1,287	4,055	4,289
Other taxes	5	5	23	19
Operating income / loss	-61	-101	1,623	1,685
Interest income	42	49	112	117
Interest expense	51	73	154	198
Income from investments and participations	0	0	0	0
Income / expense from investments accounted for by the equity method	0	0	0	-11
Other income / expense	0	0	0	0
Result before income taxes (and minority interest)	-70	-125	1,581	1,593
Income tax	33	20	769	589
Extraordinary income / expenses	0	0	0	0
Result before minority interest	-103	-145	812	1,004
Minority interest	-128	80	10	-196
Net income / loss	-231	-65	822	808

*Previous year without Laserequipment AG; Statement of foreign currency differences in other operating income and other operating expenses. Previous year was adjusted.

Earnings per share

	01.07.- 30.09.2002	01.07.- 30.09.2001	01.01.- 30.09.2002	01.01.- 30.09.2001
Net income per share (basic)	-0.02 EUR	-0.01 EUR	0.08 EUR	0.08 EUR
Net income per share (diluted)	-0.02 EUR	-0.01 EUR	0.08 EUR	0.08 EUR
Weighted average shares outstanding (basic)	10,647,895	10,632,770	10,641,145	10,540,923
Weighted average shares outstanding (diluted)	10,999,450	10,643,083	10,842,220	10,742,653

Shareholdings held by board members

	31.03.2002	30.06.2002	30.09.2002
Board of directors			
Bernd Hackmann	150,000	150,000	190,000
Dr. Jörg Kickelhain	92,600	92,600	92,600
Christoph Wiese	50	50	1,050
Supervisory board			
Bernd Hildebrandt	884,250	884,250	899,850
Klaus Sülter	924,500	924,500	926,800

Consolidated balance sheet (in KEUR)

Assets	30.09.2002	31.12.2001
Current assets		
Cash and cash equivalents	4,529	2,328
Short-term investments / marketable securities	402	10
Trade accounts receivable	5,695	7,175
Accounts receivable due from related parties	0	0
Inventories	10,615	10,693
Prepaid expenses and other current assets	688	1,207
Total current assets	21,929	21,413
Non-current assets		
Property, plant and equipment	8,652	8,818
Intangible assets	1,886	2,373
Goodwill	263	386
Investments	3	3
Investments accounted for by the equity method	0	0
Notes receivable / loans	0	0
Deferred taxes	870	778
Other assets	0	0
Total non-current assets	11,674	12,358
Total assets	33,603	33,771

Liabilities and shareholders' equity	30.09.2002	31.12.2001
Current liabilities		
Current portion of finance lease obligation	0	0
Short-term debt and current portion of long-term debt	600	1,425
Trade accounts payable	1,101	1,130
Accounts payable due to related parties	0	0
Advance payments received	934	20
Accrued expenses	1,452	1,327
Deferred revenues	0	0
Income tax payable	0	0
Other current liabilities	1,157	1,495
Deferred income	380	413
Total current liabilities	5,624	5,810
Non-current liabilities		
Long-term debt, less current portion	2,200	2,597
Finance lease obligations, less current portion	0	0
Deferred revenues	0	0
Deferred tax liability	594	843
Pension accrual	200	180
Total non-current liabilities	2,994	3,620
Minority interest	1,998	1,695
Shareholders' equity		
Share capital	10,648	10,638
Additional paid-in capital	3,768	3,730
Treasury stock	0	0
Retained earnings	8,628	7,806
Foreign currency translation adjustment	-57	472
Total shareholders' equity	22,987	22,646
Total liabilities and shareholders' equity	33,603	33,771

Workforce

The breakdown of employee numbers is as follows per 30.09.2002:

	30.09.2002	31.12.2001
Production	59	59
Distribution	42	37
Research & Development	46	39
Engineering and administration	73	70
	220	205



Consolidated cash flow statements (in KEUR)

	01.01.-30.09.2002	01.01.-30.09.2001*
Cash flows from operating activities:		
Result before minority interest	812	1,004
Depreciation and amortisation of fixed assets	1,661	1,778
Losses and gains on the disposal of fixed assets	-111	1
Increase/decrease in provisions and accruals	0	0
Other expenses and earnings without an effect on payments	168	16
Changes in inventories and accounts receivables and other assets	1,987	-3,235
Changes in provisions	145	-1,006
Changes in liabilities and other deferred income	-129	-107
Cash flows from operating activities	4,533	-1,549
Cash flows from investing activities:		
Purchase of property, plant and equipment	-1,068	-1,075
Proceeds from disposal of a subsidiary, net of cash transferred	-1	0
Acquisition of subsidiaries, net of cash acquired	0	0
Advance payments for investments	0	0
Proceeds from sales of equipment	294	57
Cash flows from investing activities	-775	-1,018
Cash flows from financing activities:		
Dividends paid	0	-644
Proceeds from issuance of share capital	0	0
Proceeds from stockholders	43	975
Treasury stock	0	-133
Proceeds from convertible bonds	0	0
Other lendings	0	0
Changes in long-term borrowings	-209	-285
Cash flows from financing activities	-166	-87
Changes in cash and cash equivalents		
Net effect of currency translation in cash and cash equivalents	-166	-2
Changes in cash and cash equivalents	3,592	-2,654
Cash and cash equivalents per 01.01.2002	1,342	3,757
Cash and cash equivalents per 30.09.2002	4,768	1,101
Composition of cash and cash equivalents		
Cash and cash equivalents	4,529	2,496
Short-term investments	402	0
Bank overdraft	-163	-1,395
Cash and cash equivalents	4,768	1,101

Changes in shareholders' equity (in KEUR)

Consolidated statement of the changes in shareholders' equity for the financial year ended 30 September 2002 (previous year in brackets*)

	Share Capital	Additional paid-in capital	Retained Earnings	Foreign exchange translation adjustments	Total
per 01.01.2002	10,638	3,730	7,806	472	22,646
per 01.01.2001	(10,500)	(3,622)	(7,035)	(270)	(21,427)
Profit-neutral adjustment of OA figures	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)
Capital increase from shareholders' funds	10	38	0	0	48
	(138)	(240)	(0)	(0)	(378)
Proceeds from capital increase	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)
Dividend payment to shareholders	0	0	0	0	0
	(0)	(0)	(0)	(0)	(0)
Net result	0	0	822	0	822
	(0)	(0)	(814)	(0)	(814)
Foreign exchange translation adjustments	0	0	0	-529	-529
	(0)	(0)	(0)	(201)	(201)
per 30.09.2002	10,648	3,768	8,628	-57	22,987
per 30.09.2001	(10,638)	(3,862)	(7,849)	(471)	(22,820)

*Previous year without Laserquipment AG

Imprint	Publisher	Numbers of Copies/ Status	Layout
	LPKF Laser & Electronics AG · Osteriede 7 · D-30827 Garbsen Internet: www.lpkf.de · Phone +49 (0) 51 31-70 95-0	1,500 German, 500 English 22.11.02	ad home