

CORPORATE GOVERNANCE

SUSTAINABLE VALUE CREATION AND EFFICIENT COLLABORATION

Corporate governance stands for responsible corporate leadership and management aimed at increasing the shareholder value in the long term; purposeful and efficient collaboration between the Management Board and the Supervisory Board; consideration for the interests of shareholders and employees; transparency and responsibility in all corporate decision making; as well as appropriate risk treatment. LPKF follows the German Corporate Governance Code.

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 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 289a and 315 (1) of the German Commercial Code (Handelsgesetzbuch – HGB). For the remuneration report, please see pages 44 ff. of the combined management and Group management report.

CORPORATE GOVERNANCE DECLARATION

1. PROCEDURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

LPKF AG is an enterprise incorporated according to German law, on which the German Corporate Governance Code is based. The dual management system comprising the Management Board and the Supervisory Board as corporate bodies, both of which have distinct responsibilities, is a fundamental element of German corporate law. The Management Board and the Supervisory Board of LPKF AG work together closely and in an atmosphere of trust in managing and supervising the Company. The Management Board of LPKF AG consists of three members. They are responsible for managing the Company's business in the interests of the Company and with the aim of creating sustainable value. The Supervisory Board had set a target of 0% for the share of women on the Management Board to be fulfilled by 30 June 2017 since no changes in the composition of the Management Board were planned. The Supervisory Board defined a new target for the share of women in the Management Board of 25%, to be fulfilled by 30 June 2022.

In accordance with the German Act on the Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector, the Management Board also laid down a target for the share of women on the two management levels below the Management Board: 17% in each case. The deadline set for achievement of this target was 30 June 2017. At this date, the share of women on the upper management level was 17% and on the lower management level was 21%. The Management Board has laid down new targets for the share of women on the first and second management levels below the Management Board of 17% and 23%, respectively, to be fulfilled by 30 June 2022.

The Supervisory Board advises and monitors the Executive 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 significant 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 in a timely and comprehensive manner – both in writing and at regular meetings – of the Group’s planning, performance and situation, including risk management and compliance. Extraordinary Supervisory Board meetings are convened as necessary in connection with material events. The Supervisory Board adopted rules of procedure for its own work.

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

The Supervisory Board of LPKF AG consists of four members. At the most recent Supervisory Board election during the Annual General Meeting on 5 June 2014, the Supervisory Board members were elected individually as recommended by the German Corporate Governance Code. One Supervisory Board member resigned from office effective 12 July 2017 and a new member was elected to the Supervisory Board by the Annual General Meeting on 1 June 2017. In addition, by way of a resolution by the Annual General Meeting on 1 June 2017, the Supervisory Board was augmented by one member. This member was also elected at the Annual General Meeting on 1 June 2017. The term of office of the Supervisory Board members runs until the 2019 Annual General Meeting and, in the case of the newly created Supervisory Board position, 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 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.

OBJECTIVES REGARDING THE COMPOSITION OF THE SUPERVISORY BOARD

According to Article 5.4.1 GCGC, the Supervisory Board shall disclose specific objectives with regard to its composition in view of the Company’s international activities, potential conflicts of interest, an age limit to be specified for Supervisory Board members, a regular limit of length of membership to be specified for the members of the Supervisory Board, the independence of Supervisory Board members and diversity, and disclose the status of implementation in the corporate governance report.

For this purpose, the Supervisory Board approved objectives regarding its composition as well as a diversity concept. The Supervisory Board prepared a profile of skills for the entire Board, which the Supervisory Board fulfills in its current composition and will be taken into account when proposing new candidates for the Supervisory Board.

a) Addressing the international nature of the Company’s activities

The international activities of LPKF Laser & Electronics AG have been reflected to date in the participation of shareholder representatives in the Supervisory Board and will continue to be addressed in the future in nominations of candidates by the Supervisory Board 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 that the Supervisory Board’s composition include one or more Supervisory Board members holding foreign citizenship. Instead, German citizens can also contribute this desired 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.

The Chairman of the Supervisory Board, Dr. Markus Peters, is a member of the Executive Board of German Technology AG. German Technology AG is part of the BANTLEON Group and according to its last notification of voting rights in accordance with Section 21 German Securities Trading Act holds more than 20% of the voting rights in LPKF Laser & Electronics AG.

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) Specifying an age limit

The age limit for members of the Supervisory Board was set at under 70 years at the time of election by resolution of the Supervisory Board on 22 January 2014.

d) Specifying 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 10 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 Laser & Electronics AG should reflect as broad as possible a spectrum of professional expertise and experience in various areas relevant to the Company.

f) Target for the share of women in the Supervisory Board pursuant to Section 111 (5) German Stock Corporation Act

The Supervisory Board had laid down a target of 25% for the share of women on the Supervisory Board, to be fulfilled by 30 June 2017. On 30 June 2017, the share of women on the Supervisory Board was 0% and is currently 0%. The reasons why the target for the share of women in the Supervisory Board was not reached were discussed at the 2017 Annual General Meeting in connection with the proposal of candidates for election to the Supervisory Board. The Supervisory Board took the suggestions made by the group of shareholders on board and submitted corresponding proposals to the Annual General Meeting; the Annual General

Meeting resolved on the changes in the Supervisory Board. The Supervisory Board defined a new target for the share of women in the Management Board of 25%, to be fulfilled by 30 June 2022.

Both the Management Board and the Supervisory Board are obliged to observe the corporate interests of LPKF AG. There were no conflicts of interest in the financial year just ended that would have had to be disclosed to the Supervisory Board without delay. No member of the Management Board held more than three appointments to the supervisory boards of listed stock corporations not belonging to the Group.

The status of implementation of the objectives regarding the composition of the Supervisory Board outlined in a) to g) above is as follows:

STATUS OF IMPLEMENTATION OF THE OBJECTIVES REGARDING COMPOSITION

The objectives relating to a) "Addressing the international nature of the Company's activities," b) Independence and avoiding potential conflicts of interest," c) "Specifying an age limit," d) "Specifying a regular limit of length of membership for the members of the Supervisory Board," and e) "Diversity" have already been achieved.

Target f) "25% share of women on the Supervisory Board" has not yet been achieved. The Supervisory Board intends to stick to its target of having a 25% share of women on the Supervisory Board. According to the current planning, this target is to be taken into account by finding a suitable female candidate in connection with the regular election of three Supervisory Board members by the Annual General Meeting in 2019. The term of office of the Supervisory Board members is five years, and the current term of three Supervisory Board members ends with the Annual General Meeting in 2019.

CORPORATE GOVERNANCE REPORT

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 2018 Declaration of Compliance on 20 March 2018 pursuant to Section 161 German Stock Corporation Act (Aktiengesetz). The Declaration is permanently made public on LPKF AG's website.

DECLARATION OF COMPLIANCE OF LPKF LASER & ELECTRONICS AG FOR THE 2018 FINANCIAL YEAR WITH THE CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATION ACT (AKTIENGESETZ)

Since the most recent Declaration of Compliance dated 21 March 2017, LPKF Laser & Electronics AG has observed the recommendations of the Government Commission on the German Corporate Governance Code (GCGC) as amended on 5 May 2015 – with the exceptions mentioned below.

LPKF Laser & Electronics AG complies with the recommendations of the German Corporate Governance Code as amended on 7 February 2017 (published on 24 April 2017) and intends to continue to comply with these in the future. The following exceptions apply:

1. No severance pay cap agreed for Directors' contracts in case of premature termination of a Director's contract (Article 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. The Supervisory Board therefore considered it unnecessary to include in the Directors' contracts a cap on severance pay amounting to two years remuneration.

2. Formation of Supervisory Board committees (Article 5.3.1 and 5.3.2 GCGC)

Given that the Supervisory Board has only four members, the formation of committees is not deemed expedient for maximum work efficiency. After consultation, members of the Supervisory Board are entrusted with special tasks for specific topics and report to the full 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 or do not want to 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 notice of the Annual General Meeting as well as the reports and information required for the resolutions 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.

RISK MANAGEMENT

The responsible handling of business risks is an integral part of all good corporate governance. The Management Board of LPKF AG is supported in its work by a comprehensive Group-wide reporting and control system that makes it possible to record, assess and manage risks of this kind. 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. The risk report contains details of the LPKF Group's risk management. The risk report is part of the Group management report and contains the report on the accounting-related internal control and risk management system pursuant to the German Commercial Code.

TRANSPARENCY

LPKF regularly, immediately and simultaneously 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 ad hoc announcements where stipulated, 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 www.lpkf.com 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, annual report, quarterly financial reports, financials press conference and analyst conferences. The calendar is published well in advance of the scheduled events and is made available permanently 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. A listing of the shares held by members of the Company's corporate bodies is shown in the remuneration report.

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 2017 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 and taking the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors (IDW) into account. The audits also assessed the risk management 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 2017 financial year.

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, values 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, to entrench compliance in the internal processes (for example, through adherence to the principle of dual control) and to build a compliance structure for the Group that makes compliance guidelines binding on all LPKF employees worldwide and is suitable for effectively preventing compliance violations for the benefit of the Group as a whole.

Training for employees was offered in connection with the Group-wide compliance code to familiarize them with the goal of this code of conduct and to guarantee uniform ethical and legal standards throughout the entire 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 to carry out an objective and comprehensive investigation. Internal auditing is also used for this purpose. To obtain knowledge of any possible compliance violations, LPKF makes the following contact channels available to internal and external whistleblowers:

Email address of the Compliance Manager (compliance@lpkf.com). Employees who feel it necessary to have an anonymous and confidential conversation when submitting such reports also have the opportunity to contact LPKF Laser & Electronics AG's independent legal counsel. The legal counsel for LPKF AG is lawyer Dr. Carsten Thiel von Herff, Thiel von Herff law firm, Bielefeld. He has been responsible for providing legal counsel to LPKF since 1 March 2017 and can be contacted as follows: Tel.: +49 (0)521 5573330, mobile: +49 (0)151 58230321, E-mail: vertrauensanwalt@thielvonherff.de. Additional employee contact details can be found in the Compliance Code, on the intranet and on notices posted at the Company.

An online anti-corruption training session has been prepared for around 80 employees in the LPKF Group's Purchasing and Sales departments and was held in the first quarter of 2017. This training concerned the "United Nations Convention against Corruption" and explored several issues, including dealing with gifts, facilitation payments and corruption, use of intermediaries/lobbyists, corruption/social investments and insider information.

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.



Kai Bentz



Dr.-Ing. Christian Bieniek



Bernd Lange