Quarterly financial report
1 January till 30 September 2010

Strong figures, strongest year

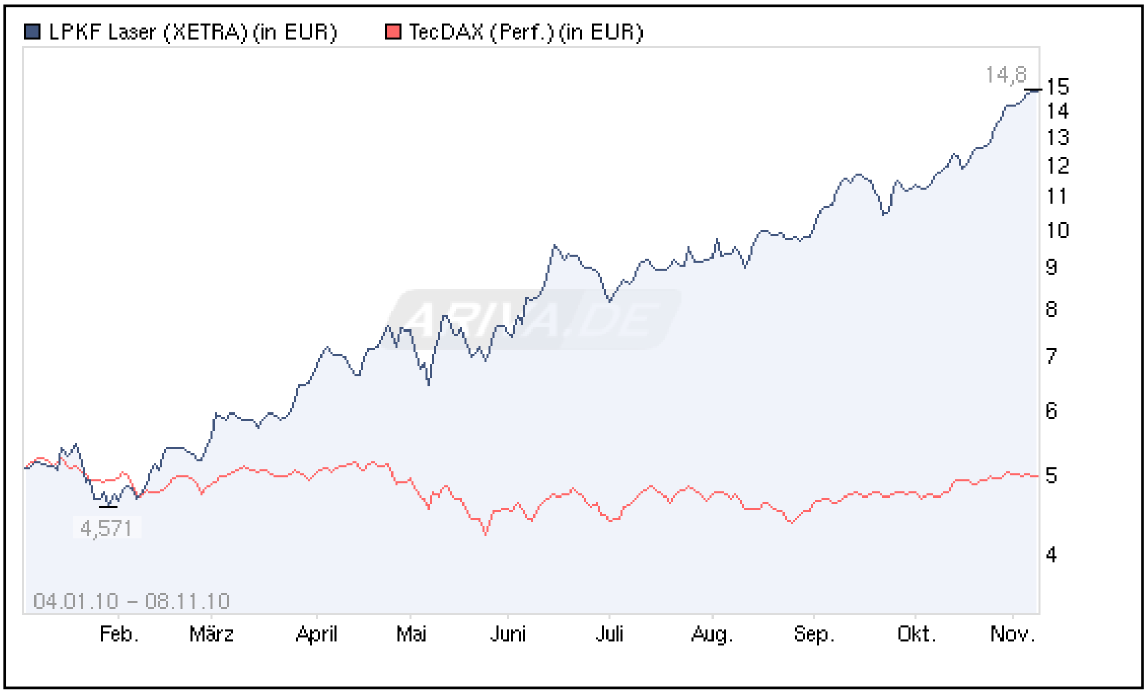
- **Turnover forecast for whole year raised from at least € 68 million to approx. € 79 million**
- **Earnings forecast raised from EBIT margin of at least 17 % to approx. 19 %**

Laser & Electronics

Key Group figures

	9 months 2010	9 months 2009	Change (%)	Year 2009
Turnover (€ million)	60.9	34.7	75.6	50.7
Net margin (%)	17.4	9.5		9.3
EBIT (€ million)	14.9	5.0	201.0	7.0
EBIT margin (%)	24.5	14.3		13.7
Net income after minority interests (€ million)	10.3	3.2	225.1	4.7
Free Cash Flow (€ million)	4.0	4.8	-16.2	7.8
Net Working capital (€ million)	28.4	20.3	39.8	20.4
ROCE (%)	28.2	11.2		15.7
EPS diluted (€)	0.94	0.29	224.1	0.43
Cash and cash equivalents (€ million)	11.8	9.2	28.1	10.3
Capital ratio (%)	67.2	68.6		69.7
Orders in hand (€ million)	18.2	19.8	-7.7	14.7
Orders received (€ million)	64.4	44.1	45.9	56.0

Share price development in 2010



Source: www.ariva.de

Group Management Report

Economic framework

According to the International Monetary Fund (IMF), the global economy is expected to grow by around 4.8 % in 2010. This expansion will be driven by the emerging and developing countries. In contrast, recovery has been slow in the USA and Japan, and in most other industrial countries. The IMF significantly raised its growth forecast for Germany, estimating an economic growth of 3.3 % in the ongoing year, and forecasting growth of 2 % in 2011. The plant and mechanical engineering sector is also looking optimistically into the future. The sector enjoyed rapid recovery in 2010, with orders rising by around a third in the first eight months. The German Mechanical Engineering Federation forecasts a 6 % rise in production in the ongoing financial year, and 8 % in the next.

Development in turnover

The LPKF Group enjoyed a steep rise in turnover to a record level in the first nine months. After a dynamic third quarter, consolidated turnover rose from € 34.7 million to € 60.9 million – a rise of 76 % year-on-year. The third quarter amounted for € 24.4 million with a year-on-year doubling of turnover. The largest proportion was contributed by the Cutting & Structuring Lasers segment with a rise of 151 % compared to the same period last year. Major orders worth € 13.9 million were booked in the past 9 months, of which, € 4.5 million in Q3 2010. Another satisfactory aspect is that all segments contributed to growth in the third quarter, so that the growth in turnover is now spread across a broad base.

External Sales (T€)	9 months 2010	9 months 2009
Cutting and Structuring Lasers	42,625	16,990
Rapid Prototyping	10,272	9,121
Joining Technologies	5,120	3,789
Thin-film Technologies	737	3,436
Other segments	2,186	1,368
	60,940	**34,704**

Development in earnings

With € 6.5 million and an EBIT margin of 27 %, earnings before interest and tax (EBIT) in the third quarter again exceeded the forecast. Only last year, the Q3 EBIT was € 2.2 million with an EBIT margin of 18 %. The transaction of another major order and a modified product mix made significant contributions to the improvement in earnings. The material usage ratio in the first 9 months of 2010 was 25 % (previous year: 28 %).

The other operating income rose primarily due to higher income from insurance refunds, and more income from exchange rate differences (both € 0.2 million), and larger income from the disposal of fixed assets (€ 0.1 million). The capitalized production of own plants and services rose by € 0.3 million because more in-house-built demo and application systems were capitalized.

The recruitment of new staff in recent months in the development, production and service departments, particularly in Garbsen, as well as a large amount of overtime, and variable remuneration components which rose alongside earnings, led to an increase in personnel costs of € 4.3 million or 34 %. The rise in the third quarter was € 2.3 million or 56 %. The increase in the scheduled depreciation of own capitalized development costs in particular produced a rise in depreciation of € 1.0 million.

The other operating expenses rose by € 6.6 million largely in response to the increase in turnover and expansion of business activity. The advertising and sales costs, including travel expenses, rose by € 2.1 million, alongside rises in sales commissions of € 0.7 million, and a climb in allocations for warranty provisions of € 0.7 million. In addition, a rise in the number of temporary staff, and services transacted as part of the ERP implementation raised the costs for contracted work by € 1.2 million. Moreover, an extra € 0.3 million was spent on development materials.

Segment report

EBIT is divided into the following segments:

EBIT (T€)	9 months 2010	9 months 2009
Cutting and Structuring Lasers	15,216	4,258
Rapid Prototyping	2,172	1,275
Joining Technologies	63	164
Thin-film Technologies	-1,433	-145
Other segments	-1,118	-601
EBIT acc. P&L-Statement	**14,900**	**4,951**

Model changes resulted in the non-scheduled depreciation during Q3 of T€ 135 on capitalized development costs for previous models. Of this amount, T€ 100 was due to the Rapid Prototyping segment and T€ 35 due to Cutting and Structuring Lasers.

The assets have changed as follows:

Total assets (T€)	30.09. 2010	31.12. 2009
Cutting and Structuring Lasers	28,994	21,833
Rapid Prototyping	12,906	12,351
Joining Technologies	4,775	3,516
Thin-film Technologies	5,768	6,019
Other segments	21,261	13,904
Total assets	**73,704**	**57,623**

Asset situation

The increase in construction in process (software) reported under intangible assets primarily concerns the new ERP system. Tangible assets have risen since the start of the year by the acquisition of land and rebuilding work in Garbsen. The investment of free liquidity reserves added € 2.0 million to the value of securities reported under long term assets. Inventories and trade accounts receivable have risen by € 6.1 million and € 3.7 million respectively in line with the expansion in business. This has been associated with a further rise in the inventory turnover rate and a significant reduction in the accounts receivables durations.

Equity has risen by € 9.3 million mainly because of the positive earnings, even with the outflow of € 2.2 million to pay the dividend. In addition, the share capital and the additional paid-in capital haven risen as a result of employees exercising their share options. Short term provisions for taxes have also risen by € 2.8 million in line with the rise in earnings. Liabilities towards banks have been reduced. The change in short term trade accounts payable is also attributable to the strong business in Q3 2010.

Financial situation

The capital ratio of 67 % remains higher than the sector average and demonstrates the solid financial structure of LPKF Laser & Electronics AG.

The cash inflow generated by ongoing operating activities totaled € 10.8 million (previous year: € 7.5 million). This is primarily attributable to the higher consolidated earnings against the background of a rise in inventories and trade receivables. Investment costs on balance totaled € 6.7 million (previous year: € 2.7 million), of which € 2.0 million in liquid assets was invested in securities. Against the background of a cash outflow from financial activities of € 2.5 million (previous year: € 1.4 million), a rise of € 1.5 million in the level of cash and cash equivalents will be reported for the year.

Investments

The high capacity utilization in Garbsen in particular, and the expected growth has to be matched by investment, especially in development, customer-care and production. Money will also be invested this year and next in new buildings and rebuilding measures at the Garbsen site. The processes and workflows are to be optimized by the current implementation of an ERP system at the Garbsen and Erlangen locations, later also to be rolled out at other locations. Investments in intangible and tangible assets in the first nine months totaled € 3.3 million, around € 1.5 million up on the previous year's level. In August 2010, LPKF AG bought 100 % of the shares of a Japanese shelf company in order to become active under its own name in Japan in the future.

Employees

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

Department	30.09.2010	31.12.2009
Production	110	79
Sales	89	80
Development	93	82
Service	76	66
Administration	85	77
	453	**384**

Opportunities and risks

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

Business development per segment

Rapid Prototyping

The business with ProtoMats for the production of prototype printed circuit boards also developed highly satisfactorily in the third quarter to boost turnover further. In particular, ProtoLasers – the systems at the technological cutting edge – which are also used for the production of small batches, made a major contribution to the rise in turnover. The order situation bodes well for good business over the year as a whole.

Cutting & Structuring Lasers

The Cutting & Structuring Lasers segment includes laser systems for the production of stencils (StencilLaser); laser systems for cutting printed circuit boards (PCB Cutting Lasers); and laser systems for manufacturing three-dimensional circuit carriers using the LDS method (Laser Direct Structuring).

The rise in the LDS business continues to be the main engine for growth in this segment. Incoming orders declined in the third quarter due to the extreme seasonal nature of the consumer electronics business. A boost is again expected in the first half of 2011 when the electronics subcontractors equip themselves for the next demand peak.

PCB cutting laser turnover benefited in the third quarter from the settlement of a major order received in the preceding quarter.

The positive trend in the first half in the business with StencilLasers continued – turnover and incoming orders have both risen significantly.

Joining Technologies

The business with laser systems for plastic welding has profited from the recovery of the automotive sector. Turnover rose by 35 % in the first nine months of 2010. The order situation is excellent: incoming orders increased by 135 % year-on-year.

Thin-film Technologies

The business with laser systems for scribing thin-film solar panels which occupies this segment enjoyed a strong rise in orders in the third quarter of 2010, bringing to a close the poor development in business in the preceding quarters. The segment as a whole benefited from a satisfactory revival in the market for thin-film solar panels. Significant growth is forecast for the 2011 financial year.

General outlook

LPKF posted an extraordinary expansion of its business in the first nine months, and again expects to generate a record performance for the ongoing year as a whole.

In the light of the strong growth in the third quarter, the Board of Managing Directors has again raised its forecast for the ongoing financial year. The company now expects annual turnover to reach approx. € 79 million (previous year: € 51 million) and an EBIT margin of approx. 19 % (previous year: 14 %).

The meteoric rise in turnover in the ongoing year is primarily attributable to the powerful development of the Cutting & Structuring Lasers segment which won several major orders. Business in the LDS division in particular was very strong. The growth trend is supported by the rise in turnover and incoming orders in other segments.

LPKF sees further significant growth potential in the product lines for LDS, PCB-cutting systems, plastic welding and solar scribers. Following the 2010 financial year which was strongly influenced by major orders, the planning for the 2011 financial year is currently based on stabilization at a high level, giving way to further growth in the subsequent financial years.

Interim Group financial statements

Consolidated Group

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

Company Name	Domicile	Country	Holding
LaserMicronics GmbH	Garbsen	Germany	100.0 %
LPKF Laser & Elektronika d.o.o.	Naklo	Slovenia	75.0 %
LPKF Distribution, Inc.	Tualatin	USA	85.0 %
LPKF Motion & Control GmbH	Suhl	Germany	50.9 %
LPKF France S.A.R.L.	Créteil	France	100.0 %
LPKF (Tianjin) Co. Ltd.	Tianjin	PR China	86.0 %
LPKF Laser & Electronics Hong Kong Ltd.	Hong Kong	PR China	100.0 %
LPKF SolarQuipment GmbH	Suhl	Germany	83.7 %
LPKF Laser & Electronics KK	Tokyo	Japan	100.0 %

■ Production site ■ Branch ■ Representation

LPKF Laser & Electronics

Consolidated balance sheet

Assets		
T€	30.09.2010	31.12.2009
Non-current Assets		
Intangible assets		
Software	749	709
Goodwill	74	74
Development costs	3,967	4,278
Construction in process	440	0
	5,230	**5,061**
Tangible assets		
Land and building	10,973	10,401
Technical equipment and machinery	1,873	1,648
Other equipment, factory and office equipment	1,586	1,067
Construction in process	906	297
	15,338	**13,413**
Financial assets		
Securities of the fixed assets	1,990	0
Other loans	60	20
	2,050	**20**
Assets subject to disposal restrictions	**252**	**236**
Accounts receivable and other assets		
Tax refund claims	293	293
Other assets	36	0
	329	**293**
Deferred taxes	**995**	**550**
	24,194	**19,573**
Current Assets		
Inventories		
(System) components	11,917	7,894
Work-in-process	2,266	1,236
Finished goods and merchandise	6,078	5,214
Prepayments	350	148
	20,611	**14,492**
Accounts receivable and other assets		
Trade accounts receivable	14,664	10,929
Tax refund claims	464	230
Other assets	1,557	1,627
	16,685	**12,786**
Cash on hand	**12,214**	**10,772**
	49,510	**38,050**
	73,704	**57,623**

Liabilities and shareholders' equity

T€	30.09.2010	31.12.2009
Shareholders' Equity		
Share capital	10,981	10,858
Additional paid-in capital	4,448	3,953
Other earnings reserves	7,000	7,000
Market value of securities	-20	-18
Reserves for share-based payments	478	460
Foreign currency translation adjustments	-857	-1,379
Net income for the year	23,960	15,791
Minority interests	3,527	3,509
	49,517	**40,174**
Non-Current Liabilities		
Provisions for pensions	0	14
Liabilities due to banks	2,433	2,752
Deferred grants	430	483
Other liabilities	107	134
Deferred taxes	1,251	1,332
	4,221	**4,715**
Current Liabilities		
Tax provisions	4,006	1,188
Other provisions	4,156	1,869
Liabilities due to banks	757	1,324
Trade accounts payable	3,323	2,162
Other liabilities	7,724	6,191
	19,966	**12,734**
	73,704	**57,623**

Consolidated statement of income

T€	07-09/2010	07-09/2009	01-09/2010	01-09/2009
Sales	24,411	12,230	60,940	34,704
Changes in inventories of finished goods and work-in-process	-821	468	269	-138
Other work capitalized	1,124	682	2,247	1,959
Other operating income	353	294	1,410	834
Costs of materials	5,089	3,981	15,443	9,795
Personnel expenses	6,426	4,113	17,132	12,799
Depreciation and amortization	1,255	717	3,021	2,068
Other operating expenses	5,771	2,680	14,370	7,746
Results from ordinary activities	**6,526**	**2,183**	**14,900**	**4,951**
Financial income	15	25	63	92
Financial expenditure	41	61	132	228
Result before income taxes	**6,500**	**2,147**	**14,831**	**4,815**
Income tax	1,832	700	4,239	1,527
Net income	**4,668**	**1,447**	**10,592**	**3,288**
Net income thereof				
Shareholders of parent company	4,227	1,547	10,340	3,181
Minority interests	441	-100	252	107
Earnings per share				
Earnings per share - basic (in €)	0.39 €	0.14 €	0.95 €	0.29 €
Earnings per share - diluted (in €)	0.38 €	0.14 €	0.94 €	0.29 €
Paid dividend per share	0.20 €	0.00 €	0.20 €	0.00 €
Weighted average shares outstanding (basic)	10,955,919	10,858,052	10,898,205	10,858,052
Weighted average shares outstanding (diluted)	11,064,501	10,858,052	11,033,830	10,858,052

Consolidated statement of comprehensive income

	(T€)	(T€)	(T€)	(T€)
Profit after tax	**4,668**	**1,447**	**10,592**	**3,288**
Available-for-sale financial assets	-33	3	-3	2
Expenditure for granted option rights	6	17	18	50
Exchange differences	-825	-169	288	-248
Deferred taxes	11	0	1	0
Total comprehensive income	**3,827**	**1,298**	**10,896**	**3,092**
Net income thereof				
Shareholders of parent company	3,685	1,418	10,878	2,980
Minority interests	142	-120	18	112

Consolidated Statement of the Changes in Shareholders' Equity

	Share capital (T€)	Additional paid-in-capital (T€)	Other earnings reserves (T€)	Market value of securities (T€)	Reserves for share-based payments (T€)	Foreign currency translation (T€)	Net income for the year (T€)	Minority interests (T€)	Total (T€)
Per 01.01.2010	**10,858**	**3,953**	**7,000**	**-18**	**460**	**-1,379**	**15,791**	**3,509**	**40,174**
Dividend payment to shareholders							-2,171		-2,171
Proceeds from capital increase	123	495							618
Allocation to reserves									
Additions from market valuation of securities				-3					-3
Net result							10,340	252	10,592
Expenditure for granted option rights					18				18
Deferred taxes				1					1
Foreign currency translation adjustments						522		-234	288
Comprehensive income				**-2**		**522**	**10,340**	**18**	**10,896**
Per 30.09.2010	**10,981**	**4,448**	**7,000**	**-20**	**478**	**-857**	**23,960**	**3,527**	**49,517**
Per 01.01.2009	**10,858**	**3,953**	**7,000**	**-42**	**394**	**-1,344**	**11,107**	**3,322**	**35,248**
Dividend payment to shareholders									
Allocation to reserves									
Additions from market valuation of securities				2					2
Net result							3,181	107	3,288
Expenditure for granted option rights					50				50
Deferred taxes									
Foreign currency translation adjustments						-253		5	-248
Comprehensive income				**2**	**50**	**-253**	**3,181**	**112**	**3,092**
Per 30.09.2009	**10,858**	**3,953**	**7,000**	**-40**	**444**	**-1,597**	**14,288**	**3,434**	**38,340**

Consolidated cash flow statement

T€	9 months 2010	9 months 2009
Operating Activities		
Net income	10,592	3,288
Income tax	4,239	1,527
Interest charges	132	228
Interest income	-63	-92
Depreciation and amortization of fixed assets	3,021	2,068
Profit from sale of assets, including reclassification into current assets	-153	-21
Cashless currency differences in fixed assets	-246	112
Changes in inventories, accounts receivable and other assets	-10,682	-349
Changes in provisions and accrued liabilities	2,757	-613
Changes in liabilities and deferred income	2,821	816
Other non-payment income/expenses	177	511
Payments from interest	63	92
Paid income tax	-1,905	-115
Net cash flow from operating income	**10,753**	**7,452**
Investing Activities		
Fixed assets investments intangible assets	-1,954	-1,720
Fixed assets investments tangible assets	-3,055	-1,059
Fixed assets investments financial assets	-2,032	-82
Payment from sale of financial assets	3	0
Receipts on sale of equipment	292	188
Cash flow from investing activities	**-6,746**	**-2,673**
Financing Activities		
Dividends paid	-2,171	0
Interest paid	-132	-228
Change in long-term bank loans	0	500
Proceeds from capital increase	618	0
Repayments long-term bank loans	-825	-1,673
Cash flow from financing activities	**-2,510**	**-1,401**
Changes in Cash and Cash Equivalents		
Changes in cash and cash equivalents due to exchange rates	8	-179
Changes in cash and cash equivalents	1,497	3,378
Cash and cash equivalents per 01.01.	10,263	5,989
Cash and cash equivalents per 30.09.	**11,768**	**9,188**
Composition Cash and Cash Equivalents		
Cash	12,214	9,598
Short-term investments	0	0
Bank overdraft	-446	-410
Cash and cash equivalents per 30.09.	**11,768**	**9,188**

Details on the compilation of the interim financial report

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

The same accounting methods and evaluation methods were used in the interim accounts as in the last annual financial statements.

Estimates of amounts reported in earlier interim reporting periods of the current financial year, the last annual financial statements, and in previous financial years remain unchanged in this interim report.

During the reporting period, the expenditure for R&D was € 6.2 million (previous year € 4.1 million).

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

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

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

Related parties transactions

A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 100 % of the shares in Zeltra Naklo d.o.o.. Services totaling T€ 5 were received from this related company in the first 9 months of 2010.

50 % of the shares in PMV d.o.o. are held by a shareholder of the subsidiary LPKF Laser & Elektronika d.o.o., and 50 % by other related parties. In the first nine months of 2010, business relations with this company covered purchase of material and production services totaling T€ 16, services totaling T€ 22 were provided. For remaining receivables of T€ 75 a long term payment target with usual interest rates has been granted.

A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 50 % of the shares in Detel plus d.o.o.. This company purchased materials and services totaling T€ 317 to and received T€ 80 from group companies.

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

On the reporting date, LPKF Laser & Electronics AG had liabilities due to members of the Supervisory Board totaling T€ 101.

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

Number of shares held by Board members

Managing Directors	30.09. 2010	31.12. 2009
Dr. Ingo Bretthauer	25,000	25,000
Bernd Lange	18,010	11,010
Kai Bentz	4,500	3,000
Supervisory Board		
Bernd Hildebrandt	850,000	871,746
Prof. Dr. Ing. Erich Barke	1,000	1,000

Responsibility statement by the Board of Managing Directors

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

Garbsen, November 9, 2010

LPKF Laser & Electronics AG

The Board of Managing Directors

Dr. Ingo Bretthauer | Bernd Lange | Kai Bentz

Calendar

09 November 2010
Publication of Q3 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

30 March 2011
Publication Annual Report 2010
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

13 May 2011
Publication of Q1 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

01 June 2011
Annual General Meeting
Hannover Congress Centrum

12 August 2011
Publication of Q2 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

11 November 2011
Publication of Q3 interim financial report
Internet Chat at 18:00 hrs on
www.lpkf.com/investor-relations

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

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

Languages

This interim report is also available in German.

Laser & Electronics