

# 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. The Management Board and the Supervisory Board report on issues of corporate governance at LPKF in this chapter pursuant to Article 3.10 of the German Corporate Governance Code. This chapter 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 70 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 an enterprise incorporated according to 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.

As of the start of 2019, the LPKF AG Management Board consists of two members with one Chairman. They are responsible for managing the Company's business with the aim of creating sustainable value. The Management Board fulfills its managerial tasks as a collegial committee. Notwithstanding the overall responsibility, the individual members of the Management Board bear individual responsibility for the areas assigned to them by Management Board resolutions. The distribution of

business among the two members of the Management Board is in accordance with the business distribution plan. **INFORMATION ABOUT THE MANAGEMENT BOARD MEMBERS' AREAS OF RESPONSIBILITY AND BRIEF CVs** can be found on the company 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. The Supervisory Board is integrated 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 in connection with material events. The Supervisory Board has adopted rules of procedure for its own work.

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.

The LPKF AG Supervisory Board consisted of four members until 31 May 2018. On 27 June 2018 there was a registered amendment to the Articles of Incorporation to reduce the number of Supervisory Board members to three, all individually elected at the Annual General Meeting. **SHORT CVs FOR THE MEMBERS OF THE SUPERVISORY BOARD** can be found on the company website. The term of office of the Supervisory Board members runs until the 2019 Annual General Meeting and in one case until the 2022 Annual General Meeting. 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



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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 2018 financial year and disclosures in accordance with Section 285 (10) of the German Commercial Code can be found on pages 41 and 79 of the combined management and group management report. There are no committees.

#### DETERMINATIONS ON THE TARGET NUMBER FOR THE PROPORTION OF WOMEN ON THE SUPERVISORY BOARD, THE MANAGEMENT BOARD AND THE TWO MANAGEMENT LEVELS BELOW THE MANAGEMENT BOARD

LPKF AG is legally required to set targets for the proportion of women on the Supervisory Board, the Management Board and the two management levels below the Management Board.

With effect from 1 July 2017, the Supervisory Board defined a target for the proportion of women on the Supervisory Board and the Management Board of 25% each, to be fulfilled by 30 June 2022. At the time this target was set, both the Management Board and the Supervisory Board consisted of four members each. Both bodies have since been reduced in size. As of 31 May 2018, the Supervisory Board has only three members, in accordance with an amendment to the Articles of Association registered with the commercial register on 27 June 2018. From 1 January 2019, the Management Board consists of only two members.

In view of these changes and taking into account the duration of the current terms of office, the Supervisory Board reviewed the existing targets and set new targets and deadlines for achieving them via resolutions on 27 February 2019. The Supervisory Board set a new target of 1/3 (= 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, it was not appropriate to set a higher target at this time. The fulfillment date for both of these new targets is 26 February 2024.

At the time that the new targets were set, the original targets of 25% for both the Supervisory Board and the Management Board had not been achieved. The reasons for this were the interim reductions in the memberships of the Management Board and the Supervisory Board and also the fact that new Management Board members were appointed through a structured gender-neutral process of identifying and selecting candidates and subject to the prior consideration of candidates' qualifications and management experience. There were no new elections to the Supervisory Board during the period of 1 July 2017 to 27 February 2019.

The Management Board laid down a target for the proportion of women on the two management levels below the Management Board with effect from 1 July 2017. They remain unchanged at 17% for the first level below the Management Board and 23% for the second level below the Management Board. The fulfillment date for these targets is 30 June 2022.

#### MANAGEMENT BOARD SUCCESSION PLANS, DIVERSITY CONCEPT

Together with the Management Board, the Supervisory Board ensures that there is long-term succession planning for the Management Board. 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 the LPKF AG company.

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

- The members of the Management Board should between them 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 one member of the Management Board should 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 the management of 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 will 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 targets and deadlines concerning the proportion of women on the Management Board.

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

The LPKF Management Board currently consists of two members who are qualified in different areas both professionally and personally. With the exception of the proportion of women which has been extended to 30 June 2022, the Supervisory Board is satisfied that the Management Board met the diversity criteria during the reporting period.

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

On 27 February 2018 the Supervisory Board updated and extended their previous target specifications concerning their composition and adopted a diversity concept. The Supervisory Board compiled a skills profile for the whole committee that can be considered when suggesting new candidates for the Supervisory Board.

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

It should be ensured that between them, 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 these aims.

#### a) Addressing the international nature of the Company's activities

The international activities of LPKF AG are reflected in nominations to the Annual General Meeting. In addition to the ability to speak and write English, the measure here is the professional experience acquired in other German and foreign companies with international operations, whether in management or supervisory bodies, and the understanding of global economic issues. The criterion of internationality does not stipulate the mandatory inclusion of one or more Supervisory Board members holding 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 Article 5.4.2 of the German Corporate Governance Code. For the

purposes of this recommendation, at least half 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 corporation, 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.

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 has been set at under 70 years at the time of election.

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

To ensure a balanced mix of experience and new members on the Supervisory Board, the Supervisory Board specified a regular 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) Diversity**

The composition of the Supervisory Board of LPKF AG should reflect as broadly as possible 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 targets and deadlines.

The aforementioned aims and the diversity concept should 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 he can devote the requisite amount of time to his role. No member of the Management Board held more than three appointments to the supervisory boards of listed stock corporations not belonging to the Group.

With the exception of the proportion of women which has been extended 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.

The Supervisory Board members are between them familiar with the relevant company sector for which they have responsibility, and there is at least one member with expertise in the area of accounting or auditing and one with international experience. The body is comprised of a sufficient number of independent members as determined by the Supervisory Board. The Supervisory Board considers its current members Dr. Dirk Michael Rothweiler and Prof. Dr. Erich Barke to qualify as independent members pursuant to Section 5.4.2 of the German Corporate Governance Code version dated 7 February 2017.

## CORPORATE GOVERNANCE PRACTICES DISCLOSURES

### RISK MANAGEMENT

The Management Board of LPKF AG has 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 audited 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 pursuant to the German Commercial Code.

### 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 vis-à-vis employees, business partners, shareholders and the public. LPKF's understanding of compliance includes observing all 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 of the Group's employees. Compliance is enshrined in internal processes and there is a Group-wide compliance structure. Employee training courses are held on the **COMPLIANCE CODE** which applies across the Group. This should ensure the prevention of compliance infringements across the whole Group.

The Compliance Office holds regular meetings to discuss current topics, some times in the presence of the technical officers.

Reliable reporting channels for internal and external stakeholders help to ensure that possible irregularities are reported confidentially. Internal auditing is also used for this purpose. To obtain knowledge of any possible compliance violations, LPKF makes contact channels available to internal and external whistleblowers on its **WEBSITE**. These can be used to contact the compliance officer or independent legal counsel. Additional employee contact details 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 a third-party service provider, plays a key role in the compliance organization. The relevant audits are also used to update the internal control system.

### DECLARATION OF COMPLIANCE OF LPKF LASER & ELECTRONICS AG FOR THE 2019 FINANCIAL YEAR WITH THE CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATION ACT

LPKF implements the recommendations and suggestions of the German Corporate Governance Code (GCGC) apart from a few exceptions. The Management Board and the Supervisory Board jointly issued the 2019 Declaration of Compliance on 20 March 2019 pursuant to Section 161 German Stock Corporation Act. The Declaration is permanently made public on LPKF AG's website.

The following Declaration of Compliance relates to the current version of the German Corporate Governance Code (GCGC) of 7 February 2017, as promulgated in the Federal Gazette on 24 April 2017.



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The Management Board and Supervisory Board declare that LPKF Laser & Electronics AG complies with the recommendations of the GCGC and intends to continue to comply with these in the future. The following exceptions were or are valid:

- I. No severance pay cap agreed for Directors' contracts in case of premature termination of a Director's contract (Section 4.2.3 (4) and (5) GCGC).

Because they only run for a maximum of three years, the Directors' contracts do not contain a cap on severance pay. If a Director's contract is terminated prematurely without 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 payment limit of two years' remuneration when concluding the contract.

- II. 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 expedient. After consultation, members of the Supervisory Board are entrusted with special tasks on a topic-related basis and report to the entire Supervisory Board.

#### SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of LPKF AG exercise their co-determination and control rights at the General Meeting, which takes place at least once per year. It resolves all matters determined by law with binding effect on all shareholders and the Company. 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 cannot attend in person have the option of appointing a bank, a shareholders' association, 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 and information required 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 the participants in the financial markets and interested members of the public about the commercial situation of the Group and any new facts. 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 in printed form and via suitable electronic media such as email and the Internet. The **COMPANY WEBSITE** 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 financials press conference and analyst conferences. The calendar is published well in advance of the scheduled events and is made permanently available on the LPKF AG website.

#### SHARE TRANSACTIONS OF MEMBERS OF THE COMPANY'S CORPORATE BODIES

Reportable directors' dealings were published on the Company's website and reported to the competent supervisory authorities.



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## 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 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 reports are discussed by the Supervisory Board and the Management Board before publication. The consolidated financial statements and the annual financial statements of LPKF AG were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hannover, the auditor elected by the 2018 Annual General Meeting. The audit reports were signed by German public auditors Jens Wedekind (since the 2016 annual financial statements) and Hanno Karlheim (since the 2017 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 Institute of Public Auditors (IDW). The audits also assessed the early risk warning system and compliance with the reporting obligations defined for proper corporate governance pursuant to Section 161 German Stock Corporation Act.

LPKF AG 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 audit covering the 2018 financial year.

In May 2018 the Supervisory Board put the mandate to audit the financial and consolidated statements of LPKF Laser & Electronics AG and the statements of some of the subsidiaries included in the consolidated statement for the 2019 financial year out to tender. This is an early adoption of the EU Audit Reform stipulating the mandatory rotation of external auditors. The EU Audit Reform consists of Regulation (EU) No. 537/2014 and Guideline 2014/56/EU which have been transposed into national law. The public procurement of the audit and the selection of an auditor are subject to the provisions of the EU regulation and the choice of auditor will be finalized by the Annual General Meeting on 6 June 2019.

Garbsen, 20 March 2019



DR. MARKUS PETERS  
on behalf of the Supervisory Board



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