



Press Release

22 September 2006

SPI Lasers plc

("SPI" or "the Group")

Interim Results

SPI Lasers plc (AIM:SPIL), a leader in the design, development, engineering, and manufacture of optical fibre-based lasers, today releases its interim results for the six months to 30 June 2006.

Highlights

- Turnover of £3.0 million (H1 2005: £1.3 million), an increase of 128%.
- Gross loss of £1.0 million (H1 2005: £0.8 million).
- Loss after taxation £4.6 million (H1 2005: £4.0 million).
- Previously reported technical issues encountered during the summer with scaling the power of the GTWave platform have been resolved. However, these have resulted in a reduction in expected revenue for Q3 2006.
- Strong demand is being seen for SPI products in both the MICRO and MARKING segments and a recovery in revenues in Q4 2006 is expected.
- Number of customer accounts has doubled from December 2005 and has now reached 80.
- Several new market verticals opened in the first half of 2006.
- Industry forecasts continue to predict strong growth for the fibre-based sector.
- Placing of 2.7 million new shares completed since period end in August 2006, raising £4.8 million net of expenses.

David Parker, Chief Executive of SPI Lasers plc, commented: “These results are in line with the guidance we gave in July, and we are pleased to confirm that we have rectified the previously reported technical issues relating to the scaling of power in fibre manufacture, which was essential for the new products planned for the second half of the year. However, there has been an associated loss of revenue in the third quarter as the knock-on effects of these delays in completing the other aspects of the product development flow through. Having now commenced shipments of these new products, momentum is being re-established. We are seeing strong demand for our products, as is demonstrated by the significant increase in new customers and the opening of new vertical markets. We are optimistic for the future.”

- Ends -

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Chairman's Statement

This has been another period of good progress for the Group with both product and contract revenue figures significantly exceeding those from the first half of 2005. The reception in the marketplace for fibre laser technology remains positive. Given the Group's strong technology platform and encouraging early traction, we remain optimistic that SPI can establish itself as a major participant in this market.

It should be acknowledged, however, that SPI is a young company engaged in a still rapidly developing technology and there will be challenges to be met and overcome. One such challenge occurred in the first half of 2006 when we encountered difficulties in scaling the power of our GTWave platform that impacted on our new product introductions. I am pleased to report resolution of this key issue and the restoration of rapid progress in bringing these crucial products to market. However, there was a consequent slippage in the previously projected ramp-up in production volumes of our new products of approximately three months.

We continue to see strong growth in the MICRO sector with both new account wins and various new market verticals opening in the last six months, enabled by both new and established products.

In the MARKING arena, the Group has created strong demand for its new product and it is pleasing to see shipments commence now that the issues involving fibre quality have been resolved.

Another notable recent event, which completed after the period end, was the placing in August of 2.7 million shares at 185 pence per share, raising £4.8 million after expenses. The additional funds will enable SPI to intensify its business development and take the Group to the next stage of its corporate development.

In particular we intend to increase our presence in Asia. The majority of the market verticals that we are pursuing enable customers to manufacture a wide variety of end-products. Given the Asian region's leading position in the world's manufacturing capacity, we recognise the many opportunities that exist there for fibre laser deployment. Already, our existing customer base reflects some of this potential.

Graham Meek
Chairman

Chief Executive's Review

The Group has significantly improved both product and contract revenues, exceeding those from the first half of 2005, by 100% and 195% respectively.

As previously reported, during the first half of 2006, the Group experienced several process related technical issues in relation to power-scaling our GTWave fibre, but these have now been resolved. The equipment modifications required to remove the primary issue are complete and appear robust.

The cumulative effect of these issues resulted in a delay in the ability to complete development, market introduction and production ramp-up of both higher power MICRO and pulsed lasers for the MARKING sector, and we now expect the resulting slippage in anticipated revenue timing to be reflected in our results for the second half of 2006.

Outlook

SPI is seeing significant growth in revenue in the MICRO sector with over 30 new accounts and various new market verticals opened in the first half of 2006. There is continued growing demand for MARKING lasers with purchased trials at over 10 accounts, while key trials are underway in the semiconductor and consumer electronics sector for the new higher power MICRO lasers. In addition, the Group is seeing strong growth in Asia and is planning to add to its resources and presence in these markets. By the end of this year, SPI anticipates having in excess of 130 customer accounts in place, of which at least 20 will be repeat customers.

Financial results for the second half of 2006 will depend on how rapidly momentum can be restored following resolution of the power-scaling technical issues, and the ability of the Group's operations and supply chain to respond. While signs are encouraging, the loss of momentum has had an impact over the last three months, and the Board therefore believes that the Group's performance for 2006 will fall below current market expectations for 2006. However, strong growth in excess of the first half of 2006 is still expected, and this bodes well for further increased sales in 2007. This could be additionally enhanced due to the progress being made in prototype product for the MACRO sector.

David Parker, Chief Executive Officer

Financial Review

Sales

Total sales grew by 128% over the first half of 2005 to £3.0 million with an underlying product sales growth of 100%. Contract sales, which relate to our US and UK defence and aerospace development contracts, grew by 195% in the half-year over the same period in 2005.

The USA remains our biggest market with 30% of total sales, but other market areas are continuing to expand faster. Asia is up from 11% a year ago to 18% and Europe (excluding the UK) up from 13% to 29%. The balance of sales was in the UK.

Operational Performance

Gross losses increased from £0.8 million in the first half of 2005 to £1.0 million in the first half of 2006 as a result of increased investment in manufacturing capacity, logistics and systems in anticipation of product volume growth. This, together with further investment in product development, sales and marketing, resulted in an increase in the loss after taxation from £4.0 million in 2005 to £4.6 million.

Dividend

The Directors do not propose to pay an interim dividend (2005: nil).

Balance Sheet

Net current assets, excluding cash and short term investments (working capital), increased from £1.7 million at 31 December 2005 to £2.9 million at 30 June 2006. Stocks decreased by £0.3 million but debtors increased by £1.6 million, offset by an increase in creditors of £0.1 million.

The net increase in working capital results from: firstly, a back-end loading of sales in the period; secondly, later than anticipated payments from UK/US defence customers; and thirdly, some administrative problems following the implementation of our new MRP and Accounting system in May. Actions have already been taken and more are in place to improve our business processes and systems during the second half of 2006 that will improve our logistics efficiency and debt collection and thereby increase the overall working capital turns.

Equity Raised

After the period end, the company raised £4.8 million net of expenses via the placing of 2.7 million shares at a price of 185p. The cash balance at 30 June 2006 was £1.8 million, prior to the receipt of these funds.

Steve Berg, Chief Financial Officer

Unaudited group profit and loss account for the six months ended 30 June 2006

		6 Months to 30 June 2006	6 Months to 30 June 2005	12 Months to 31 December 2005 (audited- restated)
	Notes	(unaudited) £000	(unaudited) £000	£000
Turnover	2	2,985	1,309	3,468
Cost of sales		(4,034)	(2,119)	(4,872)
Gross loss		(1,049)	(810)	(1,404)
Administrative expenses		(3,747)	(3,520)	(7,394)
Exceptional items		-	-	(315)
Total administrative expenses		(3,747)	(3,520)	(7,709)
Other net operating income		53	62	131
		<u>(3,694)</u>	<u>(3,458)</u>	<u>(7,578)</u>
Operating loss		(4,743)	(4,268)	(8,982)
Interest receivable and similar income		98	34	161
Interest payable and similar charges		(97)	(19)	(190)
Loss on ordinary activities before taxation		(4,742)	(4,253)	(9,011)
Tax credit on loss on ordinary activities		160	214	535
Loss on ordinary activities after taxation		(4,582)	(4,039)	(8,476)
Retained loss for the period	3	<u>(4,582)</u>	<u>(4,039)</u>	<u>(8,476)</u>
Loss per ordinary share				
Basic and diluted		(25.9p)	N/A	(47.9p)

All amounts are derived from continuing activities.

The restatement relates to the adoption of FRS 20 as set out in note 1.

**Unaudited group statement of total recognised gains and losses
for the six months ended 30 June 2006**

		6 Months to 30 June 2006	6 Months to 30 June 2005	12 Months to 31 December 2005 (audited- restated)
	Notes	(unaudited) £000	(unaudited) £000	£000
Loss for the period		(4,582)	(4,039)	(8,476)
Foreign exchange differences on retranslation of net assets of subsidiary undertakings		(216)	(64)	25
Total recognised gains and losses relating to the year		<u>(4,798)</u>	<u>(4,103)</u>	<u>(8,451)</u>
Prior year adjustment for FRS20	1	(52)		
Restated loss for year carried forward since last statement		<u>(4,850)</u>		

The restatement relates to the adoption of FRS 20 as set out in note 1.

**Unaudited group balance sheet
at 30 June 2006**

		30 June 2006	30 June 2005	31 December 2005 (audited- restated)
	Notes	(unaudited) £000	(unaudited) £000	£000
Fixed assets				
Tangible assets		<u>2,476</u>	<u>2,604</u>	<u>2,424</u>
Current assets				
Stocks		1,818	869	2,084
Debtors		4,268	1,877	2,686
Short term investment		-	342	-
Cash at bank and in hand	4	1,791	2,609	8,126
		<u>7,877</u>	<u>5,697</u>	<u>12,896</u>
Creditors: amounts falling due within one year		(3,164)	(2,269)	(3,074)
Net current assets		<u>4,713</u>	<u>3,428</u>	<u>9,822</u>
Total assets less current liabilities		<u>7,189</u>	<u>6,032</u>	<u>12,246</u>
Creditors: amounts falling due after more than one year		(692)	(1,363)	(1,039)
Provisions for liabilities and charges		(222)	(112)	(165)
Net assets		<u>6,275</u>	<u>4,557</u>	<u>11,042</u>
Capital and reserves				
Called up share capital	3	442		442
Share premium account	3	10,605		10,605
Merger reserve	3	50,389		50,389
Profit and loss account	3	(55,244)		(50,446)
Equity Reserve	3	83		52
Total equity shareholders' funds		<u>6,275</u>		<u>11,042</u>
Net investment			<u>4,557</u>	

The restatement relates to the adoption of FRS 20 as set out in note 1.

Unaudited group cash flow statement for the six months ended 30 June 2006

	Notes	6 Months to 30 June 2006 (unaudited) £000	6 Months to 30 June 2005 (unaudited) £000	12 Months to 31 December 2005 (audited) £000
Net cash outflow from operating activities	4	(5,704)	(4,329)	(9,997)
Returns on investments and servicing of finance				
Interest received		98	34	161
Interest paid		(97)	(19)	(190)
Net cash inflow/(outflow) from returns on investments and servicing of finance		1	15	(29)
Taxation				
US tax paid		-	(2)	-
UK tax credit received		-	-	451
Net cash (outflow)/inflow from taxation		-	(2)	451
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(326)	(363)	(453)
Net cash outflow from capital expenditure and financial investment		(326)	(363)	(453)
Management of liquid resources				
(Increase)/decrease in current asset investments		-	(86)	256
Net cash (outflow)/inflow from management of liquid resources		-	(86)	256
Net cash outflow before financing		(6,029)	(4,765)	(9,772)
Financing				
Issue of share capital on listing		-	-	12,003
Issue of share capital prior to group reconstruction		-	3,841	3,841
Payments of expenses on issue of equity shares		-	-	(1,190)
New borrowings		-	2,000	2,565
Repayment of borrowings		(306)	(46)	(898)
Net cash (outflow)/inflow from financing		(306)	5,795	16,321
(Decrease)/increase in cash in period		(6,335)	1,030	6,549

**Interim announcement – Notes
For the six months ended 30 June 2006**

1. General Information and Accounting Policies

The financial information for the year ended 31 December 2005 does not constitute statutory financial accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

These consolidated interim financial statements have been approved for issue by the Board of Directors on 21 September 2006.

The accounting policies are in accordance with accounting policies adopted at the prior year end except in respect of the adoption of FRS 20 Share Based Payments, which has been adopted from 1 January 2006.

Share-based payments

The group has applied the requirements of FRS 20 Share-based Payments. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2006.

The group issues equity-settled share-based payments to employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Fair value is measured by use of a stochastic model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2. Turnover and segmental analysis

Turnover represents the amounts derived from the provision of goods and services which fall within the group's ordinary activities, stated net of value added tax. In the opinion of the directors, the Company has only one class of business and turnover and losses originated predominantly in the United Kingdom.

Geographical analysis of turnover by destination

	6 Months to 30 June 2006 (unaudited) £000	6 Months to 30 June 2005 (unaudited) £000	12 Months to 31 December 2005 (audited) £000
North America	908	929	2,077
United Kingdom	677	75	452
Rest of Europe	866	164	589
Asia	534	141	350
	<u>2,985</u>	<u>1,309</u>	<u>3,468</u>

No additional disclosures have been presented in respect of losses before tax and net assets as more than 90% of each result originates in the UK.

3. Reserves

The company currently operates various share option schemes together with a share save scheme for its employees. The revaluing of the schemes under FRS 20 has resulted in a total charge to the Profit and Loss account of £83,493 of which £31,383 relates to the six months ended 30 June 2006 and £52,110 relates to prior periods. Therefore a charge of £31,383 has been charged to the profit and loss account for the current period and the reserves balance on the balance sheet for year ended 31 December 2005 has been restated to reflect the £52,110.

3. Reserves (continued)

	Share capital reserve £000	Share premium account £000	Merger reserve £000	Equity reserve £000	Profit and loss £000	Total £000
At 1 January 2006 as previously stated	442	10,605	50,389	-	(50,394)	11,042
Prior period adjustment re FRS 20	-	-	-	52	(52)	-
At 1 January 2006 - restated	442	10,605	50,389	52	(50,446)	11,042
Retained loss for the period	-	-	-	-	(4,582)	(4,582)
Exchange differences on retranslation of net assets of subsidiary undertakings	-	-	-	-	(216)	(216)
Share based payments	-	-	-	31	-	31
At 30 June 2006	<u>442</u>	<u>10,605</u>	<u>50,389</u>	<u>83</u>	<u>(55,244)</u>	<u>6,275</u>

4. Notes to the group cash flow statement

a) Reconciliation of operating loss to net cash outflow from operating activities

	6 Months to 30 June 2006 (unaudited) £000	6 Months to 30 June 2005 (unaudited) £000	12 Months to 31 December 2005 (audited) £000
Operating loss	(4,743)	(4,268)	(8,982)
Depreciation charges	274	264	534
(Increase)/decrease in debtors	(1,421)	(364)	(1,303)
(Decrease)/increase in stocks	266	(293)	(1,508)
Increase in creditors	(111)	317	1,136
Exchange difference	-	(5)	86
Share based payments	31	20	40
Net cash flow from operating activities	<u>(5,704)</u>	<u>(4,329)</u>	<u>(9,997)</u>

b) Reconciliation of net cash flow to movement in net funds

	6 Months to 30 June 2006 (unaudited) £000	6 Months to 30 June 2005 (unaudited) £000	12 Months to 31 December 2005 (audited) £000
(Decrease)/increase in cash in the year	(6,335)	1,030	6,549
Cash inflow from increase in debt finance	-	(2,000)	(2,565)
Cash outflow from decrease in debt	306	46	898
Increase/(decrease) in liquid resources	-	86	(256)
Change in net debt resulting from cash flows	<u>(6,029)</u>	<u>(838)</u>	<u>4626</u>
Exchange differences	-	(59)	(61)
Movement in net debt in the year	(6,029)	(897)	4,565
Opening net funds	6,459	1,894	1,894
Closing net funds	<u>430</u>	<u>997</u>	<u>6,459</u>

c) Analysis of net debt

	At 1 January 2006 £000	Cash Flow £000	Non cash movements £000	At 30 June 2006 £000
Cash at bank and in hand	8,126	(6,335)	-	1,791
Loans – short term	(628)	306	(347)	(669)
Loans – long term	(1,039)	-	347	(692)
	<u>6,459</u>	<u>(6,029)</u>	<u>-</u>	<u>430</u>

- Ends -