Quarterly Financial Report

1 January - 30 September 2018

LPKF

Laser & Electronics

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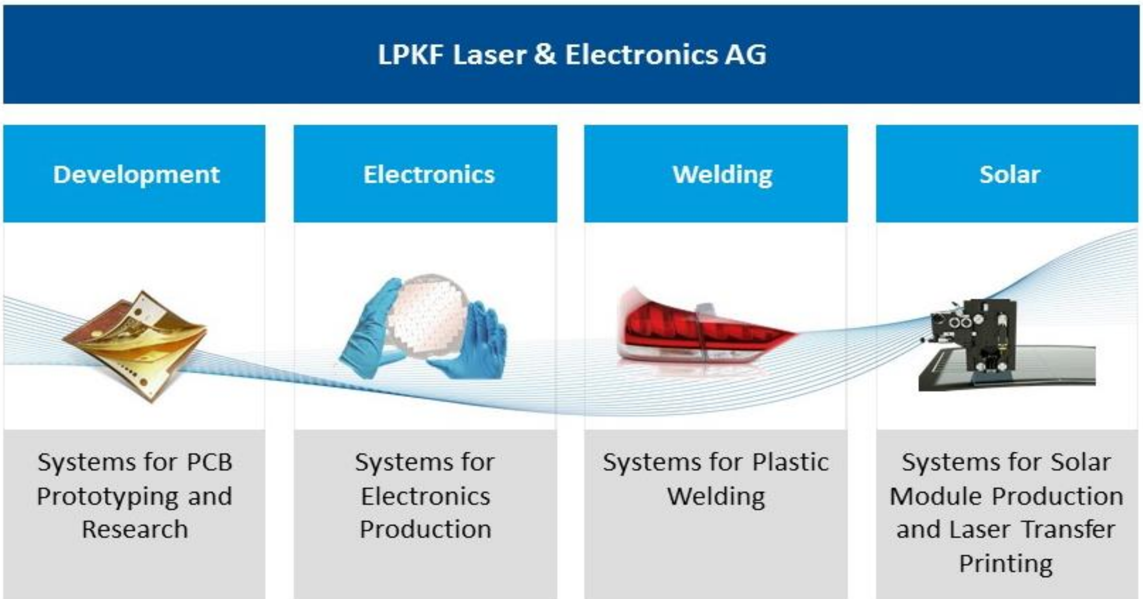
LPKF Laser & Electronics AG at a glance

Key Group figures after 9 months 2018

	9 months 2018	9 months 2017
Revenue (EUR million)	87.7	71.4
EBIT (EUR million)	5.0	0.1
EBIT margin (%)	5.7	0.1
Free cash flow (EUR million)	7.9	1.8
EPS, diluted (EUR)	0.17	-0.02
Incoming orders (EUR million)	103.8	91.3

	As of 30 September 2018	As of 30 September 2017
Net working capital (EUR million)	34.1	33.5
Cash and cash equivalents (EUR million)	7.6	-2.2
Equity ratio (%)	60.4	43.7
Orders on hand (EUR million)	54.4	47.5
Employees	673	693

Segments and markets



Chairman's Statement

Garbsen, November 15th, 2018

Ladies and gentlemen,

After a little more than six months as Chairman of the Management Board of LPKF Laser & Electronics AG, I am pleased to report the figures for the first nine months of the current financial year. The company’s positive business performance represents a significant step on our path toward sustained profitability. In addition, the capital increase we successfully implemented at the end of August resulted in issue proceeds of around EUR 16 million, substantially increasing our equity ratio and thus providing LPKF with additional entrepreneurial scope for growth.

For the third quarter, the LPKF Group’s revenue has reached EUR 29.3 million. This is higher than the previous year’s figure of EUR 26.5 million. This has resulted in revenue of EUR 87.7 million for the first nine months of the current financial year, up 23% from EUR 71.4 million during the same period last year. Viewed over a nine-month period, the Development and Electronics segments have generated revenue at around the previous year’s level, while revenue in the Solar segment has approximately tripled; only the Welding segment has recorded a decline in revenue, as in the previous quarter.

Incoming orders and orders on hand have also shown a positive development: at EUR 103.8 million, incoming orders during the nine-month period were 14% higher than in the previous year; orders on hand as of September 30, 2018 were at EUR 54.4 million, also 14% higher than the previous year.

The revenue in the third quarter has generated positive earnings before interest and taxes (EBIT) for the quarter and thus also for the nine-month period: EBIT for the quarter amounts to EUR 2.7 million, and therefore to EUR 5.0 million for the first nine months of the financial year, compared to EBIT of only EUR 0.1 million for the first nine months of the previous year. These figures include restructuring cost of EUR 1.3 million in the first nine months (previous year: EUR 0.2 million).

As announced in the ad-hoc disclosure as of October 11, 2018, the Management Board has raised its revenue forecast for 2018 once again. The Management Board expects consolidated revenue of between EUR 115 million and EUR 120 million for 2018. It thus now anticipates an EBIT margin at the upper end of the predicted range of up to 6%.

Our aim for LPKF is sustained profitability. The EBIT margin of 5.7% for the first nine months has moved us considerably closer to this goal. Apart from further improving the company’s profitability, the Management Board will continue to work hard to accelerate longer-term growth further, particularly through the new technologies.

Christian Witt has been on board as Chief Financial Officer of the company since September 1, 2018. Together with him and our other employees, I look forward to improving LPKF's performance, growth and results further over the long term.

Best regards,

Goetz M. Bendele

Chief Executive Officer

Interim Management Report as of 30 September 2018

1 Basic information on the Group

The basic information on the LPKF Group in the combined management report for 2017 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

LPKF generated revenue of EUR 87.7 million in the first nine months of the financial year, thus exceeding the previous year's figure of EUR 71.4 million by 23%. At EUR 29.3 million, the third quarter was up 11% on the third quarter of 2017 (EUR 26.5 million). This development was driven chiefly by the Solar segment, which reported total revenue of EUR 32.5 million due to a major order. This represented an increase of over 200% compared with the same period of the previous year (EUR 9.8 million). The Development segment recorded stable revenue development, exceeding its prior-year revenue for the first nine months by 3%. Although business performance in the Electronics segment remained satisfactory in the first half of the year, revenue for the first nine months was down 10% year-on-year. With a year-on-year decline of 22%, revenue development in the Welding segment remains unsatisfactory

Development of orders shows a positive trend overall. In the first three quarters, incoming orders at EUR 103.8 million were 14% above the good prior year's period. Incoming orders in the Solar segment grew by 18,7%. The Electronics segment recorded a high level of incoming orders in the third quarter in particular, exceeding the previous year's figure by 36% in the first nine months. As such, it currently has orders on hand of EUR 14.0 million (up 332% year-on-year), a large portion of which will contribute to revenue in the current year. Incoming orders in the remaining segments were down slightly on their prior-year levels. The book-to-bill ratio (incoming orders/revenue) at Group level currently remains at 1.2. Despite good revenue development in the first three quarters, orders on hand amounted to EUR 54.4 million and were thus 14% above the same period of the previous year. Orders on hand include EUR 30.8 million of Solar orders, after EUR 35.2 million in the previous year.

Due to the increase in revenue, EBIT also developed positively. While only a balanced result was achieved in the first nine months of the previous year, EBIT of EUR 5.0 million was generated in the current financial year. The EBIT margin thus stands at 5.7%. The EBIT margin of 9.3% in the third quarter followed on almost seamlessly from the second quarter (11.8%).

Own work capitalized in the reporting period included development costs of EUR 3.2 million (previous year: EUR 2.6 million). Other operating income was up by EUR 1.0 million on the previous year (EUR 3.0 million), due mainly to insurance compensation.

The material cost ratio increased from 33% in the previous year to 39% as a result of the higher proportion of materials in solar systems. In addition, components with lower margins were negotiated (volume: EUR 6.0 million).

Compared to September 30, 2017, the Group's workforce decreased by 20 employees to 673. Staff costs were up 2% on the previous year's level (EUR 31.2 million) at EUR 31.7 million in the reporting period. This is attributable chiefly to restructuring measures totaling EUR 1.3 million (previous year: EUR 0.4 million).

Depreciation and amortization was up EUR 0.5 million year-on-year at EUR 6.1 million in the period under review. Amortization of capitalized development costs accounted for EUR 2.8 million of this figure.

Other operating expenses fell from EUR 17.4 million in the previous year to EUR 16.7 million. This development is due chiefly to lower selling expenses (EUR -0.5 million), reduced warranty expenses (EUR -0.4 million), and lower development costs (EUR -0.6 million). In contrast, fees for legal and consultancy services (EUR +0.4 million) and third-party work (EUR +0.4 million) rose. Expenses relating to currency translation differences, travel, and maintenance also declined.

The interest expenses were on a par with the previous year at EUR 0.7 million.

The Group recorded a consolidated net profit of EUR 3.6 million after interest and taxes, an improvement of EUR 4.0 million compared with the same period of the previous year (EUR -0.4 million).

2.1.2 Financial position

The Group's cash and cash equivalents rose sharply from EUR -4.0 million to EUR 7.6 million in the reporting period. A cash flow from operating activities of EUR 11.9 million was generated as a result of the consolidated net profit. Following negative cash flow from investment activities of EUR 4.0 million, there was a free cash flow of EUR 7.9 million. The positive development of free cash flow is attributable to the significant revenue growth, which was realized without increasing working capital.

In the third quarter, the Company carried out a cash capital increase by issuing around 2.2 million shares (equivalent to 10% of the share capital), excluding shareholders' subscription rights. The placement price per share was determined in line with the market price. In addition to a reduction in debt, the proceeds from the issue also serve to maintain and expand the scope for entrepreneurial action.

So far, the funds from the capital increase amounting to € 16.2 million were used to repay current liabilities to banks. These repayments and scheduled repayments resulted in net positive cash flows from financing activities of EUR 3.6 million. Taking currency-related changes into account, this ultimately led to a total increase in cash and cash equivalents of EUR 11.6 million.

The solvency of the LPKF Group is also assured beyond the 2018 financial year.

2.1.3 Net assets

Analysis of net assets and capital structure

In the reporting period, the equity ratio increased substantially from 46.5% at the end of 2017 to 60.4%. This is primarily due to the capital increase in the third quarter but also to the improved earnings situation.

Non-current assets declined slightly in the first nine months of the year (EUR -1.3 million). This was attributable mainly to depreciation of property, plant and equipment in the amount of EUR 2.9 million, which was not offset by additions to property, plant and equipment of EUR 1.1 million. In addition, deferred taxes climbed marginally by EUR 0.7 million.

Overall, current assets recorded an increase of EUR 6.0 million compared to the end of the previous year. Inventories decreased slightly, while trade receivables rose by EUR 3.8 million due to the strong quarterly revenue. Cash and cash equivalents also climbed by EUR 4.3 million.

Net working capital increased slightly by EUR 0.8 million compared to the end of 2017. This was due entirely to the growth in trade receivables as of the balance sheet date. However, at 28.8% the net working capital ratio is now considerably below the previous year's level of 32.6% owing to the significant increase in revenue.

Equity increased by EUR 18.8 million in the reporting period as a result of the capital increase and the consolidated net profit. Non-current liabilities declined by EUR 1.4 million, largely due to scheduled repayments of long-term loans. Current liabilities also fell sharply (EUR -12.8 million) following the repayment of current liabilities to banks (EUR -17.4 million). By contrast, trade payables and other liabilities increased by EUR 4.6 million.

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

Capital expenditures

The Group engaged in only limited capital expenditure in the first nine months. Other than additions to capitalized development costs in the amount of EUR 2.8 million, the additions related to EUR 1.2 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.	**9 months 2018**	**9 months 2017**	**9 months 2018**	**9 months 2017**
Electronics	22,012	24,518	-593	105
Development	18,006	17,489	3,590	3,750
Welding	15,209	19,582	-1,561	554
Solar	32,500	9,770	7,541	-885
Other	0	0	-3,999	-3,460
Total	**87,726**	**71,359**	**4,978**	**64**

The operating result (EBIT) of the segments contains the operating activities of the business units and the attributable intragroup allocations. EBIT in the Other segment contains non-operating components, in particular Group management functions and exchange rate changes. The operating loss in the Welding segment is due chiefly to business performance that was lower than originally planned.

2.2 Employees

The following table shows the development in employee numbers in the first nine months of 2018:

Area	**As of 30 September 2018**	**As of 31 Dec. 2017**
Production	161	163
Sales	120	120
Development	148	155
Service	99	97
Administration	145	148
Total	**673**	**683**

The total number of employees as of September 30, 2018 was 638 full-time equivalents (FTEs).

There were also 7 workers in marginal employment, 36 trainees, and 6 students and interns as of September 30, 2018.

2.3 Overall assessment of the Group's economic situation

In 2017, the Group generated positive EBIT again for the first time since 2014 as a result of the restructuring measures initiated in 2016 and a surge in business.

The Group generated EBIT of EUR 5.0 million in the first nine months of 2018 and has raised its revenue forecast for 2018. In addition to revenue, both incoming orders and orders on hand are clearly above the previous year’s level. Free cash flow also climbed significantly owing to the improved earnings situation. The company’s financial situation has improved considerably thanks to the positive development of revenue and earnings and the capital increase implemented in the third quarter. Liabilities to banks in the amount of EUR 19 million were repaid.

3 Report on post-balance sheet date events

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 September 30, 2018.

4 Opportunities and risks

In the combined management report and Group management report for 2017, 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

Due to the low momentum at the beginning of 2018, the economic research institutes slightly reduced their forecasts. Economic risks arise from the protectionist efforts of the USA and in the wake of other countries, the increasing political uncertainties such as in Europe, and the development of key interest rate trends and the resulting effects on the capital markets.

Trade barriers could have a direct 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. Due to the high proportion of the company’s foreign business, business performance is also influenced by exchange rate developments.

Overall, the positive business performance has stabilized over recent months. Customers’ interest in the company’s laser-based solutions for development and production is high.

5.1.2 Key financial indicators

At EUR 87.7 million, revenue in the reporting period exceeded the previous year’s level of EUR 71.4 million. EBIT amounted to EUR 5.0 million after nine months and was thus significantly up year-on-year. The EBIT margin came to 5.7% (previous year: -0.1%). Net working capital climbed slightly to EUR 34.1 million (end of 2017: EUR 33.3 million), while the net working capital ratio fell from 32.6% in 2017 to 28.8% (calculated based on the past four quarters).

As announced in the ad-hoc disclosure of October 11, 2018 the Management Board has raised its revenue forecast for 2018.

Forecast for 2018

For 2018, the Management Board anticipates consolidated sales of between € 115 million and € 120 million (previously: € 110 million and € 115 million). The EBIT margin is now expected to be in the upper range of the forecast up to 6 %.

Forecast up to 2020

LPKF aims to generate a ROCE of between 10% and 15% by 2020. This improvement is expected to result from a growing business, particularly in light of new products and an optimized fixed cost base.

Consolidated financial statements

Consolidated statement of financial position as of 30 September 2018

Assets

EUR thsd.	30 September 2018	31 Dec. 2017
Non-current assets		
Intangible assets		
Goodwill	74	74
Development costs	13,616	13,541
Other intangible assets	1,476	1,826
	15,166	**15,441**
Property, plant and equipment		
Land, similar rights and buildings	37,901	38,642
Plant and machinery	3,433	3,859
Other equipment, operating and office equipment	3,300	3,955
	44,634	**46,456**
Receivables and other assets		
Trade receivables	278	107
Other assets	56	124
	334	**231**
Deferred taxes	**2,451**	**1,731**
	62,585	**63,859**
Current assets		
Inventories		
(System) parts	11,664	13,617
Work in progress	4,466	3,625
Finished products and goods	8,530	8,086
Advances paid	133	200
	24,793	**25,528**
Receivables and other assets		
Trade receivables	23,204	19,401
Income tax receivables	328	198
Other assets	2,785	4,236
	26,317	**23,835**
Cash and cash equivalents	**7,595**	**3,345**
	58,705	**52,708**
	121,290	**116,567**

Consolidated statement of financial position as of 30 September 2018

Equity and liabilities

EUR thsd.	30 September 2018	31 Dec. 2017
Equity		
Subscribed capital	24,497	22,270
Capital reserves	15,463	1,489
Other retained earnings	10,932	10,942
Cash flow hedge reserve	12	0
Share-based payment reserve	490	490
Currency translation reserve	174	338
Net retained profits	21,633	18,703
	73,201	**54,232**
Non-current liabilities		
Provisions for pensions and similar obligations	300	329
Non-current liabilities to banks	18,104	20,045
Deferred income from grants	589	627
Deferred taxes	1,128	568
	20,121	**21,569**
Current liabilities		
Tax provisions	10	0
Other provisions	3,539	3,707
Current liabilities to banks	3,602	20,952
Trade payables	3,975	3,227
Other liabilities	16,842	12,880
	27,968	**40,766**
	121,290	**116,567**

Consolidated income statement from 1 January to 30 September 2018

EUR thsd.	01-09 / 2018	01-09 / 2017	07-09 / 2018	07-09 / 2017
Revenue	87,726	71,359	29,330	26,548
Changes in inventories of finished goods and work in progress	1,275	1,649	-503	105
Other own work capitalized	3,218	2,633	1,289	1,065
Other operating income	2,012	2,999	397	1,588
Cost of materials	34,758	24,379	10,702	9,211
Staff costs	31,691	31,225	9,787	9,593
Depreciation and amortization	6,092	5,620	1,973	2,010
Other operating expenses	16,712	17,351	5,329	5,688
Operating result	**4,978**	**65**	**2,722**	**2,804**
Finance income	3	2	1	1
Finance costs	651	659	219	230
Earnings before tax	**4,330**	**-592**	**2,504**	**2,575**
Income taxes	507	-145	293	640
Consolidated net profit/loss	**3,823**	**-447**	**2,211**	**1,935**
Earnings per share (basic, EUR)	0.17	-0.02	0.09	0.09
Earnings per share (diluted, EUR)	0.17	-0.02	0.09	0.09
Weighted average number of shares outstanding (basic, EUR)	#NAME?	22,269,588	23,754,227	22,269,588
Weighted average number of shares outstanding (diluted, EUR)	#NAME?	22,269,588	23,754,227	22,269,588

Consolidated statement of comprehensive income from 1 January to 30 September 2018

EUR thsd.	01-09 / 2018	01-09 / 2017	07-09 / 2018	07-09 / 2017
Consolidated net profit/loss	**3,823**	**-447**	**2,211**	**1,935**
Revaluations (mainly actuarial gains and losses)	-11	0	0	0
Deferred taxes	1	0	0	0
Sum total of changes which will not be reclassified to the income statement in the future	**-10**	**0**	**0**	**0**
Fair value changes from cash flow hedges	12	0	201	0
Currency translation differences	-164	-962	-294	-1,249
Deferred taxes	0	0	0	0
Sum total of changes which will be reclassified to the income statement in the future if certain conditions are met	**-152**	**-962**	**-93**	**-1,249**
Other comprehensive income after taxes	**-162**	**-962**	**-93**	**-1,249**
Total comprehensive income	**3,661**	**-1,409**	**2,118**	**686**

Consolidated statement of changes in equity as of 30 September 2018

EUR thsd.	Subscribed capital	Capital reserve	Other retained earnings	Cash flow hedge reserve	Share-based payment reserve	Currency translation reserve	Net retained profits	Total Equity
Balance on 01 Jan. 2018	**22,270**	**1,489**	**10,942**	**0**	**490**	**338**	**18,703**	**54,232**
Adjustment of retained earnings due to IFRS 15	0	0	0	0	0	0	-892	-892
Balance after adjustments on 01 Jan. 2018	**22,270**	**1,489**	**10,942**	**0**	**490**	**338**	**17,811**	**53,340**
Consolidated total comprehensive income								
Consolidated net profit/loss	0	0	0	0	0	0	3,823	3,823
Change from market valuation of securities	0	0	0	12	0	0	0	12
Currency translation differences	0	0	0	0	0	-164	0	-164
Consolidated total comprehensive income	**0**	**0**	**-10**	**12**	**0**	**-164**	**3,823**	**3,661**
Transactions with shareholders								
Proceeds from capital increases	0	13,974	0	0	0	0	0	0
Issue of treasury stock	2,227	0	0	0	0	0	0	2,227
Balance on 30 September 2018	**24,497**	**15,463**	**10,932**	**12**	**490**	**174**	**21,634**	**73,202**
Balance on 01 Jan. 2017	**22,270**	**1,489**	**10,933**	**0**	**490**	**1,596**	**17,553**	**54,331**
Consolidated total comprehensive income								
Consolidated net profit/loss	0	0	0	0	0	0	-447	-447
Currency translation differences	0	0	0	0	0	-962	0	-962
Consolidated total comprehensive income	**0**	**0**	**0**	**0**	**0**	**-962**	**-447**	**-1,409**
Balance on 30 September 2017	**22,270**	**1,489**	**10,933**	**0**	**490**	**634**	**17,106**	**52,922**

Consolidated statement of cash flows as of 1 January to 30 September 2018

EUR thsd.	01-09 / 2018	01-09 / 2017
Operating activities		
Consolidated net profit/loss	3,823	-447
Adjustment of retained earnings due to IFRS 15	-892	0
Income taxes	507	-145
Interest expense	651	659
Interest income	-3	-2
Depreciation and amortization	6,092	5,620
Gains/losses from the disposal of non-current assets including reclassification to current assets	75	149
Changes in inventories, receivables and other assets	-3,497	-5,086
Changes in provisions	-198	-391
Changes in liabilities and other equity and liabilities	5,067	5,064
Other non-cash expenses and income	1,107	807
Interest received	3	2
Income taxes paid	-808	-402
Cash flows from operating activities	**11,927**	**5,828**
Investing activities		
Investments in intangible assets	-2,905	-2,787
Investments in property, plant and equipment	-1,122	-1,478
Proceeds from disposal of non-current assets	23	282
Cash flows from investing activities	**-4,004**	**-3,983**
Cash flows from financing activities		
Interest paid	-651	-659
Proceeds from additions to shareholders' equity	16,201	0
Cash repayments of borrowings	-11,935	-6,814
Cash flows from financing activities	**3,615**	**-7,473**
Change in cash and cash equivalents		
Change in cash and cash equivalents due to changes in foreign exchange rates	67	-168
Change in cash and cash equivalents	11,538	-5,628
Cash and cash equivalents on 01 Jan.	-4,012	3,581
Cash and cash equivalents on 30 September	**7,593**	**-2,215**
Composition of cash and cash equivalents		
Cash and cash equivalents	7,595	4,237
Overdrafts	-2	-6,453
Cash and cash equivalents on 30 September	**7,593**	**-2,216**

Notes on the preparation of the quarterly financial report

This financial report as of 30 September 2018 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 83 of the Annual Report for 2017 remains unchanged.

Transactions with related parties

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

Shares held by members of the Company's corporate bodies

Management	**30 September 2018**	**31 December 2017**
Dr. Goetz M. Bendele (since 01 May 2018)	0	n/a
Christian Witt (since 01 September 2018)	0	n/a
Bernd Lange	35,000	35,000
Kai Bentz (until 31 August 2018)	n/a	17,600
Dr.-Ing. Christian Bieniek (until 31 August 2018)	n/a	1,500
Supervisory Board		
Dr. Markus Peters	0	0
Prof. Dr.-Ing. Erich Barke	2,000	2,000
Dr. Dirk Rothweiler	0	0

Garbsen, 14 November 2018

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

Dr. Goetz M. Bendele Christian Witt Bernd Lange

Financial calendar

26 March 2019	Publication of the Annual Report 2018
14 May 2019	Publication of the three-months report
6 June 2019	Annual General Meeting 2019
15 August 2019	Publication of the six-months report
15 November 2019	Publication of the nine-months report

Publishing information

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