

» CORPORATE GOVERNANCE

SUSTAINABLE VALUE CREATION AND EFFICIENT COLLABORATION

The actions of the LPKF Group's management and supervisory bodies are guided by the principles of responsible and good corporate governance. In this section, the Management Board and the Supervisory Board report on issues of corporate governance at LPKF. This section also contains the corporate governance declaration pursuant to Sections 289f and 315d of the German Commercial Code. The corporate governance declaration for the company and the Group is a part of the combined management and Group management report. For the remuneration report, please see page 90 of the combined management and Group management report.

CORPORATE GOVERNANCE DECLARATION AND CORPORATE GOVERNANCE REPORT

COMPOSITION AND PROCEDURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

LPKF AG is a stock corporation incorporated under German law. It operates under a dual management system comprising the Management Board and the Supervisory Board. The Management Board and the Supervisory Board of LPKF AG work closely together in managing and supervising the company.

The LPKF AG Management Board consists of two members with one Chairman. As a management body, they manage the company's business with the aim of creating sustainable value, both on their own responsibility and in the interests of the company. The Management Board fulfills its managerial tasks as a collegial body. Notwithstanding the overall responsibility, the individual members of the Management Board bear individual responsibility for managing the areas assigned to them by Management Board resolutions. The distribution of business among the members of the Management Board is in accordance with the business distribution plan. Information about the areas of responsibility and curricula vitae of the Management Board members are available on the LPKF-Website. The Management Board convenes on a regular basis.

The Supervisory Board advises and monitors the Management Board with regard to its management of the company. It is involved in corporate strategy and planning, as well as all aspects of fundamental importance to the company. The rules of procedure require the Management Board to obtain the approval of the Supervisory Board for major business transactions. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents the Supervisory Board externally.

The Management Board informs the Supervisory Board of the Group's planning, performance and situation, including risk management and compliance in a timely and comprehensive manner, both in writing and at regular meetings. Extraordinary Supervisory Board meetings are convened as necessary should significant events arise. The Supervisory Board has adopted rules of procedure for its own work.

The Supervisory Board reviews how effectively it performs its duties on an annual basis. The efficiency review for the 2019 financial year took place in February 2020 using a questionnaire analysis. The outcome was successful.



LPKF AG has taken out a D&O insurance policy for all members of its Management Board and Supervisory Board, subject to a deductible corresponding to 10% of damages, but no more than one-and-a-half times the fixed annual remuneration.

In the 2019 financial year, the LPKF AG Supervisory Board comprised the following three members who were all elected individually at the Annual General Meeting. The curricula vitae of the Supervisory Board members are available on the LPKF-Website.

All election proposals concerning potential Supervisory Board members shall consider the expertise, abilities and professional experience that are required for carrying out the respective tasks as well as issues of diversity. For its proposals to the Annual General Meeting for the election of new Supervisory Board members, the Supervisory Board makes sure that the candidates in question can devote the requisite amount of time to the company.

Details on the actual membership of the Management Board and the Supervisory Board in the 2019 financial year and disclosures in accordance with Section 285 (10) of the German Commercial Code can be found on page 61 and 94 of the combined management and Group management report. There are no committees.

STIPULATED TARGETS FOR THE PROPORTION OF WOMEN ON THE SUPERVISORY BOARD, THE MANAGEMENT BOARD AND AT THE TWO MANAGEMENT LEVELS BELOW THE MANAGEMENT BOARD

As a listed company that is not subject to the German law on co-determination, LPKF AG is legally required to set targets for the proportion of women on the Supervisory Board, the Management Board and at the two management levels below the Management Board.

The Supervisory Board set a target of one third (33.33%) for the proportion of women on the Supervisory Board. The Supervisory Board set a target of 0% for the proportion of women on the Management Board. Given the current composition of the Management Board with just two members, the current appointment periods of both male Management Board members and the fact that there are no plans to expand the Management Board, the Supervisory Board does not consider it appropriate to set a higher target for the Management Board at this time. The fulfillment date for both of these targets is 26 February 2024.

The Management Board set out targets for the proportion of women at the two management levels below the Management Board. They are 17% for the first level below the Management Board and 23% for the second level below the Management Board. The fulfillment date for both these targets is 30 June 2022.



<https://www.lpkf.com/en/company/lpkf-group/management>

» SUPERVISORY BOARD

Dr. Markus Peters
Chairman of the Supervisory Board

Member of the Supervisory Board since 13 July 2017,
elected until the end of the 2024 scheduled
Annual General Meeting,
Chairman of the Supervisory Board since 16 October 2017

Dr. Dirk Rothweiler
Deputy Chairman of the Supervisory Board

Member of the Supervisory Board since 14 June 2017,
elected until the end of the 2022 scheduled
Annual General Meeting,
Deputy Chairman of the Supervisory Board since 6 June 2019

Prof. Dr.-Ing. Ludger Overmeyer

Member of the Supervisory Board since 6 June 2019,
elected until the end of the 2024 scheduled
Annual General Meeting

MANAGEMENT BOARD SUCCESSION PLANNING, DIVERSITY CONCEPT

Together with the Management Board, the Supervisory Board ensures that there is long-term succession planning. In particular, the Supervisory Board conducts open discussions with internal and external candidates for possible appointment to the Management Board of LPKF AG within a reasonable period of time. When deciding who to appoint to the Management Board, the fundamental selection criteria for the Supervisory Board are professional qualifications in the area of responsibility to be taken on, leadership qualities, past achievements and skills acquired, and knowledge of LPKF AG as a company.

In putting together a Management Board, the Supervisory Board aims for diversity consisting primarily of the following aspects:

- Between them, the members of the Management Board should have the knowledge, abilities and professional experience required to properly perform the duties incumbent on them.
- The members of the Management Board must be familiar with the relevant areas of industry. At least individual members of the Management Board should also have knowledge of the laser technology sector and of capital markets and financing. At least the Management Board member with responsibility for finance must have expertise in accounting or auditing and one member of the Management Board should have experience in managing a medium-sized company.
- Diversity should also be taken into account when searching for qualified Management Board members. It should also be recognized that different yet complementary professional profiles and professional and personal experiences, and appropriate representation of both genders on the board will benefit the overall operation of the Management Board.
- As a general rule, members of the Management Board shall be under 65 years of age. The age of Management Board members should therefore be taken into account during selection.
- The Supervisory Board has set the aforementioned target and deadline concerning the proportion of women on the Management Board.

The diversity concept is intended to benefit the overall operation of the Management Board. No matter who the Supervisory Board chooses to appoint to the Management Board, they will do so in the best interests of the company and having taken into account all the relevant factors.

The LPKF Management Board currently comprises two members who are qualified in different areas both professionally and personally. In the opinion of the Supervisory Board, the diversity concept for the Management Board was met during the reporting period.

TARGETS FOR THE COMPOSITION OF THE SUPERVISORY BOARD, SKILLS PROFILE, DIVERSITY CONCEPT

The Supervisory Board has defined objectives with regard to its composition. This includes a skills profile that is taken into account when proposing new candidates for the Supervisory Board and a diversity concept.

Between them, the members of the Supervisory Board should have the knowledge, abilities and professional experience required to perform the duties incumbent on them. Between them, the members of the Supervisory Board must be familiar with the sector that the company operates in.

Steps should be taken to ensure that the members of the Supervisory Board have at least the following knowledge and experience: (i) familiarity with the company's sector, (ii) knowledge in multiple defined areas, (iii) expertise in accounting or auditing for at least one member of the Supervisory Board, (iv) international experience. In this way, the individual qualifications of the individual members complement each other in the achievement of this aim.

a) Addressing the international nature of the company's activities

The international activities of LPKF AG are reflected in election proposals to the Annual General Meeting. In addition to the ability to speak and write English, the benchmark here is professional experience acquired in other internally active German and foreign companies, whether in management or supervisory bodies, as well as an understanding of global economic issues. The criterion of internationality does not necessarily require one or more Supervisory Board members to hold foreign citizenship, German citizens can also contribute the desired range of experience.

b) Independence and avoiding potential conflicts of interest

The Supervisory Board must include what it considers to be an appropriate number of independent members within the meaning of the German Corporate Governance Code as amended on 7 February 2017. For the purposes of this recommendation, at least a majority of the members of the Supervisory Board must be independent from the Supervisory Board's perspective. Within the meaning of this recommendation, Supervisory Board members are to be considered non-independent in particular if they have a personal or business relationship with the company, its governing bodies, a controlling shareholder or a company affiliated with the controlling shareholder that may cause a substantial and not merely temporary conflict of interest.

Members of the Supervisory Board shall not be members of governing bodies of, or exercise advisory functions at, significant competitors of the company and the Group or have a personal relationship with a significant competitor.

No more than one former member of the Management Board may be a member of the Supervisory Board.

c) Definition of an age limit

The age limit for members of the Supervisory Board was set at under 70 years of age at the time of election.

d) Definition of a limit of length of membership for members of the Supervisory Board

To ensure a balanced mix of experience and new members on the Supervisory Board, the Supervisory Board has set a limit of ten years for the average length of membership for the members of the Supervisory Board based on the date of their election.

e) Consideration of diversity

The composition of the Supervisory Board of LPKF AG should, as broadly as possible, reflect a spectrum of professional expertise and experience in various areas relevant to the company. Concerning the proportion of women on the Supervisory Board, the Supervisory Board has set the aforementioned target and deadline.

The aforementioned aims and the diversity concept are intended to benefit the overall operation of the Supervisory Board.

There were no conflicts of interest in the financial year just ended. Each member of the Supervisory Board ensures that they can devote the requisite amount of time to the role.

With the exception of the proportion of women, which has been targeted to 26 February 2024, the current composition of the Supervisory Board corresponds to the targets set by the Supervisory Board and complies with the diversity concept and the skills profile.

Between them, the Supervisory Board members are familiar with the relevant company sector for which they have responsibility, and there is more than one member with expertise in the area of accounting or auditing and with international experience. In addition, the body is comprised of at least a majority of members who are independent of a controlling shareholder, as determined by the Supervisory Board.

The Supervisory Board considers its current members Dr. Markus Peters, Dr. Dirk Michael Rothweiler and Prof. Ludger Overmeyer to be independent of the Management Board and the company. The latter two members are also considered independent of a controlling shareholder, both on the basis of independence as defined in the German Corporate Governance Code.

DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

RISK MANAGEMENT

The Management Board of LPKF AG has set up a comprehensive Group-wide reporting and control system that makes it possible to record, assess and manage risks. This system is continuously refined, adjusted to changing parameters and reviewed by the auditors of the financial statements. The Management Board informs the Supervisory Board on a regular basis of existing risks and their development. Details of risk management within the LPKF Group are in the risk report, which is part of the Group management report. This contains the report on the accounting-related internal control and risk management system.

COMPLIANCE – PRINCIPLES GOVERNING CORPORATE ACTIONS AND BUSINESS ACTIVITIES
 Acting in compliance with the principles of corporate, environmental and social sustainability in accordance with applicable law is an indispensable element of LPKF's corporate culture. This includes trust, respect and integrity in interactions with other people. These values are expressed in exemplary behavior towards employees, business partners, shareholders and the public. LPKF's understanding of compliance includes observing laws, statutes and the Articles of Incorporation, complying with internal regulations and honoring voluntary obligations.

LPKF AG considers it particularly important to raise the awareness of compliance among all Group employees. Compliance is anchored in internal processes and there is a Group-wide compliance structure. Employee training courses are held on the Group-wide Compliance Code and on general compliance issues. This should ensure the prevention of compliance infringements across the whole Group.

The Compliance Office holds regular meetings to discuss current topics, sometimes in the presence of the professional officers.

Reliable reporting channels for internal and external stakeholders help to ensure that possible irregularities can be reported confidentially. Internal auditing is also used for this purpose. To obtain knowledge of any possible compliance violations, LPKF provides internal and external whistleblowers with contact channels, which are listed on the LPKF-Website. These can be used to contact the compliance officer or independent legal counsel. Additional contact details for employees can be found in the Compliance Code, on the intranet and on notices posted at the company.

Internal auditing, which is performed by an international audit firm functioning as an external service provider, plays a key role in the compliance organization. The relevant audits are also used to update the internal control system.

LPKF LASER & ELECTRONICS AG DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE FOR THE 2020 FINANCIAL YEAR IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT
 LPKF implements the recommendations and suggestions of the German Corporate Governance Code (GCGC), with few exceptions. On 30 January 2020, the Management Board and the Supervisory Board jointly issued the 2020 declaration of compliance pursuant to Section 161 of the German Stock Corporation Act. The declaration was made permanently available to the public on LPKF AG's website.

The following declaration of compliance refers to the current version of the German Corporate Governance Code (GCGC) of 7 February 2017, as published in the Federal Gazette on 24 April 2017.



<https://www.lpkf.com/en/company/lpkf-group/compliance-management>

The Management Board and Supervisory Board declare that LPKF Laser & Electronics AG has complied and will continue to comply with the recommendations of the GCGC since issuing its last declaration of compliance. The following few exceptions were or are valid:

1. No stipulation of a severance pay cap agreed for Management Board member contracts in the event of premature termination of Management Board activities (Section 4.2.3 (4) and (5) GCGC)

Because they only run for a maximum of three years, Management Board member contracts do not contain a cap on severance pay. If a Management Board member's contract is terminated prematurely without good cause, remuneration is limited to no more than the remaining contractual period. For this reason, the Supervisory Board did not see any need to agree on a severance pay limit of two years' remuneration when concluding the contract.

2. No formation of Supervisory Board committees (Section 5.3.1, 5.3.2 and 5.3.3 GCGC)

In the case of three members, committees are not considered appropriate. Upon agreement, members of the Supervisory Board are entrusted with special tasks related to specific topics and report to the entire Supervisory Board.

Garbsen, 30 January 2020



DR. MARKUS PETERS
on behalf of the Supervisory Board



DR. GOETZ M. BENDELE
on behalf of the Management Board

The new version of the GCGC dated 16 December 2019 is already being examined by the Management Board and the Supervisory Board. Many new recommendations are already being implemented, while others require careful consideration and internal consultation. The next declaration of compliance in accordance with the new GCGC will be issued in early 2021.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of LPKF AG exercise their co-determination and control rights at the Annual General Meeting, which takes place at least once a year. It resolves all matters determined by law. Each share grants one vote at the Annual General Meeting.

Every shareholder who registers in due time has the right to participate in the Annual General Meeting. Shareholders who are unable to attend in person have the option of appointing a bank, a shareholders' association, one of the proxies appointed by LPKF AG who are bound by instructions or any other agent as their proxy to exercise their voting right.

The invitation to the Annual General Meeting as well as the reports, documents and information required by law for the Annual General Meeting are published in accordance with the requirements of German corporate law and are also made available on LPKF AG's website in both German and English.

TRANSPARENCY

LPKF regularly informs capital market participants and interested members of the public about the economic situation of the Group and any new circumstances. The annual report, the half-yearly financial report and the quarterly financial reports are published within the specified deadlines. Press releases and, where applicable, ad hoc announcements provide information on current events and new developments. All of the information is published via suitable electronic media such as e-mail and the Internet. The website www.lpkf.com also provides comprehensive information on the LPKF Group and LPKF shares.

A financial calendar lists the scheduled dates for the most important regular events and publications such as the Annual General Meeting, the annual report, quarterly financial reports, the annual financial press conference and analyst conferences. The calendar is published well in advance of the scheduled events and is made available on LPKF AG's website.

SHARE TRANSACTIONS OF MEMBERS OF THE COMPANY'S CORPORATE BODIES

LPKF AG publishes information on directors' dealings on the Internet and reports this to the relevant supervisory authorities. There were no reportable directors' dealings in the 2019 financial year.

ACCOUNTING AND AUDITING

LPKF AG prepares its consolidated financial statements and its interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statements of LPKF AG are prepared in accordance with the German Commercial Code. The annual and consolidated financial statements are prepared by the Management Board, audited by the auditor of the financial statements and reviewed by the Supervisory Board. The interim reports and the half-yearly financial report are discussed by the Supervisory Board and the Management Board prior to publication. The consolidated financial statements and the annual financial statements of LPKF AG were audited by KPMG

AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, the auditor appointed by the 2019 Annual General Meeting. The audit reports were signed by German public auditors Alexander Eichstaedt (since the 2019 annual financial statements) and Alexandra Prenzler (since the 2019 annual financial statements).

The audits were conducted in accordance with German auditing standards, taking into account the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. The audits also covered risk management and compliance with the reporting obligations defined for corporate governance pursuant to Section 161 of the German Stock Corporation Act.

The company also entered into a contract with the auditor pursuant to which they must notify the Supervisory Board immediately, while the audit is in progress, of any grounds for excluding them, any partiality on their part as well as any material findings and events. Nothing of this nature arose in the course of the audits covering the 2019 financial year.

Garbsen, 17 March 2020



DR. MARKUS PETERS
on behalf of the Supervisory Board



DR. GOETZ M. BENDELE
on behalf of the Management Board