



Separate Non-Financial Consolidated Report 2018
pursuant to the German Sustainability Code (Deutscher
Nachhaltigkeitskodex)

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General Information

Object of the Business, Services and Products

LPKF Laser & Electronics AG (LPKF AG) develops and manufactures systems for material processing. On the strength of its technological leadership in a number of areas of materials micromachining using lasers, the mechanical engineering company is among the world's leading laser technology companies. The LPKF Group specializes in the fields of laser technology and optics, precision drive technology, control technology and software, as well as materials technology. LPKF's laser systems are used primarily in the electronics industry, in polymer technology applications and for the manufacture of solar panels. In many sectors, the innovative processes developed by LPKF replace established techniques. LPKF AG is listed in the Prime Standard segment of the German Stock Exchange.

Supplementary Comments:

The information in this report refers, in part, to the LPKF Group's [2018 Annual Report](#). Unless otherwise stated, the information relates to LPKF Laser & Electronics AG and all its subsidiaries. The consolidated financial statements and the combined management report are audited annually by an independent auditor. Further regular audits are conducted as part of various certification processes for LPKF AG and its subsidiaries, for example quality management audits.

*Note on the key performance indicators: the key performance indicators reported are the Company's own indicators, but are based on the GRI (Global Reporting Initiative) reporting standard.

With this report, we are complying with the provisions of the CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz), and submit this Separate Non-Financial Consolidated Report in accordance with Section 289c of the Commercial Code (Handelsgesetzbuch). All links in this report are for further information only and are not part of the Separate Non-Financial Consolidated Report.

1 Strategy

1.1 Strategic Analysis and Action

For LPKF, sustainability means acting responsibly, achieving both lasting economic success and ecological and social progress, and securing the Company's future. This corporate responsibility is enshrined in our corporate strategy. With a view to implementing that strategy, the Management Handbook contains a list of specific actions, for example

- refinement of group strategy and long-term planning by the Management Board at least once every year, in conjunction with the heads of the business segments and the managing directors of the subsidiaries and following consultation with the Supervisory Board;
- regular checking of the results of the management system processes;
- regular internal audits;
- annual management review

Key action areas in relation to sustainability are specified in our mission statement (criterion 2.4), which forms part of the corporate strategy.

LPKF AG's Integrated Management System, which complies with DIN EN ISO 9001 and DIN ISO 45001, (the "Management Handbook") describes the interaction between company processes and the requirements placed on executives, products and services. Regular internal and external audits are conducted to review the standards laid down in the Management Handbook. In addition, the [LPKF Compliance Code](#) requires all employees to observe applicable laws everywhere and at all times, to respect ethical principles, and to adopt sustainable practices. With regard to corporate governance, LPKF follows the German Corporate Governance Code (Deutscher Corporate Governance Kodex). The Mission Statement of the LPKF Group, "Success is Teamwork", is also an integral part of the Group strategy and is accessible to all employees at all sites. It incorporates key principles related to sustainable development, particularly in the areas of value creation, employees, the environment and society.

As a technology group, LPKF operates in a dynamic market environment. New opportunities constantly arise from a changing technology landscape and new market requirements. Components are becoming ever smaller, more complex and more precise. Advances in miniaturization and the growing use of nanoscale materials are increasing the complexity of components and demanding the adoption of innovative processing methods. Laser-based processes will contribute substantially to this development. Systematically identifying and leveraging these opportunities is a major factor in the sustainable growth of the LPKF Group. Opportunity management involves closely monitoring new markets and applications, regularly evaluating market analyses, and reviewing the focus of the product portfolio.

Opportunities to promote sustainable development exist in particular in the environmentally-friendly applications of laser technology. It generally involves lower tool costs and more energy-efficient operations. For certain applications, chemical processes are being displaced. We are thus making an active contribution to reducing the volume of scrap and waste at our customers. With our systems for the structuring of solar panels, we are helping to ensure that solar panels can be used to generate power in even more economical ways.

The opportunities are offset by risks associated with the development of new laser-based technologies. Using laser sources as a tool involves risks for the user. For this reason, LPKF attaches great importance to occupational safety. All employees with access to laser areas receive regular training from an in-house laser protection officer about all the possible dangers connected with laser sources.

1.2 Materiality

LPKF AG is a highly specialized, internationally based mechanical engineering company and operates across a broad social landscape. On account of the various product segments, we are involved in a multitude of sectors, such as the electronics industry, medical technology sector, the automotive industry and the solar industry. Our operating activities generally have only a minimal impact on sustainability considerations. Nonetheless, in the course of developing our management system the following sustainability factors have proved to be relevant to our Company's operations:

- Value creation – Impact on the sustainable development of the Company and its customers
- Employees – Impact on employee satisfaction and job security
- Society – Impact on our conduct as a responsible neighbor at our sites
- Environment – Impact on nature and resources

The effects of our operating activities on key sustainability considerations can be found in our objectives, which are described in criterion 1.3. We make a major contribution to the environmental aspect with our laser systems for the production of thin-film solar modules. Using our systems, large modules can be produced within a short time, which helps make power generation more efficient. Our systems thereby make a positive contribution to the carbon footprint of thin-film modules in the solar industry.

Information about the opportunities and risks arising from our operating activities can be found in criterion 1.1. We have set ourselves strategic objectives stated in criterion 1.3 for the four aforementioned specific sustainability factors and for the error rate.

1.3 Objectives

In relation to the main sustainability factors, LPKF AG has set itself the following objectives, which have not been prioritized in terms of their relevance.

We are familiar with the Sustainable Development Goals and in some areas we contribute to achieving them as part of our operating activities. For example, our solar systems contribute to achieving Goal 7, "Affordable and Clean Energy." Our business activities also support Goal 12, "Responsible Production and Consumption."

Value Creation:

We want to increase customer benefit, drive innovation and boost efficiency. In order to achieve this objective, in 2017 we invested 10.9% of our revenue in research and development. In the 2018 financial year, R&D investment stood at 9.7%. Our objective for the years ahead is to provide an R&D budget equating to at least 10% of revenue. Achievement of the objective is monitored by determining the relevant indicator as part of the preparation of the annual financial statements.

Employees:

We want to be an attractive and responsible employer. Our highly motivated employees form the basis for the future of the LPKF Group. The experience and specialist knowledge of the people who work for LPKF worldwide mean that we can succeed in offering innovative technologies in markets on which there is sometimes hard-fought competition. The retention and development of personnel are essential for the Company's success in the long term. Continued systematization of key HR processes is a working priority within the LPKF Group. Progress towards achieving the objective is monitored as part of an annual review of HR processes.

Society:

We are actively involved at the Company's various locations to the best of our ability. Our aim is to act and be perceived as an active and valuable member of society and a responsible neighbor. A specifically measurable objective has not been defined in relation to this commitment. The review of perceptions of LPKF is based, for example, on a multitude of discussions and regular monitoring of articles in the press.

Environment:

We strive to protect nature and conserve resources in all our business activities. On the one hand, we are continuing to drive forward the replacement of chemical production processes with laser technology; on the other, we are promoting the economical use of renewable energy in the solar sector. It is also our aim to consider all possible options for saving energy whenever we invest in buildings and facilities. We endeavor to minimize the quantity of environmentally hazardous substances stored at the company. Over the last four years, the share of registered chemicals has already been reduced by 84%, bringing the hazard level down to Level B in the reporting period. Given the minimal ecological impact of our operating activities, specifically measurable objectives have not been defined in relation to this factor.

Error Rate:

The error rate is measured as the ratio of error costs to revenue and is one of the key performance indicators at LPKF. Error costs include expenditure associated with the fulfillment of warranty obligations. The aim is not to exceed an error rate of 50 on a continuous basis. Target achievement is calculated using an average figure based on the rate determined at a specific time.

The error rate has developed as follows in the past three years:

2016: 73

2017: 78

2018: 70

A number of measures were taken in the reporting period to improve the error rate.

The Development/Equipment business unit has made design changes and improvements to various products. As a result of these measures, error costs have fallen significantly since mid-2018.

1.4 Depth of Value Chain

The value chain at LPKF begins at procurement, continues through research and development, sales and marketing, production, order processing, logistics, and service and commissioning, and extends as far as the customer. We can have a direct influence only on our internal processes and our direct suppliers and customers.

We expect our suppliers to act responsibly in the areas of environmental protection, employee rights and anti-corruption measures. Our conditions of purchase require them to ban forced and child labor, observe internationally recognized human and employee rights, and comply with environmental standards and anti-corruption legislation. In response to the Dodd-Frank Act in the USA, we expect our suppliers to rule out the use of so-called "conflict minerals" in a self-declaration.

The main ecological problems that occur at almost all stages of the value chain are the consumption of non-renewable resources (metals, plastics) and the CO₂ emissions arising from energy consumption and transportation. We report on our targets for reducing CO₂ emissions in criterion 3.4. Social problems may include inadequate working conditions at suppliers, although we review these in line with our purchasing conditions before entering into a business relationship.

We cannot undertake comprehensive monitoring of, or exercise extensive control over, the upstream links in the supply chain and the associated process stages. Since there is no contractual relationship between LPKF and the subsuppliers, intervention in this regard – including by legal means – is not possible. We therefore direct our immediate suppliers to take appropriate steps to raise awareness among, and impose obligations on, their upstream suppliers.

LPKF exports approximately 90% of its products to other countries. To prevent goods being supplied to customers in so-called “embargo countries,” an Exports Officer was appointed to monitor and be responsible for in-house export control. This role can be performed by a member of the Management Board only. The Exports Officer assigns these duties to the section responsible for export control and is informed of any changes by that section. The Export Control Officer is responsible for passing on all relevant information to the departments. In addition, LPKF regularly screens relevant sanctions lists using special software.

2 Process Management

2.1 Responsibility

All sustainability considerations are firmly anchored at Management Board level at LPKF. Environmental issues can be found in the areas of responsibility of both Management Board members. In coordination with the Supervisory Board, the Management Board determines the Group strategy and decides on the statements contained therein regarding sustainability issues.

In addition, sustainability considerations are also dealt with and reviewed in various departments within the Company, such as Product Development, Quality Management, Human Resources, Procurement, Organization, Sales Assistance, Innovation, and Communications. The cross-departmental sustainability team that was set up in 2017 collates information on sustainability issues and is also responsible for producing the CSR Report.

2.2 Rules and Processes

With a view to implementing the sustainability strategy as part of the Company’s operating activities, rules and processes were laid down inter alia in the following documents: the Strategy Paper, the LPKF Mission Statement, the Risk Management Handbook, the Management Handbook, process descriptions, guidelines, the [Compliance Code](#), the German Corporate Governance Code and LPKF Executive Code of Conduct. LPKF AG’s Management and Supervisory Boards defined corporate responsibility in the 2018+ Strategy Paper. The Corporate Communications department is responsible for reporting.

2.3 Control

The non-financial aspects of sustainability, such as governance, planning and occupational safety, form part of the Integrated Management System and are thus subject to regular review by officers appointed by the Management Board for that purpose – the Quality Management Officer, the Occupational Safety Management Officer and the Risk Management Officer – as well as external audits. Performance indicators are subject to annual review in the annual financial statements. Just like the current risk situation, they are determined and reported on a monthly basis. Various committees, as well as the Management and Supervisory Boards, examine the indicators and risks each month.

Responsibility for reviewing key performance indicators for environmental aspects currently lies with various different areas and individuals such as Facility Management (energy, waste, emissions) or the Hazardous Substances Officer.

An effective and efficient risk management system (RMS) is particularly important in order to guarantee both the continued existence of the LPKF Group as a going concern in the long term as well as consistent and increasing revenues. The purpose of the RMS is to ensure that threats to the future development of the LPKF Group are detected at an early stage by each of our employees and communicated systematically and clearly to the competent decision-makers within the Company. Timely communication of risks to the employees responsible is intended to ensure that appropriate action is taken to deal with the risks identified and to prevent any loss or damage. The concept of and principles for dealing with risks at LPKF AG and its main subsidiaries are set out in the Risk Management Handbook, as are the organizational and operational structures of the RMS established by the Management Board. The risk early warning system is regularly reviewed by the auditor of the annual financial statements. In relation to the reporting period, this review revealed that the existing Group-wide risk early warning system is fit for purpose, meets the requirements of the German Stock Corporation Act and is capable of detecting developments which jeopardize the Company's continued existence as a going concern at an early stage.

2.4 Key Performance Indicator for Criteria 2.1 – 2.3

LPKF AG's current Mission Statement, which sets out general values, principles and standards of conduct, was drawn up for the LPKF Group in 2009 and has since been regularly reviewed and updated.

The "Success is Teamwork" mission statement consists of the following nine points:

1. We work for the success of our customers.

Benefiting our customers is the focus of our work. All our activities and decisions are aimed at improving the competitiveness of our customers through technological advancement and cost savings.

2. We utilize success to sustainably strengthen LPKF.

A successful enterprise is in the interest of customers, business partners, employees, and shareholders. Profitability and thus enterprise value largely depend on our ability to take advantage of new opportunities and respond to challenges. Our particular focus is therefore on strengthening the company's innovative resources and profitability to lay the foundations for sustained, long-term growth.

3. We focus on leading positions in technology.

LPKF is a technology group. We shape the technological progress and gain leading market positions through the strength of our superior solutions. We concentrate our efforts on products with the potential to become the number one or number two in market position.

4. We work internationally and partnership-based.

A sense of professional partnership characterizes our relationships: with customers, suppliers and distributors as well as with companies and individual employees within the LPKF group. As part of an internationally active group, we strive for understanding and cooperation between various cultures and philosophies, and always place our common interests at the forefront of international relations.

5. We deliver quality.

The high quality of our products is the key to customer satisfaction. All employees shoulder responsibility for the quality of the work we do for our customers. LPKF promotes the professional qualifications of its employees to sustain the high quality of LPKF products.

6. We do our share to protect the environment.

With laser-based technology we help to reduce waste. It is our policy to continue on the path of environmental awareness with our eco-friendly product design and sustainable business practices.

7. We are concerned about the health and well-being of all of our colleagues.

Health and well-being are the foundation for success. This is why staying healthy and ensuring workplace safety are high priorities for us.

8. We continually strive for improvement.

We are never satisfied with the status quo. Instead, we constantly aim to optimize our products and the processes required for their development and production. It goes without saying that our corporate culture is open and encourages learning and constructive criticism.

9. We take corporate social responsibility very seriously.

Our responsibility extends to our customers, employees, business partners, shareholders and the public. Being a good corporate citizen includes obeying applicable laws at all times and everywhere, respecting ethical principles and pursuing sustainability. The [LPKF Compliance Code](#) supports us in this endeavor.

The Mission Statement is displayed at all LPKF sites worldwide in German or English and is incorporated into executive training courses. Executives and staff act in accordance with the values enshrined in the Mission Statement in their day-to-day dealings with one another and in their contact with customers and suppliers. The Mission Statement also has a role to play in personnel development measures and forms the basis for the Company's Executive Code of Conduct. The management system, which is divided into the quality management system, the occupational safety management system and the risk management system, helps to give effect to and continually improve the Mission Statement.

2.5 Incentive Systems

On March 20, 2018, the Supervisory Board of LPKF AG resolved to change the remuneration system for the Management Board members with the aim of further reconciling the interests of the Management Board and the shareholders. To this end, Management Board remuneration will be more closely connected with growth in enterprise value. The new system also focuses strongly on the return on capital, cash flow, and long-term increases in value. It combines the objectives of profitability, liquidity, and sustainable growth, and is geared toward the capital market.

Criteria for the appropriateness of the Management Board remuneration include the tasks of the respective Management Board member, his or her personal performance, the Company's economic situation, performance, future prospects and sustainable development, and the customary level of remuneration, taking account of comparable companies and the remuneration structure in place in the rest of the Company. The ratio of Management Board remuneration to the remuneration of the senior management and the workforce as a whole is taken into account, including its development over time. For the purposes of this comparison, the Supervisory Board determines how the senior management and the workforce are to be differentiated. Management Board remuneration is awarded on the basis of performance and is designed to be appropriate and competitive and thus to act as an incentive for committed and successful work. The new remuneration system was approved

by a majority of 92% at the Annual General Meeting on May 31, 2018, and is being applied for the first time for the Management Board Chairman Dr. Götz M. Bendele and the Management Board member Christian Witt in 2018.

The remuneration structure consists of a fixed basic salary, two short-term and one long-term variable remuneration elements, and additional benefits (non-cash remuneration). As stipulated by the German Stock Corporation Act and the German Corporate Governance Code, a large proportion of the remuneration is attributable to variable remuneration components with predominantly multi-year assessment bases. The variable remuneration elements are the value contribution (long-term) and the ROCE and cash flow (both short-term).

For the Management Board members who left the Company during the year or on December 31, the remuneration system in place since 2014 applies. The overall remuneration comprises a non-performance-based fixed component and variable performance-based components. In addition to purely financial aspects (EBIT, long-term EBIT, EBIT per employee), one variable component covers the long-term incentive (LTI) "Quality." Ensuring the highest level of product quality is one of the strategic activities at LPKF Laser & Electronics AG. This non-financial assessment criterion acts as a long-term sustainability target. The Quality LTI, which will run for three years, is measured on the basis of the achievement of those quality requirements. The aim is not to exceed an error rate of 50 on a continuous basis. Target achievement is calculated using an average figure based on the rate determined at a specific time. Other variable components are tied, inter alia, to the pursuit of the Group's objectives of profitable growth and a long-term increase in the value of the Company.

Other long-term sustainability objectives that go beyond quality and growth objectives are not specified.

The remuneration system for top-level senior executives below the Management Board also contains short-term and long-term variable components. A target agreement for the short-term variable percentage of the remuneration package is concluded; that agreement defines the Company's objectives (for example, ROCE, cash flow, other financial and non-financial objectives) and lays down targets. The long-term variable component particularly recognizes the profitability of LPKF Laser & Electronics AG and the sustainable increase in enterprise value.

The Management Board agrees specific targets with the managers each year, the achievement of which is examined as part of an annual management review.

In addition, there is also a system which regularly assesses the performance of all employees at the German sites. Employee performance appraisals are a key management tool. The performance appraisal and the related one-on-one discussion with the employee are two key responsibilities of the relevant manager. At least two performance appraisals per calendar year form the basis for a performance-related component of remuneration in the form of a one-off payment at the end of the year and a possible annual salary adjustment.

In order to give employees the opportunity to contribute their own ideas within the Company and to benefit from those ideas, an idea management system was launched in 2017. Employees can submit their proposals together with details of the expected improvement. Following the assessment and, where appropriate, implementation of the proposal, the employee receives a bonus.

2.6 Key Performance Indicators for Criterion 2.5

Key Performance Indicator GRI SRS-102-35*

The remuneration of the Supervisory Board, the Company's highest monitoring body, is determined by a resolution of the Annual General Meeting. A report on the remuneration of the Supervisory Board in 2018 is provided in the [2018 Annual Report](#).

The Supervisory Board of LPKF AG fixes and regularly reviews the Management Board remuneration system. A report on the remuneration of the Management Board in 2018 is provided in the [2018 Annual Report](#).

The remuneration system takes account of sustainable corporate management, as described in criterion 2.5.

In addition to a fixed component, the Management Board fixes the variable, performance-related components of the remuneration of senior executives; those components are subject to a target agreement.

At LPKF, the legally stipulated offer with regard to company pensions for employees is regulated for the employees by a corresponding works agreement that also stipulates a contribution by the company. If employees take advantage of the company pension program and save up their own contributions in the context of direct insurance, then LPKF grants a financial subsidy.

*Key Performance Indicator GRI SRS-102-38**

LPKF is an export-oriented company. We therefore have a large number of branches and offices worldwide which have very different, country-specific salary levels. For each of the individual countries with major business locations (not including countries with business locations with less than ten employees), the ratio of the annual remuneration of the highest-paid person in the organization in the individual country to the median total annual remuneration for all salaried employees (except for the highest-paid person) in that country is as follows:

Country	Ratio (peak value as a multiple of the median)
Slovenia	6.74
China	3.65
USA	4.42
Germany	5.61

2.7 Stakeholder Engagement

As a listed company, LPKF maintains a dialog with a number of stakeholders who have different demands of the Company. We firmly believe that regularly exchanging information with different stakeholder groups is vitally important for the internal and public perception of the Company. All the Company's key stakeholders have been analyzed and identified as part of corporate communications activities. There is no identification process that has been set up specifically for deriving stakeholder groups.

Our key stakeholders include:

- Employees and Works Councils
- Customers
- Suppliers
- Analysts
- Shareholders and investors
- Media
- Banks
- Insurance companies

- Local councils
- Neighbors
- Authorities

In the 2018 reporting year, communication with stakeholders occurred through a wide variety of channels, for example via:

- Employee performance appraisals
- Works and employee meetings
- Executive meetings
- Intranet and social media
- Meetings of the Economic Committee
- 2017 Annual Report
- 2018 Quarterly Reports
- Ad-hoc and press releases
- Press interviews
- lpkf.com website
- Annual General Meeting
- Road shows
- Analyst conferences and discussions
- Conference calls for investors
- Trade fairs
- Customer surveys

2.8 Key Performance Indicator for Criterion 2.7

Key Performance Indicator GRI SRS-102-44*

The table below provides a summary of LPKF AG’s key stakeholders, their interests and the actions taken to meet their expectations:

Stakeholder	Interests	Actions
Employees	Secure job, attractive job description, fair pay, opportunities for personal development, appealing working environment	Examples include: staff and executive management development program, establishment of an ideas management scheme, “Big Picture” information event for employees, profit- and performance-based one-off payment at the end of the year, reduction of weekly working hours with full salary payment in 2018
Works Council	Involvement of the Works Council in decisions affecting employees	Open and regular communication with the Works Councils at all German sites and with the Group Works Council

Customers	High-performance, reliable, precise, cost-effective, innovative and sustainable production machinery. Speedy and punctual delivery, reliable servicing, sustainable and cooperative partnerships.	Development of extensive customer solutions by means of complete production processes. Improvement of product quality through systematic feedback on errors. Increased product sustainability through servicing for up to 10 years. Offer of annual warranty extensions so that customers can use products time and time again for new projects. Speedy and punctual delivery, for example through continual improvements in the supply chain. High levels of service through the restructuring of service locations and focus on newly established manufacturing regions. Expansion of the offers in the after-sales sector, for example individually-tailored maintenance and training packages, "Tech Days".
Suppliers	Long-term sales, growth	Process optimization, reliability of supply, market-based pricing
Shareholders, investors and analysts	Sustainable growth, profitability	Driving innovation, increasing revenue, optimizing costs, increasing efficiency, risk management
Media	Provision of regular and accurate company information	Regular media support from a specialist agency, continual and reliable flow of information
Banks	Continued existence of the company as a going concern, liquidity	Risk management monitoring in relation to cash flow, liquidity
Insurance companies	Prevention of loss/damage	Monitoring of occupational safety measures, comprehensive risk management
Local councils, neighbors, politicians	No pollution (emissions, noise) by the Company, jobs at the site	Observance of laws and requirements, increased revenue and profitability
Authorities	Compliance with legislation	Regular audits, external legal advice and external audits, employee training

2.9 Innovation and Product Management

LPKF has been known as a particularly innovative company for decades. Research and development have always been of considerable significance to LPKF as a technology group. Innovations have a decisive influence on future capabilities – and thus on economic success. The primary strategic goal of R&D activities is to attain, secure or develop the Company's role as an innovation leader within the sectors in question. We are also developing products with unique selling points and protecting them using patents. With that in mind, we have introduced an innovation and technology management in order to manage and coordinate the collective use of resources on a systematic basis. In addition to

our own R&D activities, new procedures and products for tomorrow's markets are being developed both in partnerships with universities and institutes as well as in joint projects with industry partners.

The LPKF product portfolio is continually being reworked and overhauled. In this context, we are aligning ourselves with changing customer needs and updating our products and processes to ensure that we are always able to offer customers the best price-performance ratio and long-term solutions. Closely networking the Company's development departments with market research, sales and service, and providing an R&D budget equating to at least 10% of revenue make a significant contribution to achieving that goal.

In addition to customer requests, all applicable legal requirements and standards are also incorporated into our product development specifications. In addition, we have drawn up an inhouse "LPKF Guideline for Machinery Development", which takes due account of sustainability considerations. The development process ensures that all those requirements and standards are known and satisfied. From an ecological perspective, we attach particular importance to our laser-driven technologies replacing chemical processes in many applications, and we make an active contribution to reducing the volume of scrap and waste at our customers.

Our newly developed LIDE (laser-induced deep etching) technology facilitates resource-efficient use of glass in microsystems technology, which allows the frequently used material silicon to be replaced by glass, a lower-cost material, in many cases. LPKF won the Productronica Innovation Award for this technology in 2017.

In addition to cost-efficiency, quality is also a central value of LPKF products and a significant factor in terms of sustainability. In order to be able to offer our customers stable machines suitable for volume production quickly given the often short development cycles, the ability to avoid, detect and rectify errors and to learn from them is being continually honed.

Scrap levels can be reduced for our customers by introducing process monitoring, for example in connection with plastic welding. Regulated processes can, for example, increase the efficiency of solar panels.

Thanks to the reliability of our systems, system availability – and thus the use of resources by our customers – can be improved.

In order to continue providing inspiration for new ideas and technology over the medium and long term, the Group has expanded its activities in this area as part of publicly funded projects. LPKF is currently involved in around ten research projects.

2.10 Key Performance Indicator for Criterion 2.9

*Key Performance Indicator G4-FS11**

This key performance indicator is not covered at our company, as there are no data on it. For this reason, it is not possible to report on this criterion.

3 Environment

3.1 Usage of Natural Resources

We have not as yet developed a specific concept, including a risk analysis, for this sustainability issue because we do not regard the risks in relation to the environment as significant. LPKF strives to use natural resources as sparingly as possible and to minimize the impact of its operations on the environment. Given the overall volume of waste produced, significant levels of hazardous waste are not generated within the Company in the production of our high-tech systems. Our expertise lies in research and development. The system components required are therefore chiefly procured from external suppliers and assembled as part of our manufacturing processes. Water and energy consumption are recorded and compared on a site-by-site basis in Germany. LPKF constantly strives at all stages in the internal value chain to optimize its use of energy and resources. Precise details about the use of resources in the reporting period as part of our business activities are provided in criterion 3.3 (energy consumption, water consumption, waste). Those figures relate both to the usage necessary in order to maintain operations at the sites and the consumption required to manufacture our products.

3.2 Resource Management

Beyond the continual optimization of the use of energy and resources outlined above, LPKF has not set itself any quantitative targets concerning the ecological aspects of its business activities on account of the relatively minimal direct ecological impact of the development and assembly of laser systems. The risks in this area are likewise not regarded as significant. Nevertheless, the consumption of energy and resources is regularly recorded, monitored and, if necessary, measures are introduced to reduce consumption.

We comply with the RoHS and REACH requirements. To ensure that the same applies to our supplier products, we regularly examine our supply chain in this regard.

3.3 Key Performance Indicators for Criteria 3.1 – 3.2

*Key Performance Indicator GRI SRS-301-1**

Quantities of the main materials used are not recorded at present. The burden associated with collecting data about the materials used is currently too high.

*Key Performance Indicator GRI SRS-302-1**

In the reporting period, energy consumption data were recorded centrally for the German sites at Garbsen, Suhl and Fürth only. The breakdown of electricity consumption for the individual sites was as follows:

Garbsen: 1,747,362 kWh (2017: 1,764,563 kWh)

Suhl: 301,822 kWh (2017: 263,391 kWh)

Fürth: 447,764 kWh (2017: 442,779 kWh)

The breakdown of total gas consumption for the individual sites in the reporting period was as follows:

Garbsen: 603,203 kWh (2017: 612,583 kWh)

Suhl: 492,356 kWh (2017: 266,572 kWh)

Fürth: 507,928 kWh (2017: 500,747 kWh)

In Garbsen, electricity and gas consumption were reduced. This was due to a measure to regulate temperatures with the air conditioning systems. The temperature is limited to a maximum of 24°C in the winter and a minimum of 20°C in the summer.

In Suhl, the increased electricity and gas consumption is attributable to an additional hall that was built for production as a result of capacity increases.

Fuel consumption is not systematically evaluated at LPKF.

*Key Performance Indicator GRI SRS-302-4**

The lion's share of energy consumption at LPKF stems from the use of electricity. Energy consumption is regularly reviewed. When making investments in buildings and plants, we consider how energy can be saved. The employee car park at the Garbsen site is clad in thin-film solar modules that provide the local power grid with solar energy. In the course of 2016, the power supply at all German sites was converted to certified green electricity (TÜV Nord certification). The Suhl site uses an environmentally friendly form of pellet heating that consumed 72.86 t in 2018 (2017 consumption: 75.3 t of pellets).

*Key Performance Indicator GRI SRS-303-3**

The breakdown of total water consumption for the individual sites in the reporting period was as follows:

Garbsen: 2,228.00 m³ (2017: 2,577.00 m³)

Suhl: 454.00 m³ (2017: 338.00 m³)

Fürth: 1,048.00 m³ (2017: 1,068.00 m³)

The higher water consumption in Suhl is primarily due to the increase in the workforce.

*Key Performance Indicator GRI SRS-306-2**

The breakdown of the weight of total waste production for the individual sites in the reporting period was as follows:

Garbsen: 48.81 t (2017: 52.05 t)

Suhl: 27.64 t (2017: 36.29 t)

Fürth: 25.53 t (2017: 25.51 t)

Increased reuse of packaging materials is contributing to waste reduction in Garbsen. In Suhl, garbage separation was also increased. There was no reduction in Fürth.

3.4 Climate-Relevant Emissions

Our biggest sources of emissions are electricity and gas.

Since 2018, we have obtained 100% of our electricity at all German sites from renewable energy, as attested by TÜV Nord with certificate number 44 750 117176-035 on September 12, 2018. At the Garbsen site, a percentage of electricity is generated from solar power; at the Suhl location, a pellet-based heating system is in operation. In order to minimize the emissions caused by our activities, we will also always factor in energy efficiency when investing in buildings and facilities. Our aim is to achieve a constant reduction in CO₂ emissions under comparable conditions.

With regard to electricity, we have already achieved this aim by switching to green electricity. Given that we have already reached a very good level, further energy savings are our biggest challenge.

We refer to the figures of the Umweltbundesamt's (Federal Environment Agency) CO₂ calculator when calculating our CO₂ emissions in Germany.

3.5 Key Performance Indicators for Criterion 3.4

*Key Performance Indicator GRI SRS-305-1**

In the reporting period, LPKF AG produced 362.4 tonnes of direct CO₂ emissions at its German sites through its consumption of gas.

*Key Performance Indicator GRI SRS-305-2**

In the reporting period, LPKF AG saved 1,216.7 tonnes of indirect, energy-related CO₂ emissions at its German sites by switching to green power.

*Key Performance Indicator GRI SRS-305-3**

Data relating to other greenhouse gas emissions (Scope 3) are not collected due to the disproportionately high burden associated with recording such data.

*Key Performance Indicator GRI SRS-305-5**

Data relating to the volume by which greenhouse gas emissions have been reduced were not recorded in the reporting period, as no data on other greenhouse gas emissions is collected at LPKF due to the disproportionate efforts required to do so.

4 Society

4.1 Employee Rights

Compliance with employee rights is a matter of course for us and an essential element of achieving our goals. Therefore, compliance with employee rights forms part of the overarching management concept for compliance with legal requirements. We not only follow this principle internally, but also expect our suppliers to do so.

As part of a supplier self-declaration, new suppliers are asked whether they operate in accordance with a social responsibility code, for example the principles of the UN Global Compact initiative. Our conditions of purchase require suppliers to observe all relevant legislation governing employee relations, environmental protection and occupational safety. Furthermore, all active suppliers must comply with the aforementioned principles of the UN Global Compact initiative.

In the reporting period, LPKF has sites in seven countries: Germany, the USA, Slovenia, China, Japan, Korea, and Malaysia. Our goal is to fully comply with employee rights.

Applicable national legislation governing, for example, working hours, vacation entitlements, maternity leave and protection against dismissal is observed at all sites. Representation of the interests and rights of our employees is guaranteed by works councils established at the individual sites and the Group Works Council, which operates across all sites. In addition, contacts for HR compliance issues have been appointed and communicated, a globally available legal counsel has been hired and communicated for reporting and examining possible violations, and special contacts for particular topic areas have been appointed and communicated, e.g. contacts for data protection and for cases of sexual harassment.

In addition to providing a transparent organization, the measures for achieving our goal particularly include offering training courses on specific topics for employees and executives. Examples during the reporting period include training courses on handling personal data, on labor law, and on the Compliance Code.

Beyond the statutory requirements, we set out our responsibility to employees and the responsibility borne by employees for one another in our [LPKF Compliance Code](#). The Code enshrines not only the requirement to act in accordance with law, but also covers responsible, ethical conduct, mutual respect, honesty, and integrity. Occupational health and safety are also considerations which are put into practice beyond compliance with legal requirements.

It is difficult to implement a risk analysis on compliance with employee rights. By conducting audits, continuously reviewing our organization, and training and informing our workforce, we create the conditions for minimizing risk and thus complying with the goal we have set ourselves.

In addition, our employees also have the opportunity to play an active role in helping to shape our corporate policy and our approach to sustainability considerations. The Company's short-term and long-term goals and the measures envisaged to develop the business are therefore brought to the attention of the entire workforce at regular employee meetings. Those meetings provide an opportunity for issues and questions to be raised directly with the Management Board and to influence internal decision-making processes. The same applies with regard to employee surveys, which are conducted every two years (most recently in 2017).

The objective of complying with all legal requirements constitutes a permanent goal without a specific target date. The company management is involved in that the Management Board sets the targets and adjusts the concept. The role of Chief Compliance Officer is currently incorporated in the CFO position. Any necessary measures are monitored in regular management dialog between the Chief Compliance Officer and the responsible organizational units within the Group. As part of this

dialog, the adjustment of the concept is also prepared, discussed, and then resolved by the Management Board. Responsibility for monitoring the agreed measures lies with the Chief Compliance Officer.

4.2 Equal Opportunities

All staffing decisions within the LPKF Group are made regardless of gender, nationality, skin color, religion and sexual orientation. Diversity is a key factor for success, since every employee brings with him or her different qualifications, skills and experiences.

In order to promote equal opportunities for women in executive positions, we have set ourselves percentage targets (see criterion 4.4 for further details).

Guaranteeing the health and safety of employees is one of the primary aims and activities of company social and occupational safety policy. We therefore operate an occupational safety management system which covers the health and safety of employees in the workplace and adheres to ISO 45001, a globally recognized standard. Protecting people, safety in the workplace, and health care are the focal points. We set ourselves annual goals for these topics at both location level and group level and examine the achievement of these goals after the end of the year. The targets partly result from analyses of the annual accident statistics. In the reporting period, 75% of the targets set were achieved. The other targets were only partially achieved due to organizational changes at the Company and are to be implemented in full in 2019. To promote the health of our employees, we implement various measures at the individual locations, such as flu vaccinations. Moreover, employees have the option to take part in medical check-ups conducted by company physicians, whose focus is also the provision of workplace health care to employees.

The issue of fair pay is always shown due respect by our Company. In the reporting year, we introduced a system to calculate starting salaries for various job roles. We allow flexible working hours and flexible working time accounts in order to promote the work/life balance of our employees.

4.3 Qualifications

In a growing and learning organization, demands on employees also change continually. LPKF seeks to meet this challenge with Group-wide staff development programs. Talent is identified and promoted in a lasting way. This includes supporting and promoting international employee exchanges within the Group. Continuing professional development with an increased budget was systematized further in the reporting period with the help of a practice-oriented training catalog. An increased budget for employee training is also planned for the following year. There are also a range of training courses for our executives which are intended to support them in their managerial role. For example, we are involved in the ProDivers project supported by the European Social Fund which focuses on staff and management development from the perspective of diversity. As part of our mentoring program, young executives are able to benefit from the knowledge of more experienced executives by attending regularly organized round-table discussions.

The Company has a balanced age structure. Long-serving employees bring a wealth of experience, which is enhanced by the fresh ideas of our young new recruits. The average age of the workforce is 40.6 years. We are, however, proud to have offered many employees employment for several decades or more. The turnover rate is 13.62%.

Young professionals are a crucial investment for the future, particularly set against the backdrop of demographic change. LPKF therefore trains a constant stream of young people across a range of professions, including mechatronics, industrial management, applied IT systems, product design and technical drawing. The Group employed 34 trainees over the reporting period. As part of the trainee

exchange and familiarization program, traineeship guidelines were drawn up; a summary of those guidelines can be found in LPKF's Mission Statement on Traineeships. We endeavor to offer our trainees a permanent position at the end of their training period. In the past, we have always managed to do so, provided the trainees showed the necessary commitment and achieved the required performance during their training. The goal is to employ well-qualified staff and technicians at the Company for as long as possible.

As part of our efforts to recruit and nurture young talent, we not only take part in the national "Future Day" initiative for pupils, but also continued cooperation agreements with schools in the reporting period. In addition to funding school activities, LPKF will take on pupil interns with a view to possibly offering them a vocational traineeship later on. The award of university scholarships was also continued. We have already been able to offer permanent positions to some of the scholarship recipients who had previously written their bachelor's or master's thesis at LPKF.

Specific, measurable targets have not yet been set, as the focus in the reporting period was on stabilizing the business development. The operating activities, business relationships, and the products and services give rise to risks from the loss of qualified personnel.

4.4 Key Performance Indicators for Criteria 4.1 – 4.3

*Key Performance Indicator GRI SRS-403-9**

A risk assessment covering all job roles is conducted to determine the potential risks to which employees are exposed whilst carrying out their duties. Where necessary, we take steps to avoid or reduce risks in line with the STOP principle (STOP stands for Substitution, Technical measures, Organizational measures and Personal protective equipment).

As part of occupational safety management, we produce statistics about accidents in the workplace and on the commute, regardless of whether it is salaried employees or workers who are involved. In the reporting period there were a total of five reportable accidents. 74 days were lost due to accidents. The accident statistics are assessed at the meetings of the Occupational Safety Committee, any necessary actions are taken, and the implementation of those actions is subsequently monitored.

Key Performance Indicator GRI SRS-403-10

Work-related illnesses among our salaried employees and external staff are not evaluated. In the reporting period, there were no deaths due to work-related illnesses.

Key Performance Indicator GRI SRS-403-4

An Occupational Safety Committee meeting attended by an interdisciplinary team is held at all German LPKF locations four times a year.

All relevant information and issues are communicated across all locations at the expert group meetings for occupational health and safety and for quality. These expert group meetings are held three times a year.

*Key Performance Indicator GRI SRS-404-1**

The need for training and/or continuing professional development is determined by the relevant supervisors and forms part of the annual training plan drawn up as part of the employee performance appraisal. The effectiveness of all training and continuing professional development is

assessed. In the reporting period, the average number of days of training and/or continuing professional development per employee was 1.3 days, equivalent to 10.3 hours. No further classification of personnel development measures by diversity indicators or by employee category was conducted throughout the Group in the reporting period.

An average of 0.8 days per employee, equivalent to 6.3 hours, was spent on training and/or continuing professional development at LPKF AG. Employees without management responsibility spent an average of 0.8 days on training, equivalent to 6.3 hours, while executives spent 0.6 days, equivalent to 4.8 hours. Men spent an average of 0.8 days, equivalent to 6.3 hours, while women spent 0.7 days, equivalent to 5.6 hours.

*Key Performance Indicator GRI SRS-405-1**

The Supervisory Board had set a target of 25% for the percentage of women on the Management Board by June 30, 2022. The percentage of women on the Management Board at the end of 2018 was 0%. As at the end of 2018, 67% of the members of the Management Board were aged between 30 and 50, while 33% were over 50 years old.

The Supervisory Board had adopted a resolution setting a 25% target for the percentage of women on the Supervisory Board by June 30, 2022. The percentage of women on the Supervisory Board at the end of 2018 was 0%, as no new members joined the Supervisory Board during the year. As at the end of 2018, 100% of the members of the Supervisory Board were over 50 years old.

In view of the downsizing of the two committees in 2018, and taking account of the terms of the current mandates, the Supervisory Board reviewed the existing targets and passed resolutions on February 27, 2019, to set new targets and deadlines for their achievement: For the percentage of women on the Supervisory Board, the Supervisory Board has set itself a new target of 1/3 (= 33.33%). For the percentage of women on the Management Board, the Supervisory Board has set a target of 0%. In view of the current composition of the Management Board with only two members, the periods for which the two male Management Board members have currently been appointed, and the fact that there is no intention to expand the Management Board, it would not have been appropriate to set a higher target for the Management Board. The deadline set for achievement of the two new targets is February 26, 2024.

In accordance with the "Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst" (German Act on the Equal Participation of Women and Men in Executive Positions in the Private and the Public Sectors), the Management Board has set targets for the percentage of women in the two management levels below the Management Board. These targets are 17% in the first management level below the Management Board and 23% in the second management level below the Management Board. The deadline set for achievement of these targets is June 30, 2022. At the end of 2018, the percentage of women in the first management level below the Management Board was 10%, while the percentage in the second management level below the Management Board was 24%.

The percentage of female managers was 23.5%, while the percentage of female employees without management responsibility was 42.8%. The under-30s age group accounted for 20.6% of the workforce, while 30- to 50-year-olds accounted for 60.3% and over-50s for 19.1%.

No further classification of employees by diversity indicators was conducted in the reporting period.

*Key Performance Indicator GRI SRS-406-1**

No incidents of discrimination requiring follow-up were reported in the reporting period. No corrective action had to be taken.

4.5 Human Rights

We have not as yet developed a specific concept, including a risk analysis, for the “human rights” sustainability issue. We have, however, set up a compliance organization, which is now established at all sites. This compliance organization provides sufficient coverage of issues of human rights. We do not consider the development of a supplementary written concept, including a risk analysis, to be relevant to our Company in view of the minimal impact of our operating activities on this issue.

Under our [LPKF Compliance Code](#), we require our employees to observe in particular legislation on the protection of human rights. In order to ensure that the suppliers upstream of our value chain also respect fundamental human rights, we have inserted a compliance clause into our conditions of purchase. Our suppliers commit to complying with a social responsibility code, such as the principles of the UN Global Compact initiative. Those principles primarily concern the protection of internationally recognized human rights, the right to collective bargaining, the abolition of forced and child labor, the elimination of discrimination in respect of employment and occupation, environmental responsibility, and measures to combat corruption.

4.6 Key Performance Indicators for Criterion 4.5

*Key Performance Indicator GRI SRS-412-3**

This performance indicator is not relevant to LPKF Laser & Electronics AG because no investment agreements or contracts were concluded in the reporting period in connection with which there may be risks of human rights violations.

*Key Performance Indicator GRI SRS-412-1**

In the reporting period, a total of twelve sites were operated in seven countries around the globe (Germany, the USA, Slovenia, China, Japan, Korea, and Malaysia). National laws are observed at all sites. The managing directors of the sites are required to ensure compliance with laws, thus including fundamental human rights.

*Key Performance Indicator GRI SRS-414-1**

In accordance with our process instructions, new suppliers are asked in a supplier self-declaration whether they operate in accordance with a social responsibility code, for example the principles of the UN Global Compact initiative. If, exceptionally, a supplier has to be set up at short notice, the self-declaration is obtained at a later date. In the supplier evaluation, suppliers are then assessed according to social criteria.

In the reporting period, 266 suppliers were set up, 100% of which were assessed at the Garbsen site.

*Key Performance Indicator GRI SRS-414-2**

During the reporting period, 266 suppliers were reviewed in terms of their social impact.

No negative effects on human rights in the supplier chain of LPKF Laser & Electronics AG were identified in the reporting period.

4.7 Corporate Citizenship

We have not as yet developed a specific concept, including a risk analysis, for the “corporate citizenship” sustainability issue. This issue is, however, also covered by our compliance organization,

which is established at all sites. This compliance organization provides sufficient coverage of issues of corporate citizenship. We do not consider the development of a supplementary written concept, including a risk analysis, to be relevant to our Company in view of the minimal impact of our operating activities on this issue.

LPKF can only succeed in a functioning social environment. We are actively involved at the Company's various locations to the best of our ability. In that regard, most initiatives are planned and implemented by employees in coordination with management at the site. In the Hanover area, LPKF supports the "Tier hilft Mensch" ("Animals Help People") foundation by holding an annual family day at the foundation's premises and by making a donation.

For a technology company like LPKF, it is our duty to promote science and education to young people. For that reason, we take part in the national "Future Day" initiative for pupils and hold information events for pupils on the issue of career guidance. We take on pupil interns and students writing their bachelor's thesis. In addition, up until June 2018 we supported three scholarship students at the Hanover University of Applied Sciences in the areas of mechatronics, electrical engineering, and information technology, and since July 2018 we have supported two scholarship students at the same university on the same courses.

4.8 Key Performance Indicator for Criterion 4.7

Key Performance Indicator GRI SRS-201-1*

An overview of the business indicators for this key performance indicator can be found in the [2018 Annual Report](#) on pages 70-79 (Management Board and Supervisory Board Remuneration), pages 82/83 (Consolidated Statement of Financial Position), page 81 (Consolidated Income Statement, Consolidated Statement of Comprehensive Income), page 84 (Consolidated Statement of Cash Flows) and pages 96-103 (Notes on the Consolidated Income Statement).

4.9 Political Influence

Legislative processes relevant to LPKF relate primarily to general provisions of commercial, civil and capital market law, company and tax legislation, occupational safety, labor and social legislation and product category-specific requirements. LPKF did not make any submissions on legislative processes during the reporting period.

LPKF is not active on a party political basis and does not support any parties. We are involved in expert panels and industry associations.

The Company is a member of the following associations:

- BME - Bundesverband Materialwirtschaft, Einkauf und Logistik e.V. (Federal Association of Materials Management, Purchasing and Logistics)
- DGFP - Deutsche Gesellschaft für Personalführung e.V. (German Association for Human Resources Management)
- DIN – Deutsches Institut für Normung e.V. (German Institute for Standardization)
- Industrie-Club Hannover e.V. (Hanover Industry Club)
- Leibniz Universitätsgesellschaft Hannover e.V. (Leibniz University of Hanover Society)
- Stifterverband für die Deutsche Wissenschaft (German Association for the Promotion of Science)
- VDMA - Verband Deutscher Maschinen- und Anlagenbau e.V. (German Engineering Association)
- DIRK - Deutscher Investor Relations Verband e.V. (German Investor Relations Association)

4.10 Key Performance Indicator for Criterion 4.9

Key Performance Indicator GRI SRS-415-1*

LPKF Laser & Electronics AG does not donate to political parties, politicians or for political purposes. The total value of political donations is therefore € 0.00.

4.11 Conduct that Complies with the Law and Policy

The sustainability issue of compliance (criteria 4.9 to 4.12) forms part of our overarching management concept and is addressed multiple times in the Management Handbook.

As a company with global operations, LPKF has responsibilities to its customers, employees, shareholders and to the general public. Part of being a good corporate citizen means all LPKF employees obeying applicable laws everywhere and at all times, respecting ethical principles and adopting sustainable practices. In the previous year, we had reported that a written concept, including a risk analysis, on the sustainability issue of compliance was to be initiated in the reporting period. However, we have ascertained that our established compliance organization sufficiently handles all compliance-related issues. As part of the internal audit in 2017, the compliance organization was reviewed thoroughly by an external audit firm. We therefore decided not to draw up an additional written concept, including targets and a risk analysis, on the sustainability issue of compliance for as long as the circumstances remain unchanged.

In 2015, LPKF introduced a [Compliance Code](#) as a guidance framework for all employees in the LPKF Group. It identifies possible areas of risk and conflict in relation to corruption, export control/money laundering and data protection, and it lays down best-practice guidelines. Another training session on the Group-wide [Compliance Code](#) was held for new employees at the beginning of 2018. In August 2018, the new trainees in Garbsen were trained on the Compliance Code. The Group plans to introduce an online compliance training course for all of its employees in 2019, which will be repeated every two years. In the future, new employees will be given a copy of the Compliance Code along with their recruitment documents and will complete the online compliance training course shortly after joining the Company. The main features of the [Compliance Management System](#) are published on the Company's homepage.

As part of an annual partial legal area analysis, the Management Board and the Compliance Manager examine which legal areas are relevant to compliance at the Company. Once every two years, a compliance risk analysis is performed with the employees responsible for compliance; this was last done in the reporting period. In this context, export control/air cargo, investor relations, and laser protection were defined as potential risk areas that are particularly relevant to the Company. Appropriate measures have been derived and implemented.

All Group employees in the Procurement and Sales departments regularly undertake an online training course about "Combating Corruption," which refers to the provisions of the United Nations Convention against Corruption.

We also introduced a whistleblowing management system in 2017. Every employee can submit a complaint which points to the breach of a law or the Code of Conduct. The employee can make that complaint to his or her line manager, the relevant managing director, the works council or the Compliance Manager. In addition, an independent lawyer has been appointed as confidential legal counsel to the Company. Employees and external third parties can contact the legal counsel in confidence and anonymously if they have noticed improper business practices in the Company. If requested, the legal counsel also does not disclose the identity of the whistleblower to LPKF. Any information provided is followed up in accordance with the law and internal rules and taking into account the interests of all concerned.

Internal auditing, which is performed by an international audit firm operating 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.

The Chief Financial Officer (CFO) is the member of the Management Board with responsibility for establishing the structural and organizational framework for compliance management. The Compliance Manager is charged with setting up, developing and administering the compliance structure and is also the point of contact for all compliance-related matters. He reports in this capacity directly to the Management Board.

The management is informed by the Compliance Officer when incidents occur and is involved in following up possible incidents and the resulting measures.

4.12 Key Performance Indicators for Criterion 4.11

*Key Performance Indicator GRI SRS-205-1**

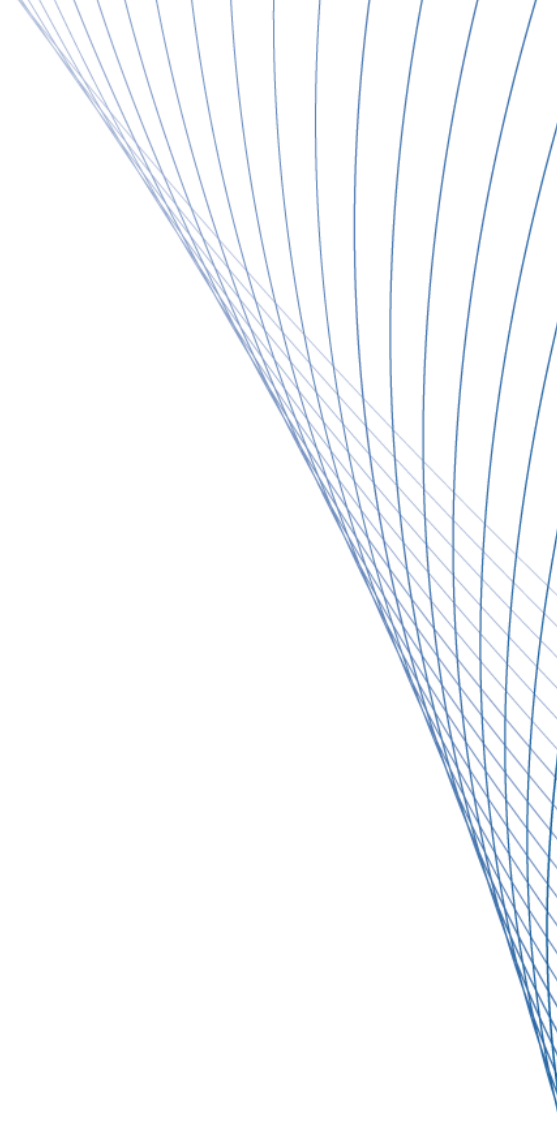
Preventing corruption is particularly relevant given the Company's major international operations. As part of the annual partial legal area analysis for the identification of compliance risks, corruption risks were classified by the Management Board as a priority on a Group-wide basis (with a focus on the Company's sites in Asia). No sites were explicitly examined with regard to corruption risks in the reporting period, as all sales and procurement employees worldwide had already been trained on corruption risks in the previous year.

*Key Performance Indicator GRI SRS-205-3**

There were no incidents of corruption in the reporting period.

*Key Performance Indicator GRI SRS-419-1**

LPKF AG was not subject to any fines or non-monetary sanctions for failing to comply with laws and/or regulations in the reporting period.



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Limited Assurance Report of the Independent Auditor regarding the Separate Non-financial Corporate-Report¹

To the Supervisory Board of LPKF Laser & Electronics AG, Garbsen,

We have performed an independent limited assurance engagement on the separate non-financial corporate-report (further: „Report“) by LPKF Laser & Electronics AG, Garbsen, (further „LPKF“) according to §§ 315b and 315c in conjunction with 289c to 289e German Commercial Code (HGB) for the business year from January 1 to December 31, 2018.

Management’s Responsibility

The legal representatives of LPKF are responsible for the preparation of the Report in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Report in a way that is free of – intended or unintended – material misstatements.

Independence and quality assurance on the part of the auditing firm

We are independent from the entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

¹ Our engagement applied to the German version of the Report 2018. This text is a translation of the Independent Assurance Report issued in the German, whereas the German text is authoritative.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the Report based on our work performed within our limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Report of the entity for the business year January 1 to December 31, 2018 has not been prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB. We do not, however, provide a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Within the scope of our engagement, we performed amongst others the following assurance procedures:

- Inquiries of personnel on corporate level, who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries of LPKF
- A risk analysis, including a media search, to identify relevant information on LPKF sustainability performance in the reporting period
- Evaluation of the design and implementation of the systems and processes for determining, processing and monitoring disclosures relating to environmental, employee and social matters, respect for human rights, and combating corruption and bribery, including the consolidation of the data
- Inquiries of personnel on corporate level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, for conducting internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documentation
- Analytical evaluation of data and trends of quantitative information which are reported by all sites for consolidation on corporate level
- Reviewing the suitability of internally developed Reporting Criteria.
- Assessment of the overall presentation of the disclosures

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Report of for LPKF the business year from January 1

to December 31, 2018 is not prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

Restriction of Use / Clause on General Engagement Terms

This report is issued for purposes of the Supervisory Board of LPKF Laser & Electronics AG, Garbsen, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of LPKF Laser & Electronics AG, Garbsen, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf).

By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us

Hannover, April 26, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Jens Hartke
Solicitor, tax consultant

Christian Hell