LPKF Laser & Electronics

ANNUAL REPORT 2021

We enable Innovation

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COMPANY

Key Group Figures and Profile of the LPKF-Group

GROUP KEY FIGURES

LPKF LASER & ELECTRONICS AG

CONSOLIDATED REVENUE AS OF 31 DECEMBER 2021

in EUR million	2017	2018	2019	2020	**2021**
Revenue	102.1	120.0	140.0	96.2	93.6
Revenue by region					
Germany	10.4	12.8	9.7	8.6	11.2
Rest of Europe	20.5	31.9	29.2	12.2	19.9
North America	23.0	24.7	37.5	19.0	17.0
Asia	45.7	49.1	60.8	55.5	43.5
Other	2.5	1.5	2.8	0.9	2.0
Revenue by segment					
Development	24.4	24.3	24.5	22.5	22.1
Electronics	31.7	34.6	43.7	31.7	32.0
Welding	25.4	22.2	27.7	17.7	27.4
Solar	20.6	38.9	44.1	24.3	12.1

CONSOLIDATED FINANCIAL KEY FIGURES AS OF 31 DECEMBER 2021

in EUR million	2017	2018	2019	2020	**2021**
EBIT	4.0	6.8	19.2	7.5	0.1
EBIT-Margin (in %)	3.9	5.7	13.7	7.8	0.1
Consolidated net profit after non-controlling interest	1.2	8.0	13.1	5.3	-0.1
Diluted EPS (in EUR)	0.05	0.33	0.54	0.22	0.00
Dividend per share* (in EUR)	0.0	0.0	0.10	0.10	0.00
ROCE (in %)	4.1	7.0	25.5	9.0	0.1
Equity ratio (in %)	46.5	60.4	71.0	76.4	69.7
Investment in property, plant and equipment and intangible net assets	6.8	5.7	5.8	10.2	8.6
Free cash flow	3.3	5.8	42.2	-5.5	-0.7
Orders on hand	38.8	58.4	32.3	38.3	62.6
Incoming orders	113.2	139.8	114.0	102.2	117.8
Employees** (Number)	700	655	682	689	746

* 2021: Annual General Meeting recommendation

** not including trainees and marginal employees

PROFILE OF THE LPKF-GROUP

LPKF is a leading supplier of laser-based solutions for the technology industry. Our laser systems are vital in the manufacture of printed circuit boards, microchips, automotive parts, solar panels and many other components. The LPKF Glass Foundry additionally supplies customers from various industries with high-precision glass components.

Our machines allow our customers to manufacture smaller and higher-precision components. At the same time, the functionality of the components can be increased and new design options used. This creates products at the cutting edge of technology, both for the industry and for consumers.

Energy-efficient and intelligent solutions from LPKF make an active contribution to climate and environmental protection. We help our customers become more resource efficient, reduce hazardous materials and waste, and save energy.

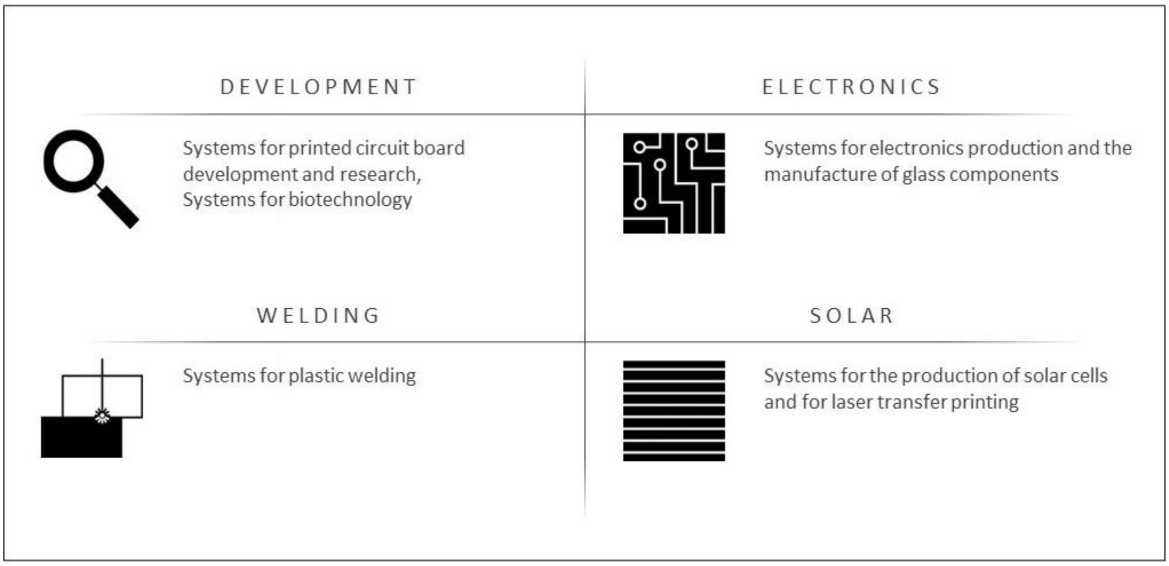
Our employees are laser technology experts and know how to integrate lasers as a tool into powerful machines. This gives us considerable influence over progress in a range of high-tech sectors. The result is more powerful, smaller and more energy-efficient products along with improvements in mobility, connectivity, electricity generation and digital entertainment.

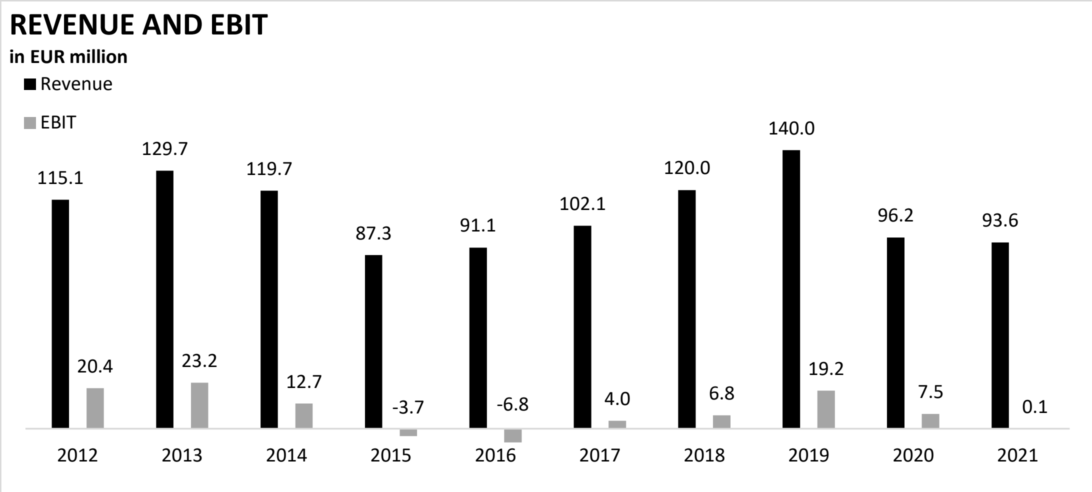
LPKF has 46 years of experience as a technology and innovation leader and will continue to maximize the full potential of laser technology in the digital world.

LPKF Laser & Electronics AG is headquartered in Garbsen near Hanover, Germany. We have a broad presence, with locations in Europe, Asia and North America and a total of 746 employees. Our global service network ensures our machines are ready for our customers around the clock.

The shares of LPKF Laser & Electronics AG are listed in the SDAX of the German Stock Exchange.

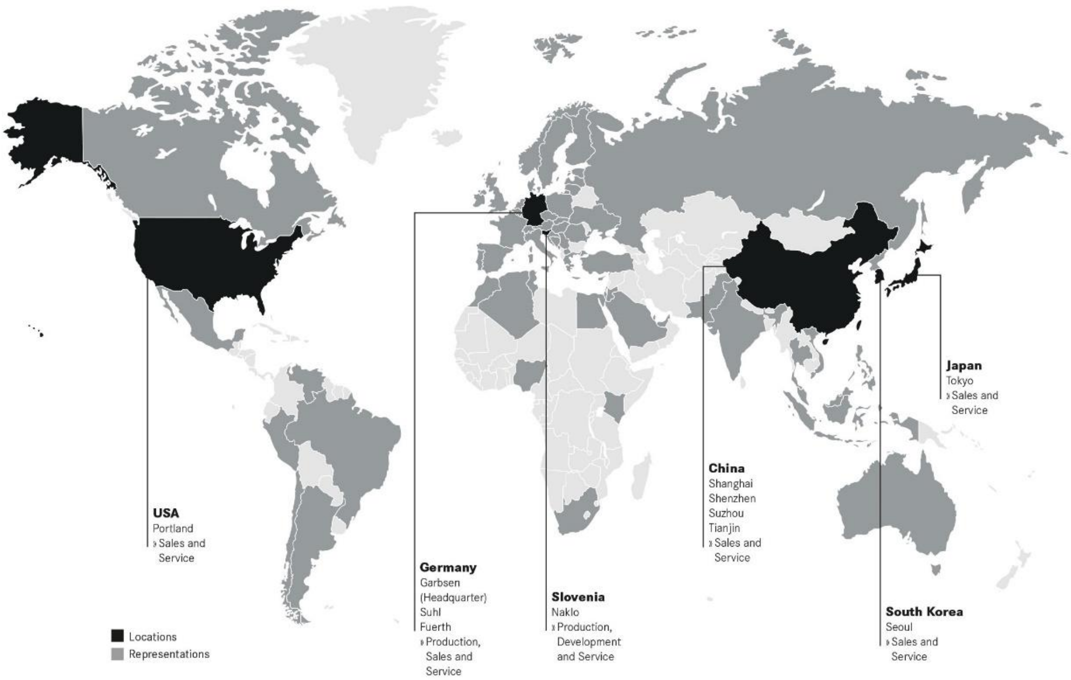
SEGMENTS



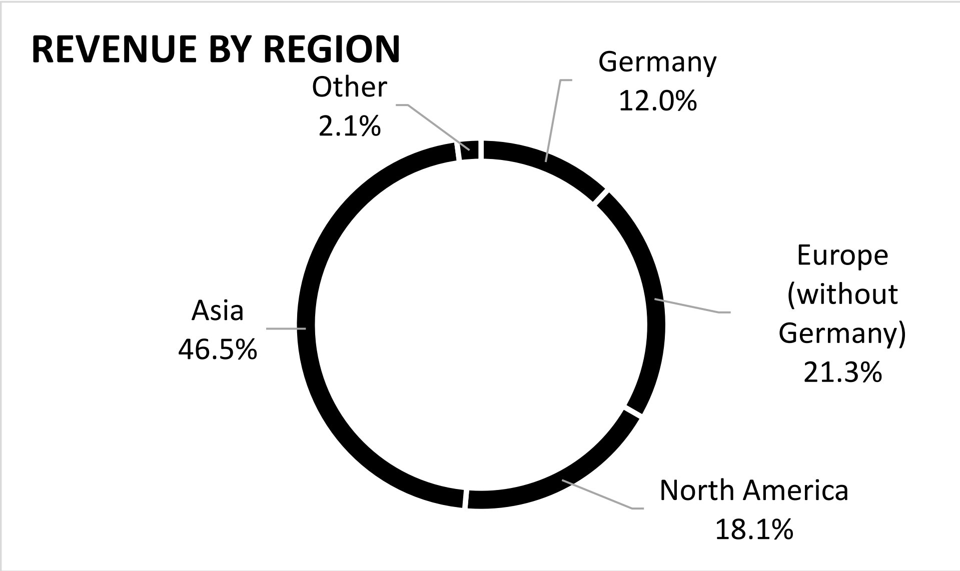


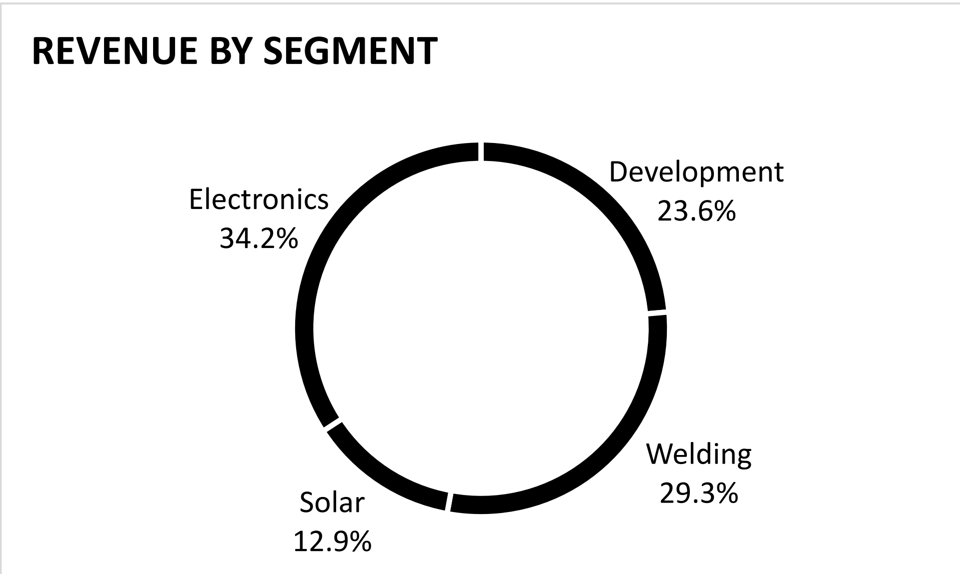
LPKF WORLDWIDE

LOCATIONS & REPRESENTATIONS



LPKF Laser & Electronics AG is headquartered in Garbsen near Hannover, Germany. We are represented in more than 60 countries, have ten branches in Europe, Asia and Nort America and with a total of 746 employees we are broadly positioned worldwide.


REVENUE BY REGION
Other
2.1%
Germany
12.0%
Europe
(without
Germany)
21.3%
Asia
46.5%
North America
18.1%


REVENUE BY SEGMENT
Electronics
34.2%
Development
23.6%
Welding
29.3%
Solar
12.9%

LETTER TO OUR SHAREHOLDERS

Garbsen, 23 March 2022

DEAR SIR OR MADAM,

Today, we report to you on the course and results of LPKF Laser & Electronics AG's 2021 financial year and on our outlook for the coming years. We, that is Klaus Fiedler, CEO since January 1, 2022, and Christian Witt, CFO at LPKF since 2018. In this letter, we would like to combine a review of a difficult financial year with the fresh impression of a new CEO and his initial assessment of our technologies and potential.

REVIEW OF 2021

2021 was a year with many challenges for the LPKF Group, our employees, and ultimately for you, our shareholders. It was already apparent at the beginning of the year that the majority of the expected revenue would not be realized until the second half of the year. In the course of the year, several projects were postponed further into the fourth quarter and finally even beyond into 2022. In our operating business, we felt the indirect consequences of the Corona pandemic much more strongly than we had expected at the beginning of the year. We had set ourselves ambitious financial targets for 2021, which we did not achieve despite all our efforts and precautionary measures. We cannot be satisfied with this. The continuing problems with the shipment of finished goods and the procurement of raw materials and components impacted us last year despite extensive countermeasures. We are working intensively to strengthen and further expand these countermeasures for the current year and beyond.

With consolidated sales of EUR 93.6 million (previous year: EUR 96.2 million) and a balanced result, we reached the lower end of the forecast adjusted in December 2021. Due to delays in customer projects and logistics bottlenecks at the end of the year, sales of around EUR 8 million were carried over to 2022, more than EUR 6 million of which came from the solar segment. Accordingly, earnings before interest and taxes (EBIT) of EUR 0.1 million were significantly below the previous year's figure of EUR 7.5 million.

Despite the challenges described above, we achieved significant progress in important areas in the past year: In the Welding segment we achieved outstanding sales growth and earnings. We also made great progress in the development and marketing of our LIDE technology, the digital transformation of business processes to improve scalability of our operations, and the introduction of ESG standards.

The increased order intake clearly shows that our technologies and products are attractive to our customers. At EUR 117.9 million, they were 15% above the previous year's level. The book-to-bill ratio for 2021 has reached 1.2. At EUR 62.6 million, the order backlog at the end of the year was 64% higher than the previous year's figure.

OUTLOOK

The great interest shown by customers in our solutions and the good order situation give us confidence for the current year. At the same time, given the current economic and political situation, we must assume that disruptions in global supply chains and the impact of the war in Ukraine on some of our target markets will continue to require our full attention in 2022.

Thanks to the targeted development of our product portfolio and our focus on growth markets, LPKF is well positioned to participate in the megatrends of miniaturization, digitalization, and clean production in our core business. With LIDE and ARRALYZE, we also have innovations with high market potential for which tangible milestones in customer acquisition have already been achieved.

We now need to exploit the opportunities offered by these technologies through a clearly planned and consistently implemented strategy for further market development. In the next few weeks, we as the new Management Board team will carefully analyze and evaluate this potential together with the business unit leaders and derive strategic measures. This will give us a new, clear view of potential business development in the coming years.

We are firmly convinced that investments in our innovative technologies are essential, particularly in the current situation, to enable sustainable and profitable growth in the coming years. For this reason, with the support of the Supervisory Board, we will propose to the Annual General Meeting on May 19, 2022, that no dividend be paid for 2021. We intend to use the financial resources specifically to accelerate the development and commercialization of future technologies and are confident that we are also acting in the interests of our shareholders.

Against the backdrop of the current political and economic environment, the ability to plan and predict the development of LPKF's business is significantly limited in most of its divisions. In the current uncertain environment, we expect consolidated revenue of EUR 110 - 130 million and an EBIT margin of between 2 - 7 % for the 2022 financial year.

For the first quarter of 2022, we expect sales between EUR 22 - 26 million and EBIT in the range of EUR -2 to 1 million.

The Management Board and the Supervisory Board have decided to convert LPKF Laser & Electronics AG from a stock corporation under German law into a European stock corporation (Societas Europaea - SE). The conversion plan and further information will be published with the invitation to the Annual General Meeting. The SE stands for a modern and internationally oriented company. The conversion will have no impact on our internal organization and locations. The existing shares, stock exchange listing and shareholder rights will also remain unchanged.

INNOVATIONS AND NEW PRODUCTS IN THE CORE BUSINESS

In 2021 we made targeted investments in the development and commercialization of key technologies. In the Electronics and Solar segments, for example, new technologies have enabled us to significantly increase our customers' production throughput and thus their competitiveness. In the Development segment, we developed the ProtoLaser H4, a fully integrated desktop solution for Rapid Prototyping. The Welding segment successfully expanded its business in the field of medical technology through process innovations.

Furthermore, we successfully continued the targeted build-up of capacities for the marketing of LIDE technology (Laser Induced Deep Etching). Based on the order received in June from a customer in the semiconductor industry, high volume manufacturing of semiconductor components will begin in the current year. A development agreement for glass processing with one of the world's largest display companies was signed in December 2021 and was another important milestone for our planned growth in this area. A few weeks ago, we also concluded a framework agreement with another leading customer from the semiconductor industry.

Promising new developments also include the ARRALYZE technology, which addresses the fast-growing life science market. In 2021, we have developed the CellShepherd. This complete solution enables us to address for the first time the high demand for scalable single-cell screening for high-growth applications such as cancer therapies and personalized medicine. In February 2022, our ARRALYZE team presented the CellShepherd in Boston at a leading laboratory automation trade show, where it was met with great interest. In the second half of 2022, the first systems will be available for selected customers and partners. We expect relevant sales from this area from 2023 on.

BUSINESS DEVELOPMENT IN THE SEGMENTS

In the Welding segment, as mentioned above, we achieved an increase in sales of 55% to EUR 27.4 million. New customers also ensured the use of the systems for plastic welding in promising application areas such as battery and medical technology. EBIT reached EUR 3.0 million, following a loss of EUR 2.8 million in the previous year.

At EUR 32.0 million, the Electronics segment achieved sales at the level of the previous year. Due to the high investments in the expansion of the LIDE technology, the segment closed 2021 with a negative EBIT of EUR 0.8 million.

In the Development segment, we achieved sales of EUR 22.1 million, on a par with the previous year (EUR 22.5 million), but operating profit fell from EUR 2.9 million to EUR 1.2 million. Here, too, investments, especially in ARRALYZE, were responsible for the decline in earnings.

The Solar segment was particularly affected by project delays and delivery bottlenecks. Here, sales of laser systems for structuring solar modules fell by 50.2% to EUR 12.1 million due to project delays at customers and logistics bottlenecks. EBIT was thus EUR -3.3 million. The postponed projects were for the most part already delivered in January.

ESG AT LPKF

We see great opportunities for LPKF in the growing importance of sustainability. ESG is an integral part of our strategy. Our products help our customers save energy and raw materials through modern, more precise production processes. In the solar segment, we enable our customers to produce thin-film solar modules with higher efficiency. In the manufacture of our products, we have a low CO2 footprint. We deal with employees, suppliers, customers and other stakeholders in a spirit of partnership.

2021, we worked out the ESG topics that are of particular importance to us in a cross-site project and set ourselves goals for the next few years. Working together with our colleagues, we have experienced the energy and passion with which employees in all areas support these efforts and actively drive them forward with their own ideas. We will continue to do so in the future.

We have been an official member of the UN Global Compact since November 2021. We support the principles of the UNGC in the areas of human and labor rights, environmental aspects, and anti-corruption.

At this point in time - the fourth week of March 2022 - it is not yet possible to predict what the global impact of the war in Ukraine will be. As an internationally operating company, we are following the events with great concern. We have suspended business relations with Russian companies until further notice. LPKF employees have collected donations for people in Ukraine as part of a relief campaign. We hope that this war will end as soon as possible and that the people in Ukraine can live in peace.

Our sincere thanks go to our employees for their dedicated work in an exceptionally challenging period. The persistently uncertain environment requires a willingness, particularly in the operating business, to look flexibly and pragmatically for new ways forward and to take on additional tasks. We are proud of the great collaborative spirit of our employees.

A special thanks go to Britta Schulz, who took on the role of interim Management Board member in 2021 in addition to her role as head of the business unit.

Our thanks also go to the Works Councils for their good cooperation, which was also of great importance in this difficult year. We would also like to thank our Supervisory Board for its constructive support and the trust it has placed in us.

Our special thanks go to you, our shareholders. We hope that you will continue to be a part LPKF in the future.

We are both convinced that LPKF is well positioned for sustainable growth. The company is financially stable and has a broad, growing portfolio of innovative technologies.

With kind regards

Dr. Klaus Fiedler

Chier Executive Officer

Christian Witt

Chief Financial Officer

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

2021 has been a challenging year for LPKF and the second year affected by the far-reaching effects of the COVID-19 pandemic. In the face of lockdown restrictions and major logistic and supply chain disruptions, LPKF´s worldwide employees and their families have demonstrated high levels of resilience, tenacity and agility. LPKF kept its manufacturing and supply chain operational and safe throughout the year. From the outset of the pandemic our priority has been to look after our people and the Supervisory Board would like to praise everyone for their dedication and commitment.

The company’s focus remains to deliver on its growth strategy, to transfer the developed cutting-edge technologies into volume production and to accelerate customer diversification.

The Supervisory Board is extremely pleased with the appointment of Dr Klaus Fiedler as LPKF´s new CEO effective 3 January 2022 following the departure of Dr Goetz Bendele on 30 April 2021. With the arrival of Klaus Fiedler, LPKF has gained a high-profile top manager in the electronics industry with broad experience in technology and innovation. With his expertise of the tech space, strong customer focus and deep understanding of the relevant markets in Asia-Pacific, North America and Europe, Klaus Fiedler brings all the required expertise to spearhead LPKF Group's strategy for long term profitable and sustainable growth, continued internationalisation and acceleration of new business initiatives. The Supervisory Board is confident that the Company will greatly benefit from his entrepreneurial spirit and ability to engage with global Tier-1 customers.

To further develop the competencies of the Supervisory Board, Julia Kranenberg joined the Supervisory Board following shareholders approval of the 2021 Annual General Meeting which then became effective upon its entry in the commercial register on 14 June 2021. Julia Kranenberg now chairs the newly created Remuneration and ESG Committee capitalizing on her deep HR expertise and passion for ESG matters.

LPKF is well positioned to capitalize on the megatrends Digitization & Connectivity, Industry 4.0, Green Energies, Modern Mobility and Digital Health. The continuous development of leading technology such as LIDE enables LPKF to serve several key growth opportunities in Mobile Communication, Display, Semiconductors, MEMS, Electronics, Sensors & Actuators, Microfluids, and Life Science. Despite the economic uncertainty brought by the COVID-19 pandemic and more recently by the war in Ukraine, the Supervisory Board remains very confident about LPKF´s future growth prospects and in the ability of its Management Board to deliver long term, sustainable and profitable growth. However, we all acknowledge that against the backdrop of the current political and economical environment which will further exacerbate the already tight supply chain and worldwide logistic, LPKF´s ability to predict short term demand continues to be challenging.

MONITORING AND COUNSELING

The Supervisory Board scrupulously monitored the company's business development during the reporting period and performed the duties incumbent upon it according to the law and the Articles of Association. The Supervisory Board held 8 ordinary meetings during the year. During these meetings, as a standing practice, the Supervisory Board consistently dedicated an appropriate amount of time to discuss relevant matters in a Supervisory Board only format. Due to the protective measures against COVID-19, all but one meeting were held via video conferences. These meetings were attended by all acting members of the Supervisory Board. In addition to these scheduled Supervisory Board meetings held with the Management Board the Supervisory Board met separately in close sessions 12 times during the year. These additional extraordinary meetings were required to adequately deal with the departure of the previous CEO, Goetz Bendele, the hiring of his replacement, the elaboration of a revised Management Board Remuneration System, the recruitment of a fourth member of the Supervisory Board, and the implementation of Committees.

In October 2021 the Supervisory Board formed three committees: an Audit & Risk Committee, chaired by Jean-Michel Richard, a Remuneration & ESG Committee, chaired by Julia Kranenberg, and a Nomination Committee, chaired by Dr Dirk Rothweiler. All three committees met for the first time on 16 December 2021.

In detail, the members of the Supervisory Board attended the meetings of the Supervisory Board and its committees as follows:

ATTENDANCE OF THE SUPERVISORY BOARD MEMBERS AT THE MEETINGS IN 2021

Name	Sessions	Meeting attendance	in %
		PLENUM	
Jean-Michel Richard (Chair)	12	12	100
Dr. Dirk Michael Rothweiler (Deputy Chairman)	12	12	100
Prof. Dr.-Ing. Ludger Overmeyer	12	12	100
Julia Kranenberg (from 14 June 2021)	6	6	100
Average participation rate			**100**
		AUDIT & RISK COMMITTEE (from October 2021)	
Jean-Michel Richard (Chair)	1	1	100
Dr. Dirk Michael Rothweiler	1	1	100
Prof. Dr.-Ing. Ludger Overmeyer	1	1	100

		ESG & REMUNERATION COMMITTEE (from October 2021)	
Jean-Michel Richard	1	1	100
Dr. Dirk Michael Rothweiler	1	1	100
Julia Kranenberg (Chair)	1	1	100

		NOMINATION COMMITTEE (from October 2021)	
Jean-Michel Richard	1	1	100
Dr. Dirk Michael Rothweiler (Chair)	1	1	100
Julia Kranenberg	1	1	100

The Supervisory Board regularly monitored the management of the Management Board during the financial year and advised it in various areas of corporate management. The Management Board informed the Supervisory Board in a timely manner about issues of strategy, planning, business development, the risk situation, risk management and compliance. The Supervisory Board was involved at an early stage in significant decisions for the Group, closely monitoring the performance of the company through regular business updates and discussions with the Management Board. The Management Board reports to the Supervisory Board in writing on a monthly basis about the earnings and liquidity situation, together with an overview of the business and risk situation.

The members of the Supervisory Board were able to critically examine the submitted documents and draft resolutions and make their own suggestions. For this purpose, the Supervisory Board had numerous discussions with the Management Board in addition to the official Supervisory Board meetings. In addition, the Supervisory Board regularly exchanged information with the Management Board. Measures requiring approval were submitted to the members of the Supervisory Board for approval in accordance with the Articles of Association and the Rules of Procedure. Furthermore, the Supervisory Board regularly monitors and checks the legality, regularity and expediency of the Management Board's actions. Where necessary, the Supervisory Board was given access to the relevant information and business records.

TOPICS ADDRESSED BY THE SUPERVISORY BOARD/ CONSULTATIONS

The focal points of the consultations in the past financial year were the current business development, the ongoing challenges posed by the COVID-19 pandemic, especially with regard to bottlenecks in the supply chain and logistics. The Supervisory Board also dealt with the hiring of a new CEO and an additional Supervisory Board member to focus on Remuneration and ESG. Furthermore, the Supervisory Board intensively consulted with the Management Board to further invest in the development of innovative technologies and solutions.

The Management Board kept the Supervisory Board well-informed about the business development and the monitoring of agreed key performance metrics, in particular order backlog, incoming orders, working capital, liquidity as well as profitability through tight cost control. When appropriate, the Supervisory Board recommended improvements or further measures within the scope of its mandate.

Furthermore, the Supervisory Board discussed in detail growth options as well as the market launch of the developed technologies and progress on customer diversification. During this reporting period, a strategy meeting was again held with the Management Board and the division heads. The Supervisory Board was able to review and discuss the corporate strategy in detail. The strategy meeting serves as a basis for corporate planning.

Internal audit measures are an integral part of the corresponding Supervisory Board meetings. Internal auditing at LPKF Laser & Electronics AG is outsourced to BDO. The external auditor examines selected areas of the company based on a fixed schedule and predetermined audit plan. The scope of work includes walkthroughs to test the efficiency of controls but also training and development for continuous improvements. BDO prepares a report which is presented to the Supervisory Board. Recommendations were discussed in detail, reviewed with the Management Board and subsequently approved.

REMUNERATION SYSTEM

The implementation of a remuneration system for the Management Board in accordance with the requirements of the new German Corporate Governance Code and the German Act on the Transposition of the Second Shareholder Rights Directive was an important topic for the Supervisory Board in the 2021 financial year. Supported by an independent compensation expert, the Supervisory Board resolved on a remuneration system for the Management Board, which was approved by the shareholders at the 2021 Annual General Meeting.

PERSONNEL MATTERS

A further focus of activities of the Supervisory Board were personnel matters both in the Management and the Supervisory Board.

After having reviewed the skills and expertise of the members of the Supervisory Board, the Supervisory Board decided that it was a priority to close the gaps on people and ESG matters. As a result, the Supervisory Board, proposed to add a fourth member to the Supervisory Board. An international search firm was appointed which led to the nomination of Julia Kranenberg subject to shareholders approval. The subsequent resolution of the 2021 Annual General Meeting became effective upon its entry in the commercial register on 14 June 2021.

On 10 March 2021, CEO Goetz M. Bendele announced that he would not extend his contract and leave the company on 30 April 2021. This prompted the Supervisory Board to immediately appoint CFO Christian Witt as interim CEO and Britta Schulz as interim member of the Management Board and mandate an international executive search firm to find a qualified successor. In parallel, the Supervisory Board extended the appointment and service contract of Christian Witt by four years until 30 April 2025. After an extensive and thorough search, on 29 September 2021 the Supervisory Board announced the appointment of Klaus

Fiedler as new Chief Executive Officer effective 1 April 2022 at the latest and with a three year contract term.

Klaus Fiedler was able to join LPKF as its new Chief Executive Officer effective 1 January 2022.

WORK IN THE SUPERVISORY BOARD COMMITTEES

The newly formed Supervisory Board Committees are structured as follows:

	Audit & Risk Committee	Nomination Committee	Remuneration & ESG Committee
Chair	Jean-Michel Richard	Dr. Dirk Rothweiler	Julia Kranenberg
Member	Dr. Dirk Rothweiler	Julia Kranenberg	Dr. Dirk Rothweiler
Member	Prof. Dr.-Ing. Ludger Overmeyer	Jean-Michel Richard	Jean-Michel Richard

Terms of Reference are clearly defined for each committee. The role of each committee is generally to review, debate and make recommendations to the Supervisory Board which then passes resolutions if and when needed. The committees support the Supervisory Board in its efficient performance of duties. The tasks of the committees are described in detail in the Declaration on Corporate Management.

At their initial meetings on 16 December 2021, the committees dealt with the focus topics for the upcoming year for each committee and the meeting schedule for the year 2022.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

The Supervisory Board continued to focus intensively on the implementation of Corporate Governance standards in 2021. LPKF Laser & Electronics AG's Corporate Governance is presented in detail in the declaration on Corporate Management. On 23 February 2022, the Management Board and the Supervisory Board issued the current annual declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG). The previous declaration as of 9 February 2021 was subsequently updated on 10 May 2021 and 29 November 2021. The current declaration of compliance as well as previous declarations are publicly available on the internet at https://www.lpkf.com/en/investor-relations/corporate-governance.

No conflicts of interest arose in the year under review.

The members of the Supervisory Board are responsible for completing the training and educational measures necessary for performing their roles independently. That would include matters such as changes in the legal framework or accounting rules, emerging tools and technologies, supported by the Management Board when appropriate. If necessary, internal information events are also offered to provide targeted further training. New members of the Supervisory Board are encouraged to meet the members of the Management Board or the other members of the Supervisory Board outside of formal meetings to gain further insights into the company's strategy and business conditions and share views.

SUSTAINABILITY

The issue of sustainability is an important part of the Group's strategy. In 2021, LPKF has launched a large-scale project called "Beaming Sustainability" to systematically record and improve numerous ESG targets. The newly founded Remuneration & ESG Committee and the Supervisory Board are constructively supporting these activities and are pleased to see progress in various areas presented in the sustainability report. The addition of a dedicated Supervisory Board Remuneration & ESG Committee further reinforces the importance the Company and its Supervisory Board is giving to ESG. The LPKF Laser & Electronics AG sustainability report will be available at https://www.lpkf.com/en/company/lpkf-group/sustainability by the end of April 2022 at the latest.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The Management Board prepared the annual financial statements for the 2021 financial year in accordance with the provisions of the German Commercial Code (HGB) and the consolidated financial statements in accordance with the provisions of IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e HGB, as well as the combined management and group management report.

In accordance with the resolution of the Annual General Meeting, the Supervisory Board commissioned KPMG AG Wirtschaftsprüfungsgesellschaft, Hannover, (KPMG) with the audit of the annual and consolidated financial statements for 2021 and, in doing so, determined the key audit matters in its meeting on 16 December 2021. Following the audit of the annual financial statements and the consolidated financial statements, the auditor issued an unqualified audit opinion on the financial statements, including the combined management report and group management report.

The group auditors attended the Audit & Risk Committee's meetings on 9 February 2022, 3 March 2022 and 15 March 2022 and the Supervisory Board meeting on 16 March 2022, where they reported on the audit of the 2021 annual and consolidated financial statements and focused in particular on key audit matters. At these meetings, they explained the net assets, financial position, results of operations of the company and the Group and the internal control framework. They were available to answer questions from the members of the Audit and Risk Committee and the Supervisory Board. In addition, after examining the early risk detection system, KPMG confirmed that the Management Board had taken the measures required of it under the German Stock Corporation Act (AktG) to identify any risks that might jeopardize the company's existence.

The Audit and Risk Committee reported to the Supervisory Board on the essential content and findings of its preliminary audit, and issued recommendations for the Supervisory Board's resolutions.

The documents relating to the annual financial statements of the AG and the consolidated financial statements as well as the reports by KPMG and the Management Board's proposal for the appropriation of profits were made available to the members of the Audit & Risk

Committee and the Supervisory Board in good time for inspection and examination. There were no circumstances that gave rise to concerns of bias on the part of the auditor. The auditor reported to the Audit & Risk Committee and the Supervisory Board on the other engagement in addition to the audit services as agreed. The Supervisory Board discussed in detail the financial statements including the combined management and group management report and the reports of KPMG with the auditor and examined the Management Board’s submissions taking into account the audit reports.

Following the findings of the Audit & Risk Committee’s examination on 15 March 2022 and based on its own examination, the Supervisory Board came to the conclusion that the reports in particular met the legal requirements of §§ 317, 323 HGB. During the meeting that took place on 16 March 2022, the Supervisory Board - taking into account the Audit & Risk Committee‘s report - concurred with the results of the audit by the auditor and approved the annual financial statements of the AG and the consolidated financial statements for the 2021 financial year prepared by the Management Board. The annual financial statements of LPKF Laser & Electronics AG have thus been adopted.

In the same meeting, the Supervisory Board also resolved on the remuneration report for the 2021 financial year, which was prepared for the first time in accordance with Section 162 of the German Stock Corporation Act (AktG), pre-reviewed at the Remuneration Committee meeting held on 16 March 2022 and audited by the auditor.

The Audit & Risk committee and the Supervisory Board also examined and discussed the Management Board’s proposal for the appropriation of the balance sheet profit. On the basis of its own review the Supervisory Board concurred with the Management Board’s proposal for the appropriation of the balance sheet profit. From the perspective of the Management Board and the Supervisory Board, investments in LPKF's innovative technologies are essential in the current situation to enable sustainable and profitable growth in the coming years. For this reason, the Management Board and the Supervisory Board will propose to the Annual General Meeting on May 19, 2022 that no dividend be paid for the 2021 financial year. The financial resources from the unappropriated profit are to be used specifically for the development and commercialization of future technologies.

PERSONNEL

The former CEO Goetz M. Bendele left the company at the end of April 2021. Britta Schulz was appointed as interim member and Christian Witt as interim CEO from 1 May 2021 until Klaus Fiedler took up the position as Chief Executive Officer on 1 January 2022.

On 20 May 2021 the Annual General Meeting elected Jean-Michel Richard, who had been appointed by the Hanover Local Court as member of the Supervisory Board in November 2020, and Julia Kranenberg as additional fourth member of the Supervisory Board as of 14 June 2021.

THANKS

The Supervisory Board and I wish to pay tribute to all of LPKF’s employees and management in overcoming what proved to be an extremely challenging year while preparing the company to achieve its long-term, sustainable and profitable growth objectives, and express our sincere thanks for their continued commitment to the business.

Our special thanks go to Britta Schulz and Christian Witt. Britta Schulz took over the role of interim Board member on top of her function as head of the Development business unit. Christian Witt took over the interim CEO-function on top of his role as CFO of the company.

Furthermore, we would like to thank our customers who continued to demand our products and solutions even in this difficult period. Our thanks extend to the entire supply chain.

The interests of the employees were constructively represented by the works council, which always paid due attention to the overall situation of the company. For this, we would like to express our special thanks to the members of the works council.

And finally, we thank you, our shareholders, for your continued support and the trust you have placed in us.

Garbsen, March 2022

On behalf of the Supervisory Board

Jean-Michel Richard

Chairman

CORPORATE GOVERNANCE

LONG-TERM VALUE CREATION AND EFFICIENT COOPERATION

The principles of responsible and good corporate governance guide the actions of the LPKF Group's management and supervisory bodies. The following statements apply to LPKF AG and its Group companies unless otherwise stated below. This chapter contains the declaration on corporate management pursuant to Sections §§289f, 315d HGB. The declaration on corporate management for the company and the Group is part of the combined management and Group management report. The Management Board and the Supervisory Board also report on corporate governance at LPKF in this chapter.

DECLARATION ON CORPORATE MANAGEMENT

DECLARATION OF CONFORMITY OF LPKF LASER & ELECTRONICS AG IN THE 2021 FINANCIAL YEAR WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Management Board and the Supervisory Board declare that since the last regular declaration of compliance dated 9 February 2021, LPKF Laser & Electronics AG (hereinafter referred to as "LPKF") complies and will continue to comply in the future with the recommendations of the German Corporate Governance Code, the version dated 16 December 2019 (hereinafter referred to as "Code") with the following exceptions:

RECOMMENDATION ON THE CHAIRMANSHIP OF THE AUDIT COMMITTEE (CODE SECTION D.4, SENTENCE 2)

Since 27 October 2021, the Supervisory Board has established an Audit and Risk Committee, which complies with all but one of the Code's recommendations on the Audit Committee. The only deviation is from the recommendation in Section D.4, sentence 2 of the Code, according to which the chair of the Supervisory Board should not chair the Audit Committee.

In the opinion of the Supervisory Board, the current chair of the Supervisory Board, Mr. Jean-Michel Richard, fully meets the requirements with regard to the specific professional expertise necessary for the role of Audit Committee Chairman due to his professional background and practical experience and does so the most effectively of the current acting Supervisory Board members. The Supervisory Board is convinced that the chair of the Supervisory Board is capable of handling the workload associated with the chairmanship of the Audit and Risk Committee. This deviation from Section D.4, sentence 2 of the Code is therefore in the best interests of the company.

RECOMMENDATIONS ON THE REMUNERATION OF THE MANAGEMENT BOARD (CODE SECTIONS G.1 TO G.16)

The remuneration system for the Management Board approved by the Annual General Meeting on 20 May 2021 and the Management Board contracts concluded after the Code came into effect comply with the recommendations of the Code contained in Sections G.1 to G.16 with the following exceptions:

- Contrary to Section G.1, the remuneration system does not specify the relative proportions of fixed remuneration or short-term variable and long-term variable remuneration components in the target total remuneration. For long-term variable remuneration, only a basic amount of 50% of the fixed annual salary (excluding incidental benefits) has been defined in the remuneration system. A relative proportion for short-term variable remuneration was not specified in the remuneration system, but was specified in the employment contracts of the current Management Board members. Accordingly, the target amount for short-term variable remuneration is also 50% of the fixed annual salary (excluding incidental benefits). According to the employment contracts, short-term variable remuneration and long-term variable remuneration – measured against the target direct remuneration – are thus equally weighted.
- Section G.4 recommends that, in order to assess the customary level of the total remuneration of the Management Board members within the company, the relationship between the remuneration of the Management Board and that of senior management and the workforce as a whole should be taken into account, including in terms of its development over time. When concluding Management Board employment contracts, the Supervisory Board also takes into account the wage and salary structure within the LPKF Group. Data on the remuneration of the first management level below the Management Board was most recently obtained in April 2021. However, in partial deviation from Section G.4, the Supervisory Board did not differentiate between the comparison groups of the Code recommendation when reviewing vertical appropriateness and did not conduct any inquiries regarding the development of the wage and salary structure over time in 2021 because the focus was on filling the vacant position of chair of the Management Board. However, the Supervisory Board intends to comply with the recommendation in Section G.4 of the Code in the future.
- Contrary to Section G.6, the variable remuneration resulting from the achievement of long-term targets does not exceed the proportion resulting from short-term targets, and contrary to Section G.10, sentence 1, the variable remuneration amounts are not primarily invested in shares or granted on a correspondingly share-based basis. Under the terms of the Management Board employment contracts, the short-term variable remuneration and the share-based long-term variable remuneration to be invested in shares are each equally weighted at 50% – measured against the target direct remuneration. For reasons of incentive, the Supervisory Board considers equal weighting of the short-term and long-term variable remuneration components to be appropriate at the present time.
- The recommendation contained in Section G.11 to take appropriate account of extraordinary developments and, in justified cases, to be able to withhold or reclaim variable remuneration, is taken into account by the possibility of reduction in accordance with Section 87 (2) of the German Stock Corporation Act (AktG) and, in financial terms, in the case of long-term remuneration, by the obligation to invest tranches of the long-term bonus received in full in company shares after deduction of tax and to hold them for at least three years. The remuneration system thus achieves a stronger link between variable long-term remuneration and the performance of the company. The financial value of the variable long-term remuneration for the

Management Board is directly linked to the value of the company represented by the share price. Any further possibility of reclaiming the remuneration granted in this way is not feasible, as the Management Board would have to sell the acquired shares again to be able to fulfill a corresponding claim for repayment. Because of this special characteristic of the long-term bonus program, the Supervisory Board has decided not to include an additional claw-back option in the narrower sense in order to avoid a double disadvantage.

- For the member of the Management Board appointed on an interim basis in the period from 1 May 2021 to 31 December 2021, the Supervisory Board has agreed principles for remuneration that deviate from the remuneration system and other recommendations in Sections G.1 to G.16 of the Code due to the short appointment period until a new CEO is selected, in order to take account of the interim nature of the appointment, which did not require long-term remuneration.

RECOMMENDATION ON SEPARATE REMUNERATION FOR MEMBERS OF SUPERVISORY BOARD COMMITTEES (CODE SECTION G.17)

The current provision of the Articles of Association on the remuneration of Supervisory Board members does take into account the greater time commitment of the chair and vice-chair of the Supervisory Board and the chairs of the committees formed since 27 October 2021. However, contrary to Section G.17 of the Code, simply being a member of the committees has not yet been taken into account separately in the remuneration, as it has not yet been possible to adequately assess the time expenditure involved.

Garbsen, 23 February 2022

On behalf of the Supervisory Board

Jean-Michel Richard

On behalf of the Management Board

Dr. Klaus Fiedler

REMUNERATION REPORT AND REMUNERATION SYSTEMS

The remuneration report for the financial year 2021, the auditor's report on the audit of the remuneration report, the applicable remuneration systems for the members of the Management Board and Supervisory Board, and the most recent resolutions of the Annual General Meeting on the remuneration systems of the Management Board and Supervisory Board and the remuneration of the Supervisory Board are available on LPKF Laser & Electronics AG's website at: www.lpkf.com/en/investor-relations/corporate-governance

INFORMATION ON RELEVANT CORPORATE GOVERNANCE PRACTICES

RISK MANAGEMENT

The Management Board of LPKF AG has set up a Group wide reporting and control system to record, assess, monitor and manage risks. The system is continuously evolving and adapted to changing conditions and periodically reviewed by the auditors. The Management Board regularly informs the Supervisory Board and more specifically its new formed Audit and Risk Committee about existing risks and their development. Details on risk management in the LPKF Group are presented in the risk report as part of the Group management report. This contains the report on the accounting-related internal control and risk management system.

COMPLIANCE – FUNDAMENTALS OF ENTREPRENEURIAL ACTION AND MANAGEMENT

Sustainable economic, environmental and social action that complies with applicable law is an essential element of LPKF's corporate culture. This includes trust, respect and integrity in our dealings with each other. This is expressed in exemplary conduct towards employees, business partners, shareholders and the public. LPKF defines compliance as adherence to the law, the Articles of Association and internal regulations as well as voluntary commitments. LPKF AG attaches particular importance to raising awareness of compliance among all employees in the Group. Compliance is anchored in internal processes and a Group-wide compliance structure has been established. Employee training is provided on the Group-wide Compliance Code and on general compliance topics, see www.lpkf.com/en/company/compliance-management. In this way, potential bridges in compliance can be prevented for the benefit of the entire Group. The Compliance Office holds regular meetings in which current topics are discussed, if necessary also with the specialist officers. Reliable reporting channels for internal and external stakeholders help to ensure that possible irregularities can be reported confidentially. The internal audit department is also used for this purpose. In order to uncover any bridges in compliance, LPKF provides internal and external whistleblower communication channels for contacting the company, which are listed on the homepage (www.lpkf.com/en/company/compliance-management). Both the Compliance Officer and an independent lawyer can be reached through these channels in total confidence and confidentiality if this is required. Other contact points for employees can be found in the Compliance Code, on the intranet and on notice boards in the company. Group auditing, which is carried out by a reputable and internationally recognised auditing company as an external service provider, also plays an important role in ensuring compliance. The corresponding audits are also used with regard to the further development of the internal control system.

WORKING METHODS AND COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD AND THEIR COMMITTEES

LPKF AG is a publicly listed corporation under German law and has a dual management system with a Management Board and a Supervisory Board. The Management Board and the Supervisory Board of LPKF AG work closely together in managing and monitoring the company. The Management Board of LPKF AG consists of two members with one acting as Chief Executive Officer (CEO). As the management body, it is their responsibility to manage the company's business with the aim of creating long-term sustainable value and in the company's best interests. The Management Board performs its management duties as a collegial body. Notwithstanding the overall responsibility, the individual Management Board members manage the departments assigned to them on their own responsibility within the framework of the Management Board resolutions. The allocation of responsibilities between the Management Board members is set out in the business distribution plan. Information on areas of responsibility as well as curricula vitae of the Management Board members are available on the company's website at www.lpkf.com/en/company/management. The Management Board meets regularly for joint meetings.

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

The Management Board informs the Supervisory Board promptly and comprehensively in writing as well as in the regular meetings about the planning, the business development and the situation of the Group, including matters related to risk management and compliance. In the event of significant events and if required, an extraordinary meeting of the Supervisory Board is convened. The Supervisory Board has established rules of procedure for its own work, available on the company's website (www.lpkf.com/en/investor-relations/corporate-governance).

As a matter of principle, on an annual basis, the Supervisory Board reviews how effectively the Supervisory Board and its committees perform their duties. A survey is prepared with detailed questions and sent to all members of the Supervisory Board. The survey contains questions on the organisational, personnel and content-related performance of the body as well as on the structure and processes of cooperation in the body and on the provision of information, in particular by the Management Board. The last self-assessment of the Supervisory Board's work took place by means of a survey in May 2021. The results of the review were presented and discussed in the Supervisory Board and confirmed professional, constructive cooperation within the Supervisory Board and with the Management Board. The results also confirmed the efficient organisation and conduct of meetings and appropriate provision of information. No fundamental need for change emerged. The work of the committees, that were only formed in October 2021, will be evaluated in the current financial year.

COMPOSITION OF THE SUPERVISORY BOARD

Jean-Michel Richard Chairman of the Supervisory Board	Member of the Supervisory Board since 25 November 2020 elected until the end of the Annual General Meeting 2024 Chairman of the Supervisory Board since 1 December 2020 Chairman of the Audit and Risk Committee since 27 October 2021
Dr. Dirk Rothweiler Deputy Chairman of the Supervisory Board	Member of the Supervisory Board since 14 June 2017 elected until the end of the Annual General Meeting 2022 Deputy Chairman of the Supervisory Board since 6 June 2019 Chairman of the Nomination Committee since 27 October 2021
Prof. Dr.-Ing. Ludger Overmeyer	Member of the Supervisory Board since 6 June 2019, elected until the end of the Annual General Meeting 2024
Julia Kranenberg	Member of the Supervisory Board since 14 June 2021, elected until the end of the Annual General Meeting 2025 Chairwoman of the Remuneration & ESG Committee since 27 October 2021

LPKF AG has taken out directors' and officers' liability insurance (D&O insurance) for all members of the Management Board and Supervisory Board.

The Supervisory Board of LPKF AG in the 2021 financial year comprised the members listed above, who were elected by the Annual General Meeting by way of individual election. CVs of the Supervisory Board members are available on the company’s website at www.lpkf.com/en/company/management.

When proposing candidates for election to the Supervisory Board, attention shall be paid to the knowledge, skills and professional experience required to perform the duties, as well as to diversity in composition. For its proposals for the election of new Supervisory Board members to the Annual General Meeting, the Supervisory Board shall ascertain from the respective candidate that he/she is able to devote the expected amount of time.

The specific composition of the Management Board and the Supervisory Board in the 2021 financial year as well as the disclosures pursuant to §285 No. 10 HGB can be found in the combined management and group management report in this Annual Report.

In 2021 the Supervisory Board nominated Julia Kranenberg as its fourth member. Julia Kranenberg was elected by the General Annual Meeting on 20 May 2021 and her term of office commenced on 14 June 2021.

In October 2021, the Supervisory Board formed an Audit and Risk Committee, a Remuneration & ESG Committee and a Nomination Committee. The Audit and Risk Committee consists of three Supervisory Board members, currently Jean-Michel Richard (Chairman), Dr. Dirk Rothweiler and Prof. Dr.-Ing. Ludger Overmeyer. Jean-Michel Richard has specific knowledge and experience in applying accounting principles and internal control procedures and is very familiar with audits. Dr. Dirk Rothweiler has expertise in the area of accounting. Meetings of the Audit and Risk Committee take place at least once every calendar quarter.

The Audit and Risk Committee deals with the review of the accounting, the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, as well as the audit of the financial statements and compliance, and prepares the resolutions of the Supervisory Board required in this context. The accounting includes in particular the consolidated financial statements and the Group management report (including any CSR reporting), any interim financial information and the separate financial statements in accordance with the German Commercial Code (HGB).

The Audit and Risk Committee prepares the Supervisory Board's proposal to the Annual General Meeting on the election of the auditor and the Supervisory Board's decision on the determination of key audit areas, the award of the audit contract to the auditor and the fee agreement. To this end, it also deals with the prescribed independence of the auditor. The Audit and Risk Committee decides on whether to approve the provision of permissible non-audit services by the auditor and regularly assesses the quality of the audit. It also prepares the selection and commissioning of any external audit of any non-financial (Group) statement or separate non-financial (Group) report by the Supervisory Board.

The Audit and Risk Committee issues recommendations to the Supervisory Board to facilitate and prepare the decision of the Supervisory Board on the approval of the annual financial statements and the approval of the consolidated financial statements.

The Remuneration & ESG Committee consists of three Supervisory Board members, currently Julia Kranenberg (chairwoman), Jean-Michel Richard and Dr. Dirk Rothweiler. Meetings of the Remuneration and ESG Committee are held at least twice per calendar year.

The Remuneration & ESG Committee deals with environmental, social, governance, sustainability, health and safety, and social responsibility topics (together the "ESG Topics"). It advises the Supervisory Board and the Management Board on ESG Topics, monitors and mentors the measures taken by the Management Board to implement them. It supports the Audit and Risk Committee at its request in the preparation for the Supervisory Board's review of reporting and disclosure on ESG Topics, in particular as part of the non-financial (Group) statement or the separate non-financial (Group) report.

The Remuneration & ESG Committee prepares the Supervisory Board's resolution on the remuneration system for the Management Board and reviews it regularly. It also reviews and assesses the appropriateness of the total remuneration of the individual members of the Management Board as well as the determination and review of the targets for variable remuneration by the Supervisory Board and prepares the respective resolutions of the Supervisory Board as well as the Supervisory Board’s resolution on the remuneration report to be prepared annually.

The Nomination Committee consists of three Supervisory Board members, all of whom are shareholder representatives, currently Dr. Dirk Rothweiler (chairman), Jean-Michel Richard, and Julia Kranenberg. Meetings of the Nomination Committee are held as required.

The Nomination Committee nominates suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting for the election of Supervisory Board members. The Nomination Committee facilitates and prepares the Supervisory Board's decisions on Management Board members, in particular by making proposals for the appointment, reappointment and dismissal of Management Board members. In addition, the Nomination Committee prepares long-term succession planning for the Management Board on behalf of the Supervisory Board, deals with personnel policy and the principles and structures of personnel development and planning in the area of executives and consults with the Management Board and the Supervisory Board on these issues.

SETTING TARGETS FOR THE PROPORTION OF FEMALE MEMBERS ON THE SUPERVISORY BOARD, THE MANAGEMENT BOARD AND THE TWO MANAGEMENT LEVELS BELOW THE MANAGEMENT BOARD

As a listed company not subject to the German Co-Determination Act, LPKF AG is legally obliged to set targets for the proportion of women on the Supervisory Board, the Management Board and the two management levels below the Management Board.

On 27 February 2019 the Supervisory Board set a target of 1/3 (or 33.33%) for the proportion of women on the Supervisory Board and a target of 0% for the proportion of women on the Management Board. The deadline for achieving both targets is 26 February 2024.

Given the composition of the Management Board with only two members and the composition of the Supervisory Board with three members at the time of setting the targets, the Supervisory Board did not consider it appropriate to set higher targets for now. However, the Supervisory Board will continue to assess the situation as it fully supports and promotes gender equality.

The Management Board has set targets for the proportion of women in the two management levels below the Management Board. They amount to 17% in the first management level below the Management Board and 23% in the second management level below the Management Board. The deadline for achieving all of these targets is 30 June 2022.

LONG-TERM SUCCESSION PLANNING FOR THE MANAGEMENT BOARD, DIVERSITY CONCEPT

One of the duties of the Supervisory Board is to work on the long-term succession planning for the Management Board together with the Management Board. In addition to the requirements of the German Stock Corporation Act and the Code, the succession planning takes into account the diversity concept as adopted by the Supervisory Board for the composition of the Management Board. Taking into account the specific qualification requirements and the aforementioned criteria, the Supervisory Board develops an ideal candidate profile and draws up a shortlist of available professionals. Structured interviews are conducted with these candidates. If necessary, the Supervisory Board is supported by external consultants in the development of the candidate briefs and the selection of candidates.

With regard to the composition of the Management Board, the Supervisory Board pursues a diversity concept and fully embraces diversity, taking into account the following aspects:

- The members of the Management Board shall, as a whole, possess the knowledge, skills and professional experience necessary for the proper performance of their duties.
- The members of the Management Board must be familiar with the relevant industrial environment. At least individual members of the Management Board should also have knowledge in the Laser Technology Business Field and in the area of capital markets and financing. At least the member of the Management Board responsible for finance must have expertise in the fields of accounting or auditing of the Management Board should have experience in managing a medium-sized company.
- Diversity shall also be considered in the search for qualified personnel for the board. The extent to which different, mutually complementary professional profiles, professional and life experiences as well as an appropriate representation of both genders benefit the work of the board should also be appreciated.
- As a rule, only those who have not yet reached the age of 65 shall be members of the Management Board. The age of the Management Board members shall therefore also be taken into account in the appointment.
- For the proportion of women on the Management Board, the Supervisory Board has set the target described above and the above deadline for achieving it.

Diversity is intended to benefit the work of the board as a whole. The Supervisory Board decides with which individual a specific Management Board position should be filled in the best interest of the company and under consideration of all circumstances of the individual case.

In the reporting period the Management Board of LPKF AG had two members with professional and personal qualifications in different areas. In the opinion of the Supervisory Board, the diversity concept for the Management Board was complied with during the reporting period and also currently.

The former Chairman of the Management Board, Dr. Götz Bendele, left the company at the end of April 2021. The Supervisory Board appointed Britta Schulz as an interim Management Board member from 1 May 2021 until the end of December 2021. The Supervisory Board appointed Dr. Klaus Fiedler as new Chairman of the Management Board as of 1 January 2022.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD, COMPETENCE PROFILE, DIVERSITY CONCEPT

The Supervisory Board has set targets regarding its composition, the competence profile that is taken into account when proposing new candidates for the Supervisory Board, and diversity principles.

The Supervisory Board as a whole shall have the knowledge, skills and professional experience necessary to perform its duties. The members of the Supervisory Board as a whole shall be familiar with the sector in which the company operates.

It shall be ensured that at least the following knowledge or experience is present in members of the Supervisory Board: (i) familiarity with the sector in which the company operates, (ii) knowledge in other defined areas, (iii) expertise in the fields of accounting (at least one member) and auditing (at least one other member), and (iv) international experience. Individual qualifications of the individual members may complement each other to achieve this goal.

a) Consideration of the international activity of the company

LPKF AG's international (global) activities are taken into account in election proposals to the Annual General Meeting. In addition to knowledge of the English language, professional experience gained in other internationally active German or foreign companies, whether in management or in supervisory bodies, as well as an understanding of global economic contexts is required. The criterion of internationality does not exclude German nationals as they can contribute the desired level of experience.

b) Independence and avoidance of potential conflicts of interest

The Supervisory Board shall include an appropriate number of independent members on the shareholder side within the meaning of Recommendation C.6 of the German Corporate Governance Code of 16 December 2019 (GCGC 19). A member of the Supervisory Board shall be considered independent within the meaning of this recommendation if he or she is independent of the company and its Management Board and independent of a (possible) controlling shareholder.

More than half of the shareholder representatives shall be independent of the company and the Management Board. According to the definition of recommendation C.7 GCGC 2019, a Supervisory Board member is independent of the company and its Management Board if he or she has no personal or business relationship with the company or its Management Board that could constitute a material and not merely temporary conflict of interest. In assessing independence, the Supervisory Board takes into account the indicators listed in recommendation C.7 GCGC 2019.

At least one shareholder representative shall be independent of a (possible) controlling shareholder. According to recommendation C.9 GCGC 2019, a Supervisory Board member is independent of the controlling shareholder if he or she or a close family member is neither a controlling shareholder nor a member of the controlling shareholder's executive body nor has a personal or business relationship with the controlling shareholder that may give rise to a material and not merely temporary conflict of interest.

No member shall be a member of the Supervisory Board who exercises an executive or advisory function at a significant third-party competitor of the company or the Group or who has a personal relationship with a significant third-party competitor.

The Supervisory Board shall not include more than one former member of the Management Board.

c) Setting an age limit

The age limit for the members of the Supervisory Board was set in the Rules of Procedure of the Supervisory Board at not older than 72 years at the time of election.

d) Determination of a standard limit for the length of membership in the Supervisory Board

In order to ensure a balanced mix of experience and renewal on the Supervisory Board, the Supervisory Board has set a standard limit for the average length of service on the Supervisory Board of 10 years in relation to the date of election.

e) Consideration of diversity

In the search for qualified individuals for the Supervisory Board, attention shall also be paid to diversity. The extent to which different, mutually complementary professional profiles, professional and life experience as well as an appropriate representation of both genders on the Supervisory Board benefit the work of the Supervisory Board shall also be acknowledged. For the proportion of women on the Supervisory Board, the Supervisory Board has set the target described above and the above deadline for achieving it.

The above objectives and the diversity concept are intended to benefit the work of the Supervisory Board as a whole.

With the exception of the target for the proportion of women on the Supervisory Board by 26 February 2024 (proportion currently at 25%), the Supervisory Board is of the opinion that the current composition of the Supervisory Board meets the set targets and fulfills the diversity concept and the competence profile.

The members of the Supervisory Board as a whole are familiar with the sector relevant to the company’s activities, with Jean-Michel Richard having expertise in the application of accounting principles and internal control procedures as well as auditing and ESG, Dr. Dirk Rothweiler having expertise in the field of accounting and both bringing international experience. The Chairwoman of the Remuneration & ESG Committee, Julia Kranenberg, also has expertise in Human Resources/ remuneration and ESG and is responsible for ESG on the Supervisory Board. The Supervisory Board also includes the number of members independent of the company and the Management Board, as determined by the Supervisory Board to be at least a majority.

The Supervisory Board considers all of its current members - Jean-Michel Richard, Dr. Dirk Michael Rothweiler, Julia Kranenberg and Prof. Dr.-Ing. Ludger Overmeyer - to be independent of the company and the Management Board. There is currently no controlling shareholder on which the Supervisory Board members could be dependent.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of LPKF AG exercise their co-determination and control rights at the Annual General Meeting, which is held at least once a year. This resolves on all matters determined by law. Each share entitles the holder to one vote.

Every shareholder who registers in good time is entitled to attend the Annual General Meeting. Shareholders who are unable to attend in person have the option of having their voting rights exercised by a bank, a shareholders' association, the proxies appointed by LPKF AG who are bound by instructions, or another proxy of their choice. Shareholders can follow the Annual General Meeting or parts thereof via the internet. The Management Board may provide for shareholders to cast their votes in writing or by way of electronic communication (postal vote) and for shareholders to participate in the Annual General Meeting without being present on site and to exercise all or some of their rights in whole or in part by way of electronic communication. The invitation to the Annual General Meeting and the reports, documents and information required by law for the Annual General Meeting are published in accordance with the provisions of the German Stock Corporation Act and made available on LPKF AG's website in German and English.

Due to the special circumstances of the COVID-19 pandemic, the 20 May 2021 AGM was held as a virtual meeting without the physical presence of shareholders or their proxies.

TRANSPARENCY

LPKF regularly informs capital market participants and the interested public about the Group's economic situation and important developments. The annual report, the half-yearly financial report and the quarterly financial reports are published within the prescribed deadlines. Press releases and, if necessary, ad hoc announcements provide information on current events and new developments. All information is published via suitable electronic media such as e-mail and the internet. The website www.lpkf.com also provides extensive information on the LPKF Group and LPKF shares.

The planned dates of the main recurring events and publications – such as the Annual General Meeting, annual report, quarterly financial reports and analysts' conferences – are compiled in a financial calendar. The calendar is published sufficiently in advance and made available on LPKF AG's website.

SHARE TRANSACTIONS OF THE MEMBERS OF THE GOVERNING BODIES

Information on directors' dealings is published by LPKF AG on the internet and reported to the relevant supervisory authorities. There were no reportable directors' dealings in the 2021 financial year.

ACCOUNTING AND AUDITING

LPKF AG prepares its consolidated financial statements and the 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 (HGB). The annual and consolidated financial statements are prepared by the Management Board, reviewed by the Audit and Risk Committee and the Supervisory Board and audited by externally appointed auditors. The interim reports and the half-year financial report are discussed by the Supervisory Board, its Audit and Risk Committee and with the Management Board prior to publication. The consolidated financial statements and the annual financial statements of LPKF AG were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, the auditors elected by the

2021 Annual General Meeting. KPMG is auditor since the 2020 financial statements. The audit reports were signed by Björn Kniese, KPMG partner assigned to LPKF since the 2020 annual financial statements and Thomas Meyer, assigned to LPKF since 2021. The audits were conducted in accordance with German auditing regulations and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). They also covered risk management and compliance with corporate governance reporting requirements pursuant to section 161 of the German Stock Corporation Act (AktG).

It was also contractually agreed with the auditors that they would inform the Supervisory Board immediately of any possible grounds for disqualification or partiality as well as of any significant findings and occurrences during the audit. There was no reason to do so during the audits for the 2021 financial year.

Garbsen, 16 March 2022

JEAN-MICHEL RICHARD
the Supervisory Board

KLAUS FIEDLER
the Management Board

COMBINED MANAGEMENT REPORT

For the LPKF Group and LPKF AG

BASIC INFORMATION ON THE GROUP

GROUP STRUCTURE AND BUSINESS MODELL

LPKF Laser & Electronics AG (LPKF) is a global technology company with an export share of 90% and customers in over 60 countries. The company primarily develops laser-based solutions for dynamic markets such as the electronics industry, the automotive supply industry, the solar industry, the semiconductor industry, medical technology, research institutions and universities.

LPKF was established in 1976 and has 46 years of experience as a developer and supplier of innovative capital goods for industrial companies and research institutions. Since 2019, the company has also been manufacturing micro-structured components made of glass for the semiconductor industry.

Research and development is of paramount importance for LPKF. Many of its innovations and further developments are created in close partnership with customers. To maintain its ability to innovate, every year the company invests around 10% of its revenue in in-house R&D activities. Development and production activities are based in Europe.

The LPKF Group has four business segments and maintains a broad-based product portfolio. The company’s mission is to give its customers a competitive advantage through the use of innovative technology. With this in mind, LPKF is spearheading the transition from traditional to laser-based production methods in specific markets and is enabling the development of innovative end products in a number of areas.

LPKF Laser & Electronics AG is headquartered in Garbsen near Hanover, Germany. The company has a broad global presence, with a workforce of 746 people based at locations in Europe, Asia and North America. LPKF’s shares are listed in the SDAX of the German Stock Exchange.

LEGAL STRUCTURE OF THE GROUP

As of 31 December 2021, LPKF had nine subsidiaries, which, together with the parent company, form the group of consolidated companies.

LPKF Laser & Electronics AG
Garbsen/Germany

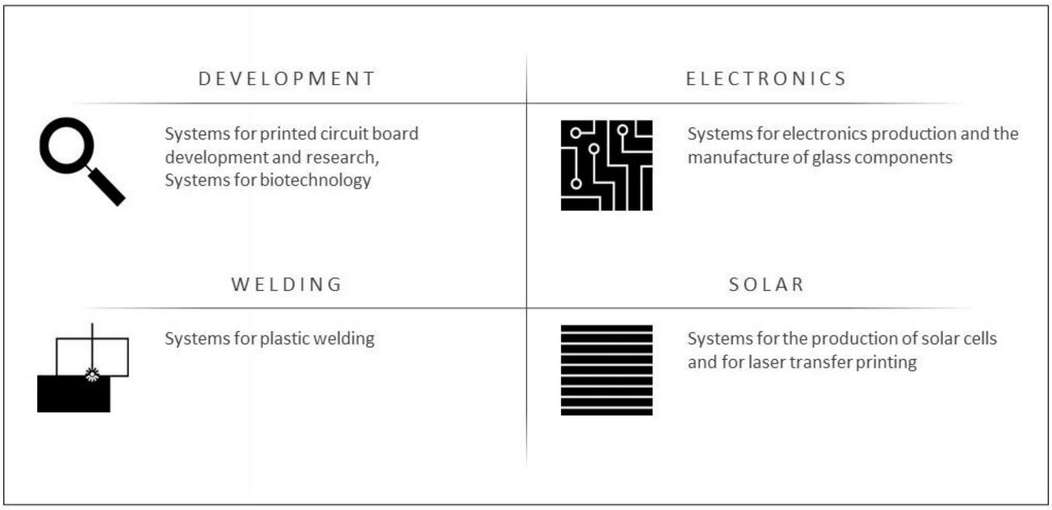
Production subsidiaries	Sales and Service companies
LPKF WeldingQuipment GmbH Fürth/Germany (100 %)	LPKF Distribution Inc. Tualatin (Portland)/US (100%)
LPKF SolarQuipment GmbH Suhl/Germany (100%)	LPKF Laser & Electronics Trading (Shanghai) Co., Ltd. Shanghai/China (100%)
LPKF Laser & Electronics d.o.o. Naklo/Slovenia (100%)	LPKF (Tianjin) Co. Ltd. Shanghai, Tianjin, Suzhou, Shenzhen/China (100%)
	LPKF Laser & Electronics K.K. Tokyo/Japan (100%)
	LPKF Laser & Electronics Korea Ltd. Seoul/Korea (100%)
	LPKF Laser & Electronics (Hong Kong) Ltd. Hong Kong/China (100%)

Operating segments

The management and control of the LPKF Group is independent of the Group’s legal structure. Top-level Group functions include strategic business development, innovation management and core activities in the areas of controlling, investor relations, HR, accounting, legal, risk management, compliance, marketing, procurement and management systems (quality, occupational safety and environment).

Sales, service, production and development activities are handled by separate business units in each segment. In LPKF’s most important markets outside Germany, sales and service functions are also provided through regional sales companies in close collaboration with business unit management.

In the 2021 financial year, LPKF operated in the following segments:



Development

In the **Development** segment, LPKF supplies practically all the electronic equipment that developers require to rapidly manufacture and assemble printed circuit board prototypes in house and largely without the use of chemicals. In addition to the development departments of industrial companies, the company primarily supplies public organizations such as research institutes, universities and schools. Since 2021, LPKF has been developing systems and solutions for biomedical research under the name ARRALYZE.

Electronics

LPKF's **Electronics** segment manufactures systems that are primarily used in production in the electronics industry. These include laser systems for cutting print stencils (StencilLasers) and laser systems for cutting and drilling rigid and flexible printed circuit boards. The Electronics segment also includes LIDE technology (Laser Induced Deep Etching) developed by LPKF. The LIDE business encompasses both the development and sale of laser systems for high-precision structuring of very thin glass and the production of glass components using the company's own LIDE systems.

LPKF's Active Mold Packaging (AMP) technology enables electrical circuits to be placed directly on the surface of and inside epoxy mold compounds (EMC). This contributes to cost and space savings in the production of advanced packaging and to a higher functional density of the finished circuits. The process is based on LDS (Laser Direct Structuring) technology for manufacturing three-dimensional circuit carriers and is part of the Electronics segment.

Welding

The **Welding** segment comprises laser systems for welding plastic components. These systems are primarily used in the automotive supply industry, in medical technology and in the production of consumer electronics.

Solar

In the **Solar** segment, LPKF develops and produces laser systems (LaserScribers) that are used for structuring thin-film solar cells for various thin-film technologies. The customer base of this segment includes international solar cell manufacturers. This segment also includes laser systems for the digital printing of functional pastes and inks (Laser Transfer Printing, LTP).

LPKF competes with a different set of competitors in each segment and in each product group. These competitors range from multinational corporations to smaller, regional providers who often operate in just one market.

Production and procurement

Production takes place exclusively at the German locations and in Slovenia. Rapid prototyping equipment and other equipment for the Development segment, as well as some of the laser sources used within the Group, are produced by the subsidiary LPKF Laser & Electronics d.o.o. in Naklo (Slovenia). Systems for the Electronics segment are manufactured in Garbsen, Germany. Welding segment production takes place in Fürth, Germany. Solar and LTP systems are produced in Suhl, Germany. At LPKF, production generally comprises pre-assembly and final assembly of machinery and equipment.

Almost all components including complex assemblies for machinery are purchased from external suppliers. Group procurement is organized through a central strategic purchasing department, with operational purchasing activities mainly carried out on a local basis at the production sites. Whenever it purchases external components, the company specifically looks for multiple sources in order to reduce dependence on individual suppliers and ensure its own competitiveness through high availability.

Sales

Global cross-segment sales in important regions such as China, Japan, North America and South Korea are handled by subsidiaries. Overall, the Group is represented by subsidiaries and more than 35 distributors in over 60 countries, which acquire and serve customers all over the world.

PRODUCTION COMPANIES

Country	City	Function	Focus area
	Garbsen	Group headquarters, production, procurement, development, sales and services	Electronics segment • Cutting and drilling systems, LIDE, LDS, AMP, production services Development segment • Prototyping systems • ARRALYZE systems for biomedicine
	Fürth	Production, development, sales and services	Welding segment • Plastic welding systems
Germany	Suhl	Development, sales, production and services	Solar Segment • Systems for structuring large surfaces • Systems for digital printing of functional pastes
Slovenia	Naklo	Production, development and services	Development segment • Prototyping systems • Laser sources

MANAGEMENT AND CONTROL

Organization of management and control

The Management Board represents the company and is responsible for running it. The members of LPKF AG’s Management Board are appointed by the Supervisory Board. The Supervisory Board may withdraw appointments for good cause.

The Supervisory Board has determined that certain transactions require its approval.

The Annual General Meeting may make decisions on management issues only if requested to do so by the Management Board. Any amendment to the Articles of Incorporation requires a resolution by the Annual General Meeting to be passed by a majority of the share capital represented at the adoption of the resolution. Article 25 (1) of the company’s Articles of Incorporation stipulates that, in cases where the law requires a resolution to be passed by a majority of the share capital represented, a simple majority of the share capital represented will suffice, unless the law mandates a larger majority.

The following persons were members of the Management Board of LPKF AG in the 2021 financial year:

- Dr. Goetz Matthias Bendele (CEO) – up to 30 April 2021
- Christian Witt (CFO) since 1 September 2018, interim CEO from 1 May 2021 up to 31 December 2021
- Britta Schulz – from 1 May 2021 up to 31 December 2021

Dr. Klaus Fiedler joined LPKF AG as Chief Executive Officer (CEO) on 1 January 2022.

In the 2021 financial year, the Supervisory Board consisted of the following members:

- Jean-Michel Richard (Chairman)
- Dr. Dirk Rothweiler (Deputy Chairman)
- Prof. Dr.-Ing. Ludger Overmeyer
- Julia Kranenberg – since 14 June 2021

Relevant legal factors

The company and each of its segments are subject to the general legal requirements applicable to listed companies. Beyond this, no special legal provisions apply.

STRATEGY

Strategic framework

Megatrends

The following megatrends are playing a decisive role in the transition from traditional to laser-based production methods:

- Miniaturization: Miniaturization is continuing apace. Electronic devices are becoming increasingly smaller, more powerful and more efficient. The precision of the laser means that materials can be processed on a micrometer scale.
- Digitalization: As electronic and non-electronic devices become more powerful and more multifunctional, this increases the number of electronic components – including antennas, sensors and microsystems (MEMS) – they require.
- Efficiency: Efficient production is of paramount importance to customers. LPKF technologies aim to reduce process costs and material costs.
- Freedom of design: Product design is increasingly becoming a primary differentiator of electronic devices. Laser flexibility maximizes freedom of design when developing new products.
- Sustainability: Customers are having to meet ever more stringent quality requirements in production. Consumers are placing increasing importance on a clean environment.

Laser technology aims to make production processes cleaner and more efficient, to save resources and to increase the durability of end products.

Vision

The LPKF Group aims to sustainably change the world of electronics production with innovative technologies.

At the same time, the design and manufacture of electronic devices are becoming increasingly centered around people.

LPKF has derived three central functions from this vision for the Group:

1. Pioneer: LPKF is spearheading the transformation from traditional production methods to laser technology, thereby opening up new opportunities in product design and production.
2. Solution provider: LPKF delivers high-precision, laser-based solutions for manufacturing.
3. Production service provider: LPKF manufactures micro-structured components according to customer requests.

Success factors

The Management Board believes that the company's success is based on a deep understanding of customer requirements that has been cultivated from years of experience and on in-house process expertise that has been developed over time. Expertise in engineering, software, physics, chemistry and Group-wide machine software platforms are equally important contributing factors to the company's success. Added to this are its high capacity for innovation and its understanding of the laser microprocessing of different materials.

Another key success factor is LPKF's focus on the following core competencies and the interaction between them:

Core competencies

1. Laser technology and optics
2. Precision drive technology
3. Control technology and software
4. Materials technology

Corporate responsibility

For the LPKF Group, sustainability means acting responsibly, achieving business success as well as ecological and social progress, and working to secure the future of the company. LPKF takes responsibility for the health and quality of life of its employees, customers and consumers, and for protecting the environment. LPKF systems help customers become more resource efficient, reduce hazardous materials and waste, and save energy.

Independence of individual markets as a result of broad positioning

By addressing a range of markets, LPKF reduces its dependence on the cycles of individual industries. This makes it much easier to compensate for economic fluctuations.

Mission statement

All activities of the LPKF Group are geared toward the success of its customers. All major activities and decisions are aimed at improving the competitiveness of the Group's customer base through technological advancement and efficiency gains. Strengthening LPKF in the long term serves the interests of all customers, business partners, employees and shareholders. For this reason, strong emphasis is placed on strengthening the Group's innovation resources and ensuring profitability.

LPKF is a technology group. The company aspires to shape technological progress and gain leading market positions by focusing its energies on its core competencies. A sense of professional partnership and fair treatment characterizes relationships with customers, suppliers and representatives as well as the working relationships among employees within the LPKF Group. As an international group, LPKF strives for understanding of other cultures and philosophies.

Product quality is one of the keys to customer satisfaction. LPKF encourages employee training as a way of sustaining the high quality of its products and ensures that its employees recognize their direct and indirect responsibility for customer satisfaction.

LPKF makes an active contribution to reducing waste by using largely laser-based production methods. LPKF aims to design its products and internal processes to be as environmentally friendly as possible. Health and well-being are the foundations for a successful business. LPKF places significant emphasis on promoting the health of its employees and on occupational safety at the company. Its ambition to be a technology leader means that LPKF always strives to optimize its products and product development processes. It goes without saying that this requires a corporate culture that is open and encourages learning and constructive criticism. LPKF's responsibility extends to its customers, employees, business partners, shareholders and the public. The company's sense of corporate responsibility also includes the fact that LPKF employees are required to obey applicable laws whenever and wherever appropriate, respect ethical principles and pursue sustainability. The LPKF Compliance Code supports the company's employees in this endeavor.

Corporate objective

LPKF's objective is to achieve long-term business success through sustainable, profitable growth. This success is underpinned by a long-term business orientation and near-term business management. The Group's business activities place just as much emphasis on the long term development of the Group as they do on short-term monitoring of key figures so that it can act quickly in the event of any undesirable developments.

A key factor for LPKF is permanently strengthening its ability to innovate so that it can carry on developing and commercializing ever more new and innovative solutions for its customers. The organization is systematically aligned toward serving its customers. In addition to operational strength and speed, research and development work and alignment to commercial use and application are of primary importance.

Strategic alignment of the operating business

Strategic alignment of the company

The megatrends of miniaturization and digitalization require lasers as highly precise tools for the production of electronic components. LPKF supplies important key technologies for many growth industries. The company's broad portfolio of products and services contributes to boosting efficiency and conserving resources. Alongside the traditional solutions business, LPKF also supplies production services through its foundry. The company uses its own systems to produce high-precision components made of glass for customers in the semiconductor and electronics industries. LPKF is a strategic partner for international customers, with whom it works closely to design advanced solutions.

LPKF is positioned as a global laser specialist. This positioning gives LPKF many advantages over competitors who often operate in just one market or as regional suppliers. By addressing a range of markets, LPKF reduces its dependence on the cycles of individual industries. This makes it much easier to compensate for economic fluctuations. This approach requires the integration of all business processes with potential synergies.

In the LPKF Group, central group functions are provided and shared across all the segments in areas such as procurement and innovation management or in administrative departments such as HR and accounting. In its core regional markets, LPKF organizes sales and service support for all the segments via its own subsidiaries. Shared use of infrastructure also simplifies market entry while helping to ensure optimization of the cost base by exploiting synergy effects.

Strategic alignment of the segments

The Development segment offers its customers the entire value chain for the manufacture of printed circuit board prototypes. Its activities are centered around mechanical and increasingly laser-based systems that undergo continuous development. In the Development segment, LPKF addresses a global market with many individual customers from the industrial sector and universities. The Development segment can draw on a global network of distributors, who in many cases are long-time partners of the company and able to secure outstanding options for market entry. Despite already having a high market share, the Management Board is seeing solid growth rates in this segment due to new products and applications. With its new ARRALYZE systems, LPKF is addressing the market for high-precision analysis of biological materials in the nanoliter range. The systems work with glass arrays produced using LIDE technology. There is potential here to gain new customers in the life science sector.

The Electronics segment caters to markets that are associated with the production and processing of electronic components as well as the semiconductor industry. The Electronics segment offers its customers systems for cutting, structuring and drilling a wide variety of materials with a high level of precision and speed. The Electronics segment operates in highly dynamic markets where there are opportunities for short-term major orders from individual customers.

The LIDE technology (Laser Induced Deep Etching) developed by LPKF is a basic technology for a wide range of applications in microsystems technology. It enables customers to process thin glass quickly, precisely, and without damage such as micro-cracks. This makes the LIDE process an enabling technology for many areas of microsystems technology, such as the manufacture of foldable displays and semiconductor components, as well as for microfluidics or the production of MEMS. Since 2019, it has also offered LIDE technology as a production service (foundry) in addition to selling equipment. The company thus offers all potential LIDE customers an easy, barrier-free entry into the technology. In all important key markets for this segment, LPKF has a presence with its own subsidiaries and partners.

In the Welding segment, LPKF develops, produces and markets laser systems for welding plastics. This segment primarily targets the automotive supply industry, the medical technology sector and manufacturers of consumer electronics. Laser welding can be used to replace traditional joining material methods used in various industries. This opens up a large market potential. Qualities that set LPKF apart include its broad range of products, its superior product quality, its wealth of process expertise and its global service network.

The Solar segment includes all activities in connection with the high-precision laser machining of large surfaces. This is where LPKF develops, manufactures and markets systems for structuring thin-film solar modules. The precision and speed of the Allegro systems set LPKF apart as a specialist on the solar market. In 2021, LPKF continued to broaden its customer base for solar systems. On top of this, in the Solar segment LPKF also wants to continue to drive the development of new markets outside the solar industry. LPKF is targeting the market for digital printing of functional pastes with its LTP technology. One of the aims here is to replace the predominant screen printing method in some areas.

LPKF’s strategy for growth also includes the continuous development and optimization of its product portfolio. To this end the company is not only guided by input from customers and markets, but also explores its own ideas for innovations that present relevant benefits for customers. All existing products are reviewed at least once a year to see if their continuation makes sense from a commercial point of view.

Service is a core component of the corporate strategy and of what the company offers its customers and, as such, is supplied and reported within each segment. LPKF offers its customers a broad spectrum of services via its global service network. The service business was strengthened and expanded further in 2021, despite the impact of the coronavirus pandemic.

Corporate management

LPKF Group key figures

LPKF manages its business performance using key figures and ratios at various reporting levels. The following section outlines the most important key figures that LPKF uses:

- Revenue
- EBIT (earnings before interest and taxes) and EBIT margin
- Net working capital and net working capital ratio
- Free cash flow (FCF)
- ROCE (return on capital employed)

- Error rate

EBIT: The Group's goal of profitable growth can be reviewed by analyzing revenue in conjunction with EBIT. The EBIT margin is given as a ratio for the Group's goal and is calculated using the following formula: EBIT margin = EBIT/revenue x 100.

Net working capital: It is calculated from inventories plus trade receivables less trade payables and advances received. It reflects the net capital tied up in the reported items.

Net working capital ratio: This key figure gives net working capital as a proportion of revenue, as in a changing business scenario the net capital tied up generally changes as well.

Free cash flow: FCF is an indicator of a company's self-financing capability and its ability to pay a dividend from the cash flow for the period. Free cash flow is the sum of cash flow from operating activities and cash flow from investing activities.

ROCE (return on capital employed): EBIT/(intangible assets + property, plant and equipment + net working capital).

Error rate: This is the ratio of error costs to revenue. Error costs comprise expenditure associated with the fulfillment of warranty obligations and quality assurance. The target achievement is calculated by means of linear interpolation between the initial value and the minimum value of the error rate.

Further information on non-financial targets and key figures can be found in the non-financial consolidated report to be published at the end of April 2022 www.lpkf.com/en/company/sustainability).

The following table shows the changes in the Group's key financial figures over the past five years and the original target figures:

		2021 target	**2021**	2020	2019	2018	2017
Revenue	in EUR million	110 - 120	93.6	96.2	140.0	120.0	102.1
EBIT	in EUR million	11.0 - 15.6	0.1	7.5	19.2	6.8	4.0
EBIT margin	in %	10 - 13	0.1	7.8	13.7	5.7	3.9
ROCE	in %	Same as EBIT and capital employed	0.1	9.0	25.5	7.0	4.1
Net working capital	in EUR million	< 20.5	19.3	20.5	17.1	37.9	33.3
Net working capital ratio	in %	< 21.3	20.6	21.3	12.2	31.6	32.6
Free cash flow	in EUR million	> -5.5	-0.7	-5.5	42.2	5.8	n.a.
Error rate		< 50	48	34	48	70	78

Target/actual comparison of planning and implementation

In its original report on expected developments, due to the economic uncertainty surrounding the pandemic, the Management Board made only qualitative statements on the development of key performance indicators. The company issued its first quantitative forecast for 2021 as a whole on 22 April 2021. At that time, consolidated revenue was expected to be between EUR 110 million and EUR 120 million and the EBIT margin between 10% and 13%. In addition, the company saw a realistic chance of receiving and delivering a major order for LIDE technology in the 2021 financial year.

On 21 July 2021, the company confirmed the annual forecast, but no longer saw a realistic chance of a major order for LIDE technology in the 2021 financial year.

Due to the ongoing challenges in the global procurement markets, the company specified its annual forecast more precisely on 28 October 2021. Accordingly, LPKF expects consolidated revenue at the lower end of the forecast of EUR 110 million to EUR 120 million and an EBIT margin also at the lower end of the forecast of 10% to 13% for 2021.

On 17 December 2021, the company revised its annual forecast to revenue of EUR 92–102 million and EBIT of EUR -2 million to EUR +6 million due to project delays at customers and logistics bottlenecks.

With revenue of EUR 93.6 million and an EBIT margin of 0.1 %, the Group is within the range of the most recent guidance. ROCE is in line with the earnings performance at 0.1%.

To ensure delivery, higher inventories were deliberately accepted during the course of the year. Despite this, the target for net working capital could be reached at the end of the year. At EUR 19.3 million or 20.6% of revenue above the target range specified.

Free cash flow increased as expected and, at EUR -0.7 million, was EUR 4.8 million higher than in the previous year. The targeted increase in inventories was more than compensated for by advance payments received from customers.

Despite the defect rate being marginally worse than the previous year, the quality cost target was still met.

NON-FINANCIAL STATEMENT

LPKF AG’s separate non-financial consolidated report will be published on the company’s website under Company /Sustainability (https://www.lpkf.com/en/company/sustainability) within the legally stipulated period by no later than 30 April 2022.

RESEARCH AND DEVELOPMENT

Focus of R&D activities

Research and development (R&D) is of particular importance for LPKF as a technology company. Innovations decisively influence future product performance and hence the business success of the LPKF Group.

The primary strategic aim of R&D activities is to establish, maintain and develop the company’s position as an innovation leader within the relevant sectors. New products are designed to exhibit differentiators, which are then secured via patents. The benchmark for development activities is always strengthening the customers' profitability.

In the 2021 financial year, several new products were manufactured and technologies were developed – such as in the areas of life sciences, scanners and process control – that in turn are expected to lead to new competitive products in the short to medium term. To support this process, the development process is continuously improved through the use of increasingly agile project management approaches.

Pre-competitive collaboration with research institutions and industry partners, organized as consortium projects, continues to underpin technological development at the LPKF Group.

R&D expenses, investments and key figures

Continuous investment in near-to-market developments is crucial to a technology-oriented group such as LPKF.

In 2021, the company invested EUR 13.3 million (previous year: EUR 11.0 million) in development, which is equivalent to 14.2% (previous year: 11.4%) of revenue.

LPKF capitalized EUR 5.3 million development expenses as intangible assets in the reporting year (previous year: EUR 4.7 million), which equates to a capitalization ratio of 28% (previous year: 30%). Amortization of capitalized development expenses amounted to EUR 3.5 million in 2021 (previous year: EUR 3.0 million).

The following multi-period overview of R&D shows the development of essential key figures over time:

in EUR million	**2021**	2020	2019	2018	2017
R&D expenses *	13.3	11.0	12.5	11.7	11.1
As % of revenue	14.2	11.4	8.9	9.7	10.9
R&D employees	207	177	143	141	155

* Current R&D expenses include amortization of capitalized development expenses of EUR 3.5 million (previous year: EUR 3.0 million)

In the Welding segment, there was a change in the allocation of 29 employees from production to the development department in 2021. The prior-year figure in the table has been adjusted accordingly. Before the adjustment, the number of employees in Development was 148 as of 31 December 2020.

R&D results

In 2021, the Electronics segment developed the Tensor technology, which will enable future LPKF machines to gain an enormous speed advantage, such as for laser machining of printed circuit boards. In addition, a solution for automating the depaneling of printed circuit boards was presented at Productronica. The LIDE area signed a joint development agreement (JDA) for glass micro-processing with one of the world's largest display companies in 2021.

In the Development segment, the new ProtoLaser H4, a tabletop device with drilling and cutting functions, was completed and moved to the transfer phase. At the same stage is the new MultiPress S4, which is equipped with features such as pressing under vacuum, optimized press profiles for high-frequency materials and a modern Graphical User Interface (GUI) via touch display. For the ProtoLaser family, a process chamber is being developed that enables the processing of toxic materials (e.g. gallium arsenide). The company's own UV beam source with higher output was successfully realized, and a further increase in output is currently under development.

In the Solar segment, a new generation of machinery was developed that combines forward-looking technologies for large-area laser machining with high throughput. The aim is to make new applications accessible in addition to new interconnection concepts for thin-film solar cells.

In the LTP sector, development of the large LPKF NovaPrint system was completed and the transfer phase to active sales began. In parallel, process developments for printing functional inks, e.g. with conductive particles, based on the new "Jupiter Lab" laboratory system, are underway in Garbsen.

In the Welding segment, work began on revising a high-volume system for quasi-simultaneous welding. The combination of plastic welding with LDS technology was developed under the name "WeLDS" and put into a first application. In the area of process control, thermography was successfully developed to market maturity and brought into series production with a first beta customer. Additional features were added to the new software architecture to simplify the design of complex tool geometries.

An independent team was set up for the new ARRALYZE business area and a bio laboratory was established. First successful steps towards the development of an AI for cell recognition were started. The first machine was built to present the technology to customers and at trade fairs.

REPORT ON ECONOMIC POSITION

COURSE OF BUSINESS

Macroeconomic environment

Following the historic slump in 2020 caused by the global pandemic, the global economy slowly recovered in 2021. However, the development continued to be characterized by the coronavirus, with the result that the recovery weakened in the second half of 2021. The Kiel Institute for the World Economy (IfW) forecasts a slightly lower increase in gross domestic product (GDP) than initially expected for the past year, at 5.7%. In addition to the pandemic, supply bottlenecks also had a dampening effect.

According to the IfW, advanced economies grew by 5.0% in 2021, slightly less than the global economy as a whole. While the increase in the eurozone was at the same level, it was slightly higher for the USA at 5.6%. By contrast, growth of only 1.5% is expected for Japan.

According to the Federal Statistical Office, the German economy also recorded a significantly lower increase in GDP than the other advanced economies, rising by only 2.7%. This was largely due to the pandemic and supply chain problems.

According to calculations by the IfW, the emerging economies achieved a significant increase in economic output of 6.5% on average. The main drivers here were China and India, with growth of 7.8% and 7.6% respectively.

Sector-specific environment

The business performance of LPKF Laser & Electronics AG is influenced by both the macroeconomic environment and the development of individual sectors. These include the electronics industry and consumer electronics in particular, the automotive industry, the solar industry and the plastics sector. Developments across these industries in 2021 are outlined below.

According to the IDC, in the electronics industry, global smartphone sales increased by 5.3% to a total of 1.35 billion units in 2021. This was due to pent-up demand and new 5G technology. Difficulties in procuring components led to a lower increase than initially expected.

In 2021, global sales of passenger cars increased by 3.2% to 80.3 million vehicles, according to an analysis by Ing/Moody’s. For Europe, the European Automobile Manufacturers’ Association (ACEA) recorded a decline of 2.4% to 9.7 million passenger cars. This was 3.3 million fewer than in the year before the pandemic. While Italy, Spain and France recorded increases, new registrations in Germany shrank by 10%.

According to calculations by the International Energy Agency (IEA), the output of global PV systems increased by 160 gigawatts or 17% in 2021. The German Mechanical Engineering Industry Federation (VDMA) recorded rising revenue and order intake for the German photovoltaic machine manufacturing industry in 2021. The most important export market for

German mechanical engineering companies was China, but orders also came increasingly from the USA and Europe.

For the German plastics sector, the VDMA expects revenue growth of around 10% in 2021. With a high export ratio, innovations played an important role.

According to provisional calculations by the VDMA, production in the German mechanical and plant engineering sector increased by 7% in 2021. This increase, which is lower than initially expected, is largely attributable to supply bottlenecks.

Effects on the LPKF Group

In 2021, the global macroeconomic environment recovered from the significant decline in the previous year, but continued to be influenced by the global pandemic. The same also applies to LPKF's key sectors. However, the recovery was less than expected due to the pandemic and supply bottlenecks. In all segments, there was a noticeable reluctance on the part of customers to invest in capacity expansions.

The Solar segment recorded significant project delays on the part of customers and bottlenecks in outbound logistics to China due to the pandemic. There were also postponements of projects in the Development and Electronics segments, which led to an overall subdued business development. In the Welding segment, LPKF recorded a pleasing increase in revenue of 55%. New customers also ensured the use of the systems for plastic welding in new, promising areas of application.

The effects of the pandemic were felt by all the company's locations and by its customers and partners. LPKF responded to the pandemic early and with a firm hand, introducing a raft of measures to protect the health of employees and their families and that of wider society. Employees have largely been working from home. Employees in production and development have been working under new protective measures, such as significant social distancing and compulsory mask wearing. These measures have meant that LPKF was able to – and is continuing to – run its business operations uninterrupted, including production at all locations.

Nobody at the company – neither internal nor external – was infected with COVID-19 in the workplace at any of LPKF's locations in the reporting period. The Management Board made a personal commitment to do everything in its power – across the whole company – to protect employees, minimize the economic impact and serve its customers as effectively as possible. Depending on the pandemic situation, these efforts will be continued in the current financial year.

In the reporting period, there were delays in some areas of inbound logistics and the inflow of materials as well as bottlenecks in outbound logistics. Customer deliveries and services continued as usual – with a few delays in some cases.

Several industries have been affected much worse than the technology industry and the capital goods industry by the repercussions of the pandemic. LPKF benefited from the fact that many companies continued to press ahead with product development despite the economic crisis. This technological advancement was – and continues to be – a vital driver of demand for LPKF Group products. The Management Board sees the fact that the LPKF Group achieved a slightly profitable business development (EBIT: EUR + 0.1 million) despite a decline in revenue as proof that the company is well positioned overall and financially stable. In the Management Board’s view, LPKF has sufficient cash reserves comprising cash and cash equivalents and available credit facilities. The decline of the euro against other key currencies such as the US dollar was beneficial to LPKF AG’s export activities in 2021.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS OF THE GROUP

Results of operations

Development of revenue

In the 2021 financial year, the LPKF Group generated revenue of EUR 93.6 million, which was down 2.8 % year-on-year (EUR 96.2 million).

In 2021, the **Solar segment** supplied laser systems for etching solar modules within the scope of a major order. Revenues of EUR 12.1 million were generated, 50.2% below the previous year. Some planned deliveries in the Solar segment with a volume of more than EUR 6 million were unable to be delivered in the 2021 financial year due to logistic bottlenecks and were postponed to 2022.

The revenue generated in the **Electronics segment** amounted to EUR 32.0 million, a slight increase to the previous year (EUR 31.7 million). In December, the first delivery of a LIDE machine from a leading global chip manufacturer’s order also took place. The remaining machines are scheduled for delivery in the first half of 2022.

The **Welding segment** closed the year with a significant increase in revenue to EUR 27.4 million compared to the previous year’s figure (EUR 17.7 million).

With revenue of EUR 22.1 million, the **Development segment** was slightly below the previous year’s level of EUR 22.5 million.

The following table shows the revenue by region:

in %	**2021**	Prior year
Asia	46.5	57.7
Germany	12.0	9.0
Europe excl. Germany	21.3	12.6
North America	18.1	19.8
Other	2.1	0.9
Total	**100.0**	**100.0**

The Group’s export rate fell slightly year-on-year and is now 88.0% (2020: 91.0%). As was the case last year, the regional distribution is slightly misleading in that a proportion of the machines for international customers are installed at their production locations, which are often based in other regions. In this respect, Asia remains by far the most important sales region for LPKF.

Segment performance

The following table provides an overview of the operating segments' performance:

	External revenue		EBIT	
in EUR million	**2021**	2020	**2021**	2020
Electronics	32.0	31.7	-0.8	3.4
Development	22.1	22.5	1.2	2.9
Welding	27.4	17.7	3.0	-2.8
Solar	12.1	24.3	-3.3	4.0
Total	**93.6**	96.2	**0.1**	7.5

Development of orders

At EUR 117.8 million, incoming orders during the reporting period were 15.3% higher than in the previous year, achieving a book-to-bill ratio >1, which means that the total incoming orders for the year is greater than total revenue. Orders on hand of EUR 62.6 million at the end of the year were EUR 24.3 million higher than in the previous year.

Development of main income statement items

In own work capitalized, EUR 5.3 million was recognized for the development costs of products and software. At EUR 3.3 million, other income was lower than in the previous year (EUR 3.7 million). The higher figure in the previous year was characterized by income from the settlement of legal disputes in the LPKF Group's favor, as well as higher reimbursement amounts and grants from government programs to support companies during the COVID-19 pandemic. In 2021, other income also included reimbursement amounts applied for from the German Federal Employment Agency for social security contributions in connection with short-time working at the German locations in the amount of EUR 0.1 million (previous year: EUR 0.5 million). The Slovenian and Chinese subsidiaries did not receive any waived or granted social security contributions as a result of the pandemic in the 2021 financial year (total in the previous year: EUR 0.4 million). In addition, income from grants for research and development activities increased by EUR 0.4 million year-on-year.

The material cost ratio – calculated from the cost of materials and changes in inventories as a percentage of sales – was 31.6%, an improvement on the previous year (33.2%).

At EUR 44.3 million, staff costs were higher than the previous year's figure of EUR 41.5 million. This is explained by an increase in the number of employees, particularly in the LIDE, Arralyze and Software development areas, as well as a special coronavirus payment made to employees totaling EUR 0.4 million. The relief from short-time working in 2021 was lower than in the previous year. Short-time working has no longer been used at the German locations since 31 May 2021. The staff costs ratio – staff costs in relation to revenue – is higher at 47.4% in the current year than in the previous year (43.1%), due to higher staff expenses and lower revenue.

Depreciation and amortization increased to EUR 7.5 million in 2021 (previous year: EUR 7.3 million). Of this amount, EUR 3.5 million was attributable to depreciation and amortization from own work capitalized.

At EUR 21.2 million, other expenses were 23.4% higher than in the previous year. This change is mainly due to the increase in expenses for third-party work (EUR +1.4 million), including in connection with digitalization projects, higher legal and consulting expenses (EUR +0.6 million), higher expenses for repairs, maintenance and operating materials (EUR +0.5 million) and higher advertising and sales expenses (EUR +0.4 million).

EBIT (earnings before interest and taxes) decreased from EUR 7.5 million in the previous year to EUR 0.1 million. The EBIT margin was 0.1% compared with a margin of 7.8% in 2020.

Multi-period overview of results of operations

		2021	2020	2019	2018	2017
Revenue	in EUR million	93.6	96.2	140.0	120.0	102.1
EBIT	in EUR million	0.1	7.5	19.2	6.8	4.0
Material cost ratio	in %	31.6	33.1	38.9	39.7	33.4
Staff cost ratio	in %	47.4	43.1	32.0	36.9	41.0
Tax ratio	in %	32.9	26.9	29.9	-33.2	61.8
EBIT/employee	in EUR thousand	0.1	10.9	28.3	10.2	5.3

Financial position

Principles and goals of financial management

External funding sources available to LPKF AG include the issue of shares and the raising of short- and longterm loans. The Group mainly uses its profits and the retention of proceeds generated by depreciation/amortization as sources for internal financing.

Within the LPKF Group, the parent company LPKF AG is responsible for hedging foreign currency and other risks. Derivatives are used only for hedging transactions. The European companies optimize their liquidity by way of cash pooling, while the non-European companies are integrated into this process through operational liquidity management. LPKF Group financing is performed centrally.

Statement of cash flows

The following statement of cash flows shows the origin and use of financial resources:

in EUR million	**2021**	Prior year
Cash flow from operating activities	7.9	4.0
Cash flow from investing activities	-8.6	-9.5
Cash flow from financing activities	-5.2	-5.4
Change in cash and cash equivalents due to changes in foreign exchange rates	1.0	-0.3
Change in cash and cash equivalents	-5.9	-10.9
Cash and cash equivalents on 1 Jan.	20.1	31.3
Cash and cash equivalents on 31 Dec.	15.2	20.1
Composition of cash and cash equivalents:		
Cash on hand, bank balances	15.2	20.1
Overdrafts	0.0	0.0
Cash and cash equivalents on 31 Dec.	**15.2**	20.1

The Group's cash and cash equivalents decreased from EUR 20.1 million at the end of the previous year to EUR 15.2 million. This is mainly due to continued high investment activity, the repayment of liabilities to banks (EUR 1.8 million) and the payment of a dividend (EUR 2.5 million).

At EUR 7.9 million, cash flow from operating activities was above the previous year's level of EUR 4.0 million. The targeted build-up of inventories in 2021 to ensure delivery was compensated to a much greater extent than in the past by the receipt of advance payments from customers.

LPKF currently has only minor financial liabilities to financial institutions from the financing of non-current assets.

The financial requirements in the operating business are covered by working capital credit facilities.

Multi-period overview of financial position

The LPKF Group has credit facilities with core banks. No loans were drawn down from this facility.

The Management Board considers the LPKF Group's net assets and financial position to be very solid due to the high equity ratio, the Group's net cash position and the unutilized credit facilities. The Group is able to realize a large portion of its investing activities using its own resources.

in EUR million	**2021**	2020	2019	2018	2017
Free cash flow	-0.7	-5.5	42.2	5.8	3.3
Net credit (+) / net debt (-) to banks	12.1	15.2	-24.5	-16.3	-37.7

Net assets

Analysis of net assets and capital structure

The company’s net assets and capital structure developed as follows year-on-year:

	12/31/2021		12/31/2020	
	in EUR million	in %	in EUR million	in %
Non-current assets	69.0	52.2	66.2	54.4
Current assets	63.2	47.8	55.4	45.6
Assets	**132.2**	**100.0**	121.6	100.0
Equity	92.2	69.7	92.9	76.4
Non-current liabilities	4.2	3.2	6.9	5.7
Current liabilities	35.8	27.1	21.8	17.9
Equity and liabilities	**132.2**	**100.0**	121.6	100.0

Compared with 31 December 2020, non-current assets increased by EUR 2.8 million to EUR 69.0 million. The change results from an increase in capitalized development costs (EUR +1.8 million) and non-current receivables (EUR +0.4 million). Deferred tax assets increased by EUR 0.1 million.

The increase in current assets from EUR 55.4 million in the previous year to EUR 63.2 million as of 31 December 2021 is mainly due to the EUR 3.5 million increase in trade receivables, as well as the EUR 8.7 million rise in inventories. The increase in trade receivables is due to the reporting date and results from a high-revenue month in December. Inventories were built up in the 2021 financial year specifically to maintain production and delivery capacity. In addition, the inventories include machines that have already been completed and whose delivery has been postponed at short notice until the first quarter 2022. Cash and cash equivalents decreased by EUR 4.9 million to EUR 15.2 million. Other assets fell by EUR 0.9 million year-on-year to EUR 1.5 million. These developments had a corresponding effect on net working capital. Compared with the previous year, it dropped from EUR 20.5 million to EUR 19.3 million. As a result of the lower net working capital, the net working capital ratio fell from 21.3% to 20.6%.

Non-current liabilities declined by EUR 2.7 million, primarily due to the scheduled repayment of loans (EUR -1.8 million). Current liabilities rose by EUR 14.0 million to EUR 35.8 million. This is mainly attributable to an increase in advance payments received of EUR 13.9 million.

The equity ratio decreased from 76.4% in 2020 to 69.7% as of 31 December 2021.

Beyond this, the structure of the statement of financial position has not changed significantly.

Multi-period overview of net assets

in EUR million		**2021**	2020	2019	2018	2017
ROCE	in %	0.1	9.0	25.5	7.0	4.1
Net working capital	in EUR million	19.3	20.5	17.1	37.9	33.3
Net working capital ratio	in %	20.6	21.3	12.2	31.6	32.6
Days sales outstanding	days	57	55	44	78	67

Days sales outstanding (DSO) are determined based on the average amount of outstanding receivables between reporting dates.

Capital expenditure

In the 2021 financial year, the Group continued to make targeted investments in future growth. In addition to investments in LIDE production at the Garbsen location and in IT/software, an additional EUR 5.3 million (previous year: EUR 4.7 million) in development expenses was capitalized. Additional investments were made to replace property, plant and equipment. Total capital expenditure on intangible assets and property, plant and equipment came to EUR 8.6 million (previous year: EUR 10.2 million).

in EUR million	Development services	Other assets	**Total** **2021**	Development services	other assets	Total 2020
Electronics	2.3	1.9	4.2	2.0	4.0	6.0
Development	1.4	0.9	2.3	1.2	0.5	1.7
Welding	0.4	0.3	0.7	0.3	0.1	0.4
Solar	1.2	0.2	1.4	1.2	0.9	2.1
Total	5.3	3.3	**8.6**	4.7	5.5	10.2

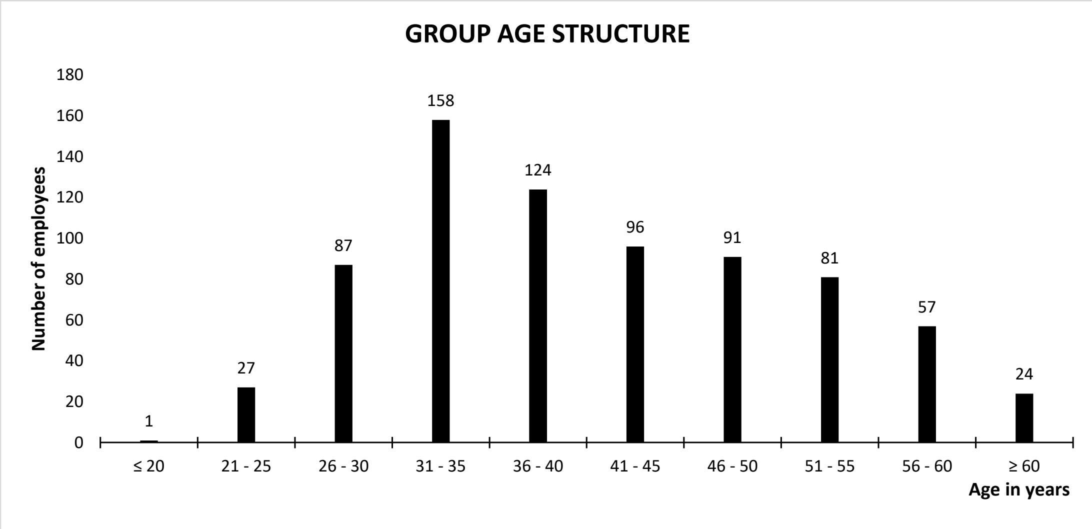
Employees

Highly qualified and motivated staff is the key to success for a technology group like LPKF. Therefore, the LPKF Group’s philosophy is to acquire motivated and well trained employees and retain them on a long-term basis. To further consolidate and expand the Group’s development areas, additional targeted recruitment took place again in 2021. The Group continued its personnel development activities so as to be prepared for future requirements. To ensure that it acquires properly qualified junior staff, LPKF trains electronics engineers for devices and systems, electronics engineers for automation technology, IT specialists for system integration, IT specialists for application development, industrial business assistants, mechatronics technicians, microtechnologists and technical product designers. The Group employed 34 trainees and apprentices at the reporting date (2020: 40).

Levels of sick leave and employee turnover are important indicators of employee motivation and employee retention. At 4.8%, the sick leave percentage in the LPKF Group was below the average for the metal working and electronics industry in Germany (2020: 5.6%) and higher than the previous year's figure of 3.7%. The Group's employee turnover level went down further in 2021, from 6.4% in the previous year to 5.0%.

The average age of the workforce at the LPKF Group was 41.1 (previous year: 40.9).

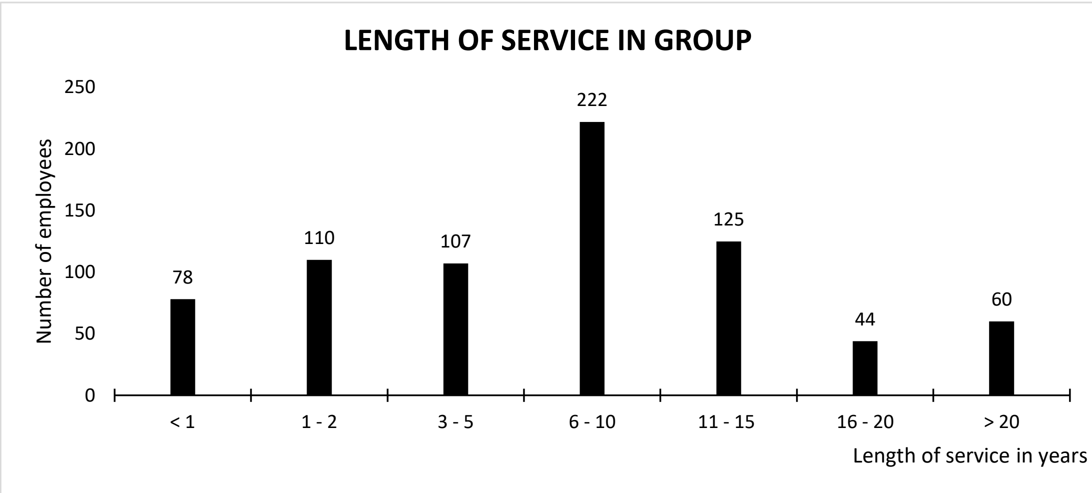
Age structure analysis in years, LPKF Group (excluding trainees)



An analysis of the length of service of LPKF Group employees shows an average of 8.5 years (previous year: 8.8 years). LPKF has a healthy mix of experienced and new employees.

Distribution of length of service in years, LPKF Group (excluding trainees)

Based on the current age structure and a balanced mix of years of service, LPKF is well positioned to face the challenges posed by demographic trends.



NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS OF LPKF AG (SINGLE ENTITY)

The annual financial statements of LPKF AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and are published in the Federal Gazette. The single entity is managed based on the same principles as the Group, on the basis of the IFRSs. By contrast, the disclosures in the net assets, financial position and results of operations are based on the HGB figures stated in the financial statements. On account of the single entity's large share of the value creation in the Group, LPKF refers to the statements in the

"Corporate management" section and in the report on expected developments, which can also be extrapolated for the parent company.

Results of operations of LPKF AG

In the 2021 financial year, LPKF AG generated revenue of EUR 47.8 million (previous year: EUR 46.2 million). The Electronics segment generated revenue of EUR 27.8 million in 2021 (previous year: EUR 25.0 million); the Development segment achieved EUR 18.2 million (previous year: EUR 16.6 million). The percentage of revenue generated internationally was 85% (previous year: 82%).

Other operating income increased slightly year-on-year from EUR 2.3 million to EUR 2.5 million and, in addition to income from affiliated companies, mainly includes income from grants for research and development projects of EUR 0.7 million (previous year: EUR 0.1 million) and from the reversal of provisions in the amount of EUR 0.3 million (previous year: EUR 0.2 million).

The material cost ratio went up by 4% from 40% in the previous year to 44%.

Staff costs increased to EUR 19.7 million in the current financial year (previous year EUR 17.7 million). The number of employees went up. There were an average number of 264 employees working at LPKF AG in 2020 and an average of 298 in 2021. The increase is mainly attributable to development in the LIDE, Arralyze and Software segments. LPKF AG made flexible use of short-time working until 30 April 2021. This reduced staff costs by EUR 0.1 million (previous year: EUR 0.5 million). The staff costs ratio rose by 3%, from 38% in the previous year to 41%.

There was a slight decrease in depreciation and amortization of non-current assets year-on-year to EUR 2.1 million (previous year: EUR 2.3 million). Other operating expenses rose from EUR 12.4 million in the previous year to EUR 14.7 million. There was a significant increase in expenses for third-party work and temporary workers (EUR +1.1 million), including in connection with digitalization projects, for legal and consulting costs (EUR +0.4 million), and for repairs, maintenance, and operating materials (EUR +0.4 million).

The increased expenses meant that LPKF AG achieved a negative EBIT of EUR 6.6 million in 2021 (previous year: EUR -2.5 million). The financial result includes distributions by LPKF USA totaling EUR 2.1 million and by LPKF Slovenia in the amount of EUR 0.5 million (previous year: LPKF China EUR 4.9 million). Due to profit and loss transfer agreements with LPKF SolarQuipment GmbH and LPKF WeldingQuipment GmbH, LPKF AG received a positive contribution to earnings of EUR 4.6 million (previous year: EUR 1.9 million). Of this, a positive contribution to earnings of EUR 2.3 million (previous year: EUR 4.5 million) is attributable to SolarQuipment GmbH and EUR 2.3 million (previous year loss of absorption: EUR 2.6 million) to WeldingQuipment GmbH.

After taxes, the net profit for the year was EUR 1.4 million (previous year: net profit of EUR 3.8 million).

LPKF AG income statement

in EUR million	2021	2020
Revenue	47.8	46.2
Changes in inventory	0.4	-0.9
Other own work capitalized	0.5	0.1
Other operating income	2.5	2.3
Cost of materials	-21.3	-17.8
Personnel expenses	-19.7	-17.6
Depreciation, amortization and write-downs	-2.1	-2.3
Other operating expenses	-14.7	-12.4
Operating result	**-6.6**	-2.4
Financial result	**7.5**	6.3
Income taxes	0.5	0.0
Earnings after taxes	**1.4**	3.9
Other taxes	0.0	-0.1
Net profit/ loss	**1.4**	3.8
Accumulated losses brought forward from the previous year	17.7	16.4
Net retained profits	**19.1**	20.2

Net assets and financial position of LPKF AG

On 31 December 2021, LPKF AG's total assets were EUR 89.3 million, EUR 4.7 million lower than in the previous year (EUR 94.0 million). A total of EUR 2.7 million was invested in tangible and intangible assets in 2021, primarily in LIDE production at the Garbsen location and in IT/software (previous year: EUR 4.0 million, of which EUR 3.3 million for the completion of the production hall for LIDE products at the Garbsen location).

Inventories increased by EUR 0.5 million to EUR 9.8 million. Receivables from affiliated companies amounted to EUR 20.2 million as of the reporting date (previous year: EUR 22.5 million). They mainly comprise financial receivables that are primarily attributable to profit transfers and loans granted to subsidiaries. After a high-revenue month in December, trade receivables went up by EUR 1.7 million year on-year to EUR 5.3 million as of the reporting date.

Due to the increased costs and investments in the LIDE clean room production facility and the development projects in relation to revenue, cash and cash equivalents decreased by EUR 6.0 million to EUR 7.4 million as of the reporting date. Equity amounted to EUR 71.0 million as of 31 December 2021, EUR 1.1 million below the previous year's level. The equity ratio increased to 79.6% (previous year: 76.7%). The scheduled repayment of the two mortgage-backed loans with a combined total of EUR 0.5 million that existed on the balance sheet date led to a further reduction in debt. Liabilities to banks amounted to EUR 1.0 million as of the balance sheet date compared with EUR 1.5 million in the previous year. Other liabilities primarily include liabilities to affiliated companies resulting from both supply and service agreements and financing. Total liabilities amount to EUR 15.2 million compared with EUR 18.4 million in the previous year.

The company's net assets and capital structure developed as follows year-on-year:

	12/31/2021		12/31/2020	
	in EUR million	in %	in EUR million	in %
Long-term assets	38.2	42.8	37.9	40.3
Short-term assets	51.1	57.2	56.1	59.7
Assets	**89.3**	**100.0**	94.0	100.0
Equity	71.0	79.6	72.1	76.7
Current liabilities	18.3	20.4	21.9	23.3
Equity and liabilities	**89.3**	**100.0**	94.0	100.0

Based on the high equity ratio, the Group's net cash position and the unutilized credit facilities, the Management Board considers LPKF AG's net assets and financial position to be very solid.

Investments by LPKF AG

In addition to investments in LIDE production at the Garbsen location and in IT/software, the 2021 financial year mainly saw investments to replace property, plant and equipment. In total, investments in non-current assets amounted to EUR 2.7 million. LPKF AG's research and development expenses amounted to EUR 8.0 million in 2021 (previous year: EUR 7.4 million).

Employees

LPKF AG had 310 employees as of the balance sheet date, 39 more than in the previous year. The new recruitments are in line with the company's mid-term growth expectations.

Dividend

LPKF AG's dividend policy sets down that 30% to 50% of free cash flow should be distributed as a dividend, taking into account that the current corporate situation, economic developments and potential investments, acquisitions or disposal of assets may all lead to a deviation from this policy.

LPKF did not generate a positive free cash flow in the 2021 financial year as a result of the ongoing difficult economic conditions imposed by the pandemic. In the view of the Management Board and the Supervisory Board, investments in LPKF's innovative technologies are essential in the current situation to enable sustainable and profitable growth in the coming years. For this reason, the Management Board will propose to the Annual General Meeting on 19 May 2022 that no dividend be paid for the 2021 financial year. The financial resources from net retained profits are to be used specifically for the development and commercialization of future technologies. In 2021, the company distributed a dividend of EUR 0.10 per share.

Risk report

The business performance of LPKF AG is essentially exposed to the same risks as that of the LPKF Group. These risks are explained in the risk report (section 5) of the combined management report.

OVERALL ASSESSMENT OF THE GROUP'S ECONOMIC SITUATION

The 2021 financial year for LPKF was also largely dominated by one external factor: COVID-19. At the start of the year, LPKF viewed itself as on course to profitable growth. However, there were disruptions in procurement and logistics due to the pandemic during the course of the year. There were also several project delays at one customer, particularly in the Solar segment.

The company recognized the challenge early on and countered it as best it could with targeted measures. The health and safety of employees and business partners is of utmost importance. LPKF also responsibly ensured business continuity. From the Management Board’s point of view, the company successfully pressed ahead with crucial areas for long-term growth such as LIDE and AMP, but also with expansion of the customer and technology base in the Solar segment despite the pandemic. The pandemic also advanced the pace of digitalization of the economy and placed emphasis on the importance of continued development in this area. Digitalization is one of the megatrends for the use of laser technology in electronics manufacturing and will generate opportunities for the LPKF Group.

In the 2021 financial year, LPKF felt the global economic consequences of the coronavirus pandemic more strongly than initially expected. The company had to adjust its own forecasts several times due to delays in customer projects as well as logistics and material bottlenecks. Despite these challenges, LPKF closed the full year with a balanced result of EUR 0.1 million on a slight decline in revenue of 2.8%. LPKF has also made targeted investments in the development of new technologies in the 2021 financial year.

Orders on hand at the end of 2021 were above the level of the previous year, at 63.5%. The Management Board is monitoring the current order situation and the performance of the individual market segments very carefully, especially considering the unclear macroeconomic outlook, the economic repercussions of the coronavirus outbreak and the opportunities arising from the changing market environment. On the whole, there is still a strong interest in LPKF’s solutions. The Management Board has introduced measures to boost sales further and actively drive forward the commercialization of new products.

In light of the macroeconomic situation and partial underutilization, LPKF applied for short-time working with the Federal Employment Agency at all locations in Germany up to and including June of the 2021 financial year, and made flexible use of this option. The Management Board also wants to ensure efficiency, reduce fixed costs and prepare the company both for a recession scenario and for a rapid recovery scenario of either the global economy or individual market segments and the opportunities this would entail.

LPKF counters potential liquidity risks with forward-looking, currency-differentiated liquidity and working capital planning.

Currency-differentiated liquidity planning enables the Group to initiate measures at an early stage regarding the required liquidity resources. In addition to the main influences on cash flows, contingencies that could have an impact on the future liquidity situation are also taken into account. Since the LPKF Group has only moderate debt, it also has adequate liquidity reserves of EUR 25.0 million in the form of credit facilities. In addition, two unsecured guarantee facilities of EUR 10.0 million each were opened with international insurance companies in the 2021 financial year.

In the past year, the liquidity situation was particularly affected by problems in the supply chain. Due to delivery delays and general uncertainties in logistics, LPKF decided to increase inventory levels in the interest of its customers.

The Management Board continues to believe that the Group has sufficient resources to continue its operating activities for at least another twelve months and that the going concern assumption remains appropriate as a basis for accounting.

SUPPLEMENTARY REPORT

DISCLOSURES ON PARTICULARLY SIGNIFICANT EVENTS

Please see the notes to the consolidated financial statements for reportable events after the end of the reporting period.

REPORT ON OPPORTUNITIES

OPPORTUNITY MANAGEMENT

As a technology company, LPKF does business in a dynamic market environment. New opportunities constantly arise from a changing technology landscape and new market requirements. Systematically identifying and leveraging these opportunities is a major factor for the sustainable growth of the LPKF Group. Opportunity management involves closely monitoring new markets and applications, evaluating market analyses and regularly reviewing the product portfolio.

The business units and specialist product and innovation managers (Group Development) systematically seek out new technologies and applications. The responsibility for identifying opportunities in the product groups and markets lies with the product managers and international subsidiaries. Results are regularly reported to the company’s management.

Opportunities also arise from improved market penetration, service and further operating improvements. These opportunities are systematically collected, analyzed and addressed by customer relationship management.

If it is likely that opportunities will materialize, they are included in the planning and outlook for the coming years. The opportunities listed below focus on future trends or events that could result in a positive deviation for LPKF from the outlook given in the report on expected developments. Taking into account the existing estimation uncertainty, the opportunities presented below can make a substantially positive contribution to earnings.

OPPORTUNITIES

Further development of the existing product portfolio

LPKF updates its product portfolio on an ongoing basis, aligning this activity with signals from customers, technological progress outside the company and changing markets. At the same time, it also pursues own research and development to fuel innovations. The company thus aims to always be prepared to meet future customer needs, while at the same time actively creating new market demand through its own innovative processes. LPKF ensures its ability to innovate for the future by closely networking its development departments with product managers, sales and service as well as investing approximately 10% of revenue per annum in research and development. The continuous development of the product portfolio can lead to changes in the product mix. These changes present risks as well as opportunities.

New technology breakthroughs/expansion into new markets

In addition to its established markets, LPKF also focuses on attractive new markets that offer promising growth and income opportunities. Moreover, LPKF aims to open up new markets and further cement its presence in existing markets by developing new products. The purpose of continuous market and technology monitoring is to identify market opportunities at an early stage. Based on this monitoring, technology studies are conducted, which provide an opportunity to register industrial property rights on novel solutions, among others.

Takeover of external companies with strategically relevant expertise

In the Management Board's opinion, LPKF has a broad product portfolio and many ideas for further developing products and uncovering new market opportunities. This is why organic growth is at the forefront of its corporate strategy. Nonetheless, the company also pursues opportunities for external growth that could come from acquiring patents, companies or personnel with strategically relevant expertise.

Impact of the megatrends of miniaturization and digitalization

The production methods developed by LPKF enable the miniaturization of components and often have commercial and quality advantages compared with conventional production techniques. Above average growth is possible if customers decide to abandon traditional methods in favor of LPKF's equipment. Especially in a rapidly changing market environment, many of LPKF's customers see the need to make larger investments in their in-house development and to launch new products. This benefits sales of LPKF products to development laboratories. Both the increasing digitalization of production and LPKF's intensive development activities are making laser-based machinery ever more attractive to customers than established technologies, including for mass production.

Digitalization can open up new opportunities, particularly for service. The planned networking of machines will enable service employees to make individual service offers to their customers directly at the machine or via mobile app. This will enable new business models to be developed and existing service processes to be made more efficient.

Independence of individual markets as a result of broad positioning

LPKF's strategy to build on its core competencies and expand into different markets has a potentially stabilizing effect against the backdrop of cyclical markets. The various markets served by LPKF often have asynchronous and different industry cycles. This strategy also offers low sensitivity to the technological cycles of LPKF's own products.

Improving market penetration

LPKF works to continuously improve its market penetration in different regions and sectors, and for potential applications and customer groups. Experience and customer relationships are exploited to find additional areas of application and sales potential. Going forward, LPKF intends to further expand and generally professionalize this systematic, often comprehensive market development approach in order to achieve more profitable growth with both new and successfully established products. This includes the sale of machinery, services and – increasingly – production services as well.

Operating improvements

Potential for improvements in costs and use of the company's capital is continuously monitored and actively pursued. This includes improving working capital and cash flow over the long term. The level of overall cost discipline throughout the company viewed as high by the Management Board is being maintained and strengthened further. Programs aimed at reducing inventories and trade receivables will be continued; sub-projects in inventory optimization were interrupted due to the tight procurement situation. These measures make a significant contribution to maintaining and enhancing the company's competitiveness and profitability.

Business organization

The consistent alignment of the corporate structure to the corporate strategy has created one of the key conditions for exploiting opportunities for further growth. The Group's organization and internal processes are continually future-proofed, made leaner and faster, and focused on market proximity and profitable growth. Going forward, LPKF intends to use economies of scale more intensively and, at the same time, make general and administration functions leaner and more productive.

Utilizing opportunities arising from COVID-19 challenges

The pandemic is intensifying activity in the digital economy and underlining the importance of digitalization and development of the industrial Internet of Things. This is reinforcing one of the megatrends for the use of laser technologies. As electronic and non-electronic devices become more powerful and more multifunctional, this increases the number of electronic components – including antennas, sensors and MEMS – they require. This has the potential to increase demand for LPKF's production solutions. Furthermore, the reinforcement of the medical industry may well give rise to new opportunities for the use of LPKF technologies in medical applications. There has been an acceleration in virtual working with our customers for the launch of new technologies. In the long term, this will enable LPKF to promote innovation quicker and therefore reduce time to market. Additional potential could also arise from more flexible working arrangements for the company's workforce, leading to more innovation and productivity. In IT services, too, progress was made in virtual troubleshooting and remote support due to the pandemic-related travel restrictions. This development will continue.

RISK REPORT

DESCRIPTION OF THE INTERNAL CONTROL SYSTEM

Overview

The internal control system (ICS for short) comprises the principles, procedures and measures introduced by LPKF management that focus on the organizational implementation of management decisions and legal requirements with the aim of safeguarding the company's assets and boosting its operating efficiency.

The ongoing development of the ICS involves analyzing the company's functional areas on an ongoing basis, for example through audits, workshops and internal audits, and assessing the probability of losses occurring in these areas and the extent of potential losses.

The Management Board organizes the structure of the individual units and constantly adjusts workflows based on the findings gathered from the ICS. Essential principles that apply include separation of functions, the principle of dual control and restricted access to IT systems. Examples of these can be seen in signature regulations, process workflows, approval requirements for significant transactions and IT access authorizations.

The results of internal audits are presented to the newly created Supervisory Board Audit and Risk Committee and then shared with the entire Board Supervisory Board and the findings are processed in a timely manner. Follow-up audits ensure that the agreed implementation of the findings is monitored and documented regularly. Implementation is the responsibility of the Management Board.

The risk and opportunity management system is an integral part of the ICS.

Risk management system

Risk management is pursued actively at LPKF, as is opportunity management, which is treated separately. The company employs a number of reporting tools for this.

Risk management at LPKF involves the formulation and implementation of measures suitable for identifying existing risks, hedging them, reducing the probability of their occurring, mitigating them or consciously accepting them to a reasonable extent. This ensures that risks are identified and controlled proactively. The risk management system is interlinked with compliance management.

The risk early warning system in particular is always a fundamental element in the planning and implementation of LPKF's business strategy. Strategic planning and the associated reporting system are particularly important.

The Management Board of LPKF AG is responsible for risk policy and the internal control and risk management system. The second- and third-level local management staff implement these control functions in each of the Group's organizational units. In this way, the responsible employees can use suitable and effective means to identify new risks quickly and directly where they arise and then report them to the risk manager. A central database is used for reporting.

A risk report is submitted to the Management Board on a monthly basis and to the Audit and Risk Committee respectively the entire Supervisory Board on a quarterly basis. In addition to regular reporting on identified risks, ad hoc reports must be prepared as needed on all risks that occur unexpectedly. The risk manager reports directly to the Management Board. The risk management system is subject to scheduled inspections via internal auditing.

In the 2021 financial year as in previous years, existing and potential risks were reassessed and the reporting system was reviewed to ascertain its efficiency in managing risks. This is particularly the case in view of the increased requirements resulting from the revised version of the IDW PS 340 auditing standard. A database-supported reporting system has been installed.

An international firm of public auditors performs internal auditing tasks for the entire LPKF Group. These audits are based on a multi-year audit plan agreed with the Supervisory Board respectively the Audit and Risk Committee. Three audits and one workshop were conducted in the Group in the 2021 financial year.

Description of the main features of the internal control and risk management system relevant to the accounting process (Section 289 (5) German Commercial Code)

The internal control and risk management system relevant for the accounting process is designed to ensure proper accounting and the associated financial reporting.

The workflows in the Group are structured around processes and are largely identical thanks to use of the same ERP system in key units of the Group. Automatic process controls are integrated in this system and protected from unintentional changes through an IT-based authorization concept.

The LPKF Group fundamentally applies the dual control principle on the basis that the general division of administration, execution, accounting and approval functions and the sharing of these functions across different employees and/or departments reduces the possibility of fraud. As a manual control, it also underlies the process descriptions, signature regulations, guidelines and work instructions.

Since 2019, the local finance functions have been reporting directly to the central head of financing at the headquarters.

Key corporate governance functions, Group accounting and internal auditing for LPKF AG are based at the Group headquarters.

The entries recorded at the parent company and the subsidiaries provide the data used to prepare the consolidated financial statements. LPKF secures the quality of this data by selecting suitable staff, regularly training employees and enlisting the help of specialists. Before being included in the consolidated financial statements, the data is subject to automatic and manual controls. The consolidated financial statements are prepared in a system that is separate from the ERP system to which only a limited group of authorized persons has access. In further developing the systems, the focus is on automating standard procedures to the greatest extent possible. The annual financial statements of the parent company and the consolidated financial statements are subject to a statutory audit, one component of which is to check whether the Management Board has met the requirements of Section 91 (2) of the German Stock Corporation Act on setting up an appropriately structured risk early warning system, and whether the risk early warning system is suitable for identifying developments that would endanger the company's status as a going concern at an early stage.

Based on the organizational, control and monitoring structures defined by the Management Board, the internal control system supports the goal of a complete recording and proper presentation of transactions in the company's accounts.

However, despite these measures, personal judgments, defective controls and criminal acts in particular cannot be fully excluded. This could limit the effectiveness of the internal control system, which means that even the strict application of regulations provides no absolute guarantee for the correct, complete and punctual recording of all the facts in the accounts.

SPECIFIC RISKS

The risk management process currently involves dealing in detail with the specific risks listed in the table below, which could have a significant impact on the LPKF Group's business, as well as its net assets, financial position and results of operations.

The following risks in particular are given with high priority and are shown in the table according to risk-minimizing measures (unweighted net presentation)*:

Specific risk (segment)	Qualitative probability of occurrence		Possible financial effects	
	Category	in %	Category	Loss amount
Market acceptance of new technologies (Electronics, Solar)	POSSIBLE	over 25% and up to 50%	SIGNIFICANT	over EUR 5 million
Personnel risks relating to key functions (all segments)	LESS LIKELY	up to 25%	SIGNIFICANT	over EUR 5 million
Supply shortage due to Covid-19 (all segments)	POSSIBLE	over 25% and up to 50%	MODERATE	up to EUR 5 million
Recession due to Covid-19 (all segments)	Reviewed and assessed regularly outside the control system schematic			

* Previous year's figures are shown in parentheses if they have changed

The risk of "financial consequences of dependence on individual customers" mentioned in the previous year was significantly reduced in 2021. Further areas of application were opened up for our technologies, enabling a broader customer base. As a result, the probability of occurrence of this risk has decreased. It is thus no longer considered a high priority and so is no longer reported on here.

The risk of "recession due to COVID-19" and the new risk of "COVID-related supply bottlenecks" in the reporting year are being monitored more actively than provided for by the risk management system. The company is reviewing its potential impact on all business segments. LPKF took very early action to set up an internal task force. Its job is to provide advice on a continuous basis on the current situation and steps taken to protect employees and the company, and to implement any measures announced. This move allowed LPKF to respond to the pandemic early and with a firm hand, introducing a raft of measures to protect the health of employees and their families. Where possible, employees have been able to work on a mobile basis (e.g. from home) since the start of the pandemic. The company locations are divided into sections with minimal physical interaction, and precautionary hygiene measures are being adapted on a situation-specific basis and implemented systematically. These measures have meant that LPKF was able to – and is continuing to – run its business operations uninterrupted, including production at all locations. No employee at an LPKF site has been infected with COVID-19.

As part of its risk management strategy, LPKF is continuously monitoring the supply chain to identify any potential risks. Suitable measures are defined and introduced on the basis of a risk assessment. The catalog of measures relating specifically to the COVID-19 risk include monitoring and identifying at-risk suppliers, increased communication within the affected supply chain, short-notice stock flow adjustments and the use of alternative components. Nevertheless, LPKF is also affected by supply bottlenecks and, in some cases, by higher prices and a lack of transport capacity. The risk is monitored very closely and, in 2021, led only to minor loss of revenue in the fulfillment of customer orders.

Order and sales risks are regularly discussed by the Management Board individually with all business unit managers and appropriate measures are derived.

Credit risk management to assess potential customer default risks is being performed in detail.

LPKF is protected against material payment defaults by a broad-based trade credit insurance policy. Further safeguards have been put in place through a combination of credit checks, agreement of specific payment terms and a policy requiring customers to make advance payments before delivery, particularly where trade credit insurance policies are not effective.

LPKF continues to respond quickly to an increase in demand – whenever it occurs. The company does not see any risks that jeopardize its continued existence at present, and no such risks for the future can currently be identified.

General business risks are monitored regularly along with all other risks and reassessed where necessary. To provide an overview of the possible general business risks, they are set out below alongside the high priority risks.

Other risks that are currently unknown or that are currently (still) considered negligible could also have a negative impact on business.

Market acceptance

Cause

As a technology company, LPKF primarily supplies manufacturing solutions for current and future technical issues. There is a risk that the demand for LPKF's manufacturing technologies will be adversely affected by changes in end customer markets or that markets will not accept the new technologies developed by LPKF at all or only to a limited degree. In the markets, some of which can be quite cyclical, there is an additional risk when the capacity and willingness to invest in new technology diminishes temporarily in response to the state of the economy. The emergence of competing techniques can lead to declining revenue and income, particularly if these techniques prove to be technologically and/or economically advantageous.

The competitive situation and rapidly changing technological requirements are associated with risks that apply to all the segments. LPKF's success depends significantly on the speed and quality with which new products can be developed to market readiness and customers can be convinced of the developed technologies.

Measures
Permanent follow-up by the Management Board is an integral part of the risk management system to review the sustainable value of new developments and integrate these findings in the product strategy. This follow-up also involves the business unit heads and technology management. The development of high-quality products in a structured, expeditious flow of development projects is underpinned by a structured idea generation and development process. In addition to frequently achieving cost benefits by investing in LPKF's technology, the company's customers can also receive competitive benefits and harness the associated market opportunities. This requires continuous engagement with the market and close contact with end customers. This approach has made it possible to repeatedly replace established technologies with laser-based processes. New applications are developed and promoted for existing technologies. The technologies are also protected by patents.

Effects on economic situation
On the whole, innovation is critically important for the LPKF Group. The competitive situation and rapidly changing technological requirements call for a flexible and dynamic development process. The probability of occurrence of market acceptance risks is currently viewed as possible, and the financial effects are considered significant (see table on specific risks).

Personnel risks

Cause
Demand for qualified technical and non-technical personnel in the mechanical engineering and manufacturing industry in general – especially for high-tech companies – is extremely high. The situation with regard to finding suitable candidates to fill positions has become more demanding in recent years as a result of the growing skills shortage even though, from the Management Board's point of view, LPKF's reputation and technology still make it an attractive employer – particularly for engineers and software developers.

Due to the fact that LPKF's staff are highly qualified, all segments are exposed to the risk of losing key employees with important expertise as a result of headhunting and not being able to fill vacancies in a timely manner.

Measures
An attractive working environment and development opportunities within the LPKF Group are offered to employees to retain top performers at the company. Particular emphasis is placed on individual flexibility, remuneration that reflects performance and a good working environment. Executives have an important role to play in maintaining employee satisfaction and retaining staff. Leadership issues have been the focal point of many discussions and meetings, including at management events. Against the backdrop of events in the reporting

year, LPKF nevertheless offered its employees and prospective job candidates a safe working environment and highlighted development prospects for the company. In the reporting period, LPKF also responded very quickly under the circumstances with health protection measures during the pandemic, extensive home working arrangements and management leadership training. LPKF topped up the short-time working allowance to 100% of an employee's net salary and paid a coronavirus bonus to employees in Germany in the reporting year. This further boosted employee retention, which is also reflected in the high participation rate in the employee participation program of 43.3% (international). HR marketing was continued and intensified over the reporting period under the unique circumstances, particularly on social media, to enhance LPKF's profile on the labor market as an attractive employer among small and medium-sized high-tech mechanical engineering firms.

Effects on economic situation

Thanks to its attractive working environment, contacts with universities and the company's growing profile in the laser sector, only in a few cases to date has LPKF had difficulties attracting adequately trained staff. Strong demand for internships and traineeships and the number of unsolicited applications received are evidence of this. However, there continues to be a risk in all segments associated with the loss of key employees with important expertise as a result of headhunting. The probability of this risk occurring is currently estimated as less likely. The financial effects can be described as significant (see table on specific risks).

General business risks

Cause

LPKF operates internationally in a fast-paced and ever-changing environment. The company's customers are exposed to considerable cost and competitive pressures as well as curtailed investment budgets. Business in LPKF's target markets is cyclical and project-driven, with particularly strong fluctuations in the electronics industry as well as the automotive and solar industries.

Economic fluctuations have a strong impact on investment in production equipment. Customers' risk appetite and willingness to expand capacities or introduce new technologies is limited, especially in markets outside Asia. New investments are often only made when future utilization of such equipment appears assured by tangible orders from customers.

LPKF is also exposed to risks associated with a rapidly changing technological environment. The availability of high-quality components enables new players to bring to market cost-efficient competitive products or alternative techniques.

The systematic development of new technologies and business segments is generally associated with the risk that the planned business model may fail to meet its targets. There is also the risk that new technologies may not be accepted by the market overall or may be accepted only after a considerable time lag.

Product liability risks in connection with patents and warranty of title arise to different degrees in all segments. There is also the risk that recall costs may be incurred.

Increasingly long lead times and occasional bottlenecks in the supply chain also need to be factored into purchasing. This can lead to delays in delivery and, in the worst cases, to contractual penalties. The current COVID-19 situation and in particular the war in Ukraine have led to a deterioration in the global supply situation.

Last but not least, risks may also arise from possible changes in laws, e.g. with respect to the import of capital goods to China or other important markets such as the US.

Measures

To continue expanding the various business areas, it is important to have a robust innovation and product management system with state-of-the-art technology and to be in close contact with customers in close proximity to the market. Overall, around 10% of revenue will continue to be invested in research and development in the future.

To compensate for fluctuations in the utilization of capacities, LPKF is focusing on flexible structures in production and on collaboration between the LPKF production locations. In addition, peak capacity utilization levels are covered by way of external production service providers and recourse to temporary workers. In the case of lower capacity utilization levels, the depth of production can be increased.

Capacity utilization in the Solar segment increased significantly in the course of the year. Due to project postponements on the customer side, not all services could be included in revenue in 2021. Due to two major orders in the summer of 2021, a consistently high capacity utilization of the Suhl site is expected for 2022. The LTP technology is expected to reduce the Solar segment’s dependence on the solar industry in the long term.

Existing product liability risks are covered by insurance policies where possible. The same applies to potential product recalls.

Effects on economic situation

On account of the measures already in place and in the pipeline, occurrence of the risks described above is classed as very low, such that these general business risks are not considered a high priority.

Other risks

In addition to the significant risks described above, the Group is also exposed to the following risks, among others:

Exchange rate fluctuations

Cause

LPKF is exposed to foreign currency risks on account of its strong export focus and its international customer base. The exchange rates between foreign currencies and the euro can undergo major fluctuations. For LPKF, the main fluctuations are those with regard to the US dollar (USD) and the Chinese renminbi (CNY). This risk also includes obligations from hedging relationships entered into that arise from delays in the underlying transaction (e.g. late receipt of a foreign currency payment). As a rule, the LPKF Group endeavors to conclude contracts in euros, but some businesses transactions with international customers are also billed in foreign currencies. If business transactions are invoiced in euros, exchange rate volatility can have an indirect impact on LPKF's competitiveness because most of its competitors are not from the eurozone and material costs at LPKF are incurred in euros.

Measures

Foreign currency risks in the operating and financial areas of the company are identified, monitored and reported on continuously. To protect itself against exchange rate risks from foreign currency transactions, where possible LPKF creates natural hedges through corresponding sourcing in these currencies. To cover any residual material foreign currency exposure, LPKF also engages in hedging in the form of forward exchange transactions. This part of risk management is handled centrally by LPKF AG in Garbsen, Germany, and where required also on behalf of subsidiaries. Most of the foreign currency cash flow is used either for procuring materials in the same currency or hedged by engaging in forward exchange transactions.

Effects on economic situation

Fluctuations in exchange rates can have a moderately positive or negative effect on earnings and on competitiveness. Counter measures are permanently reviewed and implemented as far as possible.

Explanations on risks from the use of financial instruments can also be found in the notes to the consolidated statements in the "Other disclosures" section.

IT risks

Cause

In terms of its information, its international activities and the IT systems used for processing, the Group is potentially exposed to the risk of industrial espionage or disruptions by internal or external perpetrators, just as much as other innovative companies.

Measures

By implementing redundant IT infrastructures, which increasingly also make use of cloud solutions, LPKF protects itself against risks that may occur in the event of a systems failure or natural disaster. Security is also ensured by means of a restrictive policy for granting access authorizations to systems and information as well as by maintaining distributed backups of business-critical data. The company uses various IT security technologies to mitigate the risk of unauthorized access to company data. In addition to technical measures, LPKF also provides training to all employees. IT security measures are evaluated by way of audits conducted by both internal staff and external consultants. In this context, LPKF adheres to national and international standards. The results are structured for management reporting and serve as a planning and decision-making tool for future risk management. IT security technology was aligned more heavily to remote working and all the required services were provided to employees remotely.

Effects on economic situation

The performance of so many security measures is sometimes costly, but results in LPKF being able to classify the probability of occurrence of such a risk and possible loss as moderate. LPKF's insurance policy covers it against cyber risks. A small risk that cannot be fully excluded still exists with regard to general IT security due to the rapid pace of continuing technical developments.

MANAGEMENT'S ASSESSMENT OF THE GROUP'S RISK SITUATION

The war in Ukraine and the associated shortage of resources are likely to cause inflation to rise further worldwide and give rise to fears of a recession. The Ifo Institute currently believes that inflation of 5 % is possible for Germany in 2022. Gas and oil could become significantly more expensive. The consequences for the global economy and LPKF's markets are not yet foreseeable in concrete terms at the time of publication of this Management Report. Added to this are the effects of the pandemic, which will still be felt in 2022. Against the backdrop of the political and economic environment, the ability to plan and predict LPKF's business development is significantly limited in most of its divisions. The supply chains must be viewed critically in terms of delivery reliability and stability. The financial situation is stable due to the solid financial and earnings position and continues to allow LPKF to carry out all planned investments. The various individual risks only have a limited influence on the overall risk situation of the Group.

The review of LPKF's overall risk situation has led to the conclusion that there are currently no concrete risks to the Group's continued existence as a going concern.

In accordance with the German Stock Corporation Act, the auditor of LPKF AG also audits the existing early warning system for risks potentially jeopardizing the Company's continued existence pursuant to Section 317 (4) HGB in conjunction with Section 91 (2) AktG.

REPORT ON EXPECTED DEVELOPMENTS

MANAGEMENT'S ASSESSMENT OF THE GROUP'S EXPECTED DEVELOPMENT

Economic environment

At the beginning of 2022, supply bottlenecks, the uncertain development of the economy in China and the still unclear effects of the omicron variant of the coronavirus had a dampening effect on the development of the global economy. The economic recovery is not expected to pick up again until 2022. Accordingly, economic forecasts have been scaled back somewhat. The International Monetary Fund (IMF) is expecting the global economy to grow by 4.4% in 2022. They expect GDP growth to be lower in 2023, at 4.0% and 3.2% respectively.

For the advanced economies, the IfW anticipates economic output to increase by 3.8% in 2022 and 2.9% in 2023. In the USA, a similar development is expected, with growth of 4.4% in 2022 and 2.9% in 2023. The picture is similar for the eurozone, with increases of 3.5% in 2022 and 3.1% in 2023.

For Germany, the economic researchers expect slightly better economic development than in the eurozone as a whole. The IfW forecasts an increase of 4.0% for the current year and 3.5% for 2023. The institute downgraded its forecast from fall 2021 by more than 1%, however, and now does not expect Germany’s economy to return to its pre-pandemic level until the second quarter of 2023. The German government has downgraded its forecast for the current year to 3.6%.

For the emerging economies, the IfW anticipates strong growth of 5.4% in 2022 and 5.1% in 2023. At 4.1% and 4.9%, however, the expectations for China – the key country here – are below the Chinese average of recent years. Even with growth of 5.1% in the current year as forecast by the World Bank, this would represent the lowest growth since 1990. The coronavirus, trade disputes and an aging population are among the reasons for China’s expected weak economic development.

Following the partial recovery of the global economy in 2021, growth in the current year will be more moderate with lower growth rates. Economic development will continue to be impacted by the global pandemic, the rise in inflation, supply chain difficulties and debt.

The business performance of LPKF AG is influenced by not only general economic conditions but also developments in the electronics industry and consumer electronics in particular, the automotive industry, solar industry and plastics industry.

For the electronics industry, the IDC anticipates sales to increase by 3% in 2022. Growth of 3.5% is also expected for subsequent years. This represents a significant reduction in forecasts.

According to analysts at Ing/Moody’s, the global automotive markets will continue to recover in the current year. However, the markets will continue to be impacted by the ongoing semiconductor shortage. Sales volumes are expected to increase by 5% to 84.3 million passenger cars. The markets will be influenced by the chip shortage and the switch to electric vehicles.

According to a forecast by IHS Markit, the installed capacity of global PV systems will increase by more than 20% in 2022, accompanied by rising prices for PV systems. The photovoltaic industry is benefiting from the rising demand for renewable energies. For German manufacturers of photovoltaic systems and equipment, the VDMA expects a significant increase in sales of 15% in 2022. The further development of new technologies and products will play an important role here.

According to a study by IHS Markit, annual consumption of plastics is expected to double worldwide by 2030. Factors contributing to this include demand for new lightweight materials in automotive manufacturing and new applications in medical technology and electrical engineering.

According to a forecast by the VDMA, the German mechanical and plant engineering sector is expected to grow by 7% in 2022 and has a high level of orders on hand.

The Russian invasion of Ukraine began on 24 February 2022. This attack marked the most drastic escalation so far in the conflict in Ukraine, which has been ongoing since 2014. The impact on the global economy is currently not yet foreseeable. Other political developments such as the rivalry between the USA and China, as well as rising inflation fears, could also have a negative impact on global economic development.

Group performance

Looking to the future, LPKF does not expect COVID-19 to have a lasting impact on the global economy. It is possible, however, that more infectious viral mutations of SARS-CoV-2 will continue to have a negative impact on economic development in the 2022 financial year. In particular, the bottlenecks in procurement and logistics resulting from the pandemic may continue to worsen before the situation eases. Added to this are the consequences of the Ukraine war on the global economy, which are not yet foreseeable at the time of publication of this report.

On the whole, the Management Board anticipates moderate overall economic growth in global GDP in the current year. The company is expecting key customer industries to continue to face challenges in connection with COVID-19 and sector-specific structural changes. Nevertheless, LPKF does expect conditions to improve in the 2022 financial year. This applies in particular to business areas that are benefiting from the advancing digitalization of the economy and industry, which is helping customers to make their production operations more efficient in terms of energy and resources.

The strategic focus of LPKF Laser & Electronics AG is on the development of innovative technologies that have the potential to bring about lasting changes to products, components and production in the electronics and semiconductor industries and beyond.

Thanks to the strategic and operational measures that the Management Board has successfully implemented over the past three years, the company today is financially stable and demonstrating sustained profitability. LPKF is able to expand its operating activities further through a stronger focus on customer needs and operational improvements. Investments in the development of new technologies and applications are being fully implemented despite the coronavirus crisis. The Group’s significantly increased diversification in recent years has considerably reduced its dependence on individual market segments and customers.

The Management Board still sees significant potential to increase the company's revenue and earnings. This potential arises from the technologies that LPKF has mastered, its ability to integrate them in high-performance solutions, the extraordinary expertise of its employees and the resulting value contribution for its customers.

The Management Board anticipates the following developments for the future:

- Megatrends such as miniaturization, digitalization and clean production methods will help to establish the laser as a dominant tool.
- Demand among customers for efficient, laser-based solutions for the production of components and products will remain high. The number of applications will grow. New product developments and sales channels will be established.
- LIDE technology will be used for the first time for volume manufacturing – e.g. in the semiconductor, display and other industries – and will become permanently established as a key technology.
- Green energy will continue to gain in importance and increase the demand for efficient solar modules.

LPKF assumes that the company's technologies will continue to be required to produce innovative and sustainable products in the electronics, semiconductor and solar industries. A large proportion of the company's revenue is dependent on customers who want to introduce new products or production technologies and require LPKF's laser technology to do so. This business is expected to take place as planned or, in the worst-case scenario, with delays. Pure customer capacity expansions, however, are dependent on short- and medium-term demand from end customers.

The Management Board will continue to drive forward the company's growth through targeted measures, even during the coronavirus pandemic:

- LPKF will continue to invest in technological development to extend its leading position in laser-based micromaterial processing. In doing so, the company will address the specific parameters that drive economic success for its customers, thereby creating a tangible competitive advantage for them.
- LPKF will specifically drive the development of technologies that help customers to conserve resources and make their production operations more energy-efficient.
- LIDE technology will be expanded further and its establishment in various application areas will be ramped up.
- The company will ramp up its sales activities and continue to build up market penetration in the individual segments.
- After-sales service will be further expanded as an additional growth platform.
- The Management Board will also target potential growth through M&A activities, but only where the value enhancement generated by these activities is clearly identifiable.

LPKF as a company will retain its agility and flexibility so that it remains capable of responding quickly to a range of macroeconomic developments. Overall, LPKF expects further profitable growth in the medium term, even in a volatile economic environment. The company is – and will remain – in a good financial position and has the necessary funds for investments and further growth.

Development of significant indicators and outlook

2021 financial year

Revenue reached EUR 93.6 million in the 2021 financial year, down 2.8% on the previous year's figure. At EUR 0.1 million, EBIT was below the previous year's figure of EUR 7.5 million. The EBIT margin shrank from 7.8% to 0.1%.

ROCE reached 0.1% (previous year: 9.0%), which was below the target figure.

There was an improvement in capital tied up in working capital over the past year. It reached a figure of EUR 19.3 million by the end of the reporting period (previous year: EUR 20.5 million). Due to the logistics and material bottlenecks, the company increased inventories in order to ensure delivery to its customers. The increase was sufficiently compensated by advance payments received from customers. The net working capital ratio decreased from 21.3% in the previous year to 20.6%.

At EUR 117.8 million, incoming orders during the reporting period were 15.3% higher than the previous year's level of EUR 102.2 million. Orders on hand of EUR 62.6 million at the end of the year were EUR 24.3 million higher than in the previous year.

2022 financial year

Against the backdrop of the current political and economic environment, the ability to plan and predict the development of LPKF's business is significantly limited in most of its divisions. In the current uncertain environment, LPKF expects consolidated revenue of EUR 110 - 130 million and an EBIT margin of between 2% - 7% for the 2022 financial year.

The company is expecting a reduction in working capital and stable development of the error rate compared with 2021. ROCE is generally expected to follow the earnings trend, and free cash flow is expected to increase.

Regarding the performance indicators, the expectation is that LPKF AG will essentially develop in line with the Group's forecast.

Subsequent years up to 2024

For subsequent years, the company continues to expect sustainable, profitable growth in all segments. Taking into account stronger revenue and earnings contributions from LIDE, LPKF continues to expect consolidated revenue of more than EUR 360 million and an EBIT margin of at least 25% for 2024, with further growth after that.

CORPORATE GOVERNANCE DECLARATION

The corporate governance declaration pursuant to Sections 289f and 315d of the German Commercial Code is part of the combined management report. The declaration is available for the public on LPKF AG's website and included in the corporate governance report.

TAKEOVER-RELATED DISCLOSURES

The takeover-related disclosures required under Section 289a and Section 315a of the German Commercial Code are shown below. The subsequent explanation of these disclosures also meets the requirements of an explanatory report as defined in Section 176 (1) sentence 1 of the German Stock Corporation Act.

COMPOSITION OF SUBSCRIBED CAPITAL

On 31 December 2021, LPKF AG's subscribed capital was EUR 24,496,546.00. The share capital is made up of 24,496,546 no-par value ordinary bearer shares (no-par shares). No preferred shares have been issued. One no-par share represents a pro-rata interest of EUR 1.00 in the share capital and (with the exception of own shares) one vote at the Annual General Meeting. The rights and obligations of the no-par shares comply with the relevant requirements of the German Stock Corporation Act, specifically in Sections 12, 53a et seq., 118 et seq. and 186. Both the exercising of voting rights and the transfer of shares are subject solely to legal limits.

DIRECT AND INDIRECT INTERESTS IN THE SHARE CAPITAL EXCEEDING 10% OF THE VOTING RIGHTS

To the best of LPKF's knowledge, there are no direct or indirect interests in the share capital exceeding 10% of the voting rights as of the reporting date.

LEGAL REGULATIONS AND PROVISIONS OF THE ARTICLES OF INCORPORATION ON APPOINTING AND DISMISSING MEMBERS OF THE MANAGEMENT BOARD AND ON AMENDING THE ARTICLES OF INCORPORATION

The provisions on appointing and dismissing members of the Management Board and on amending the Articles of Incorporation comply with the respective requirements of both the German Stock Corporation Act and the Articles of Incorporation. Complementing Sections 84 and 85 of the German Stock Corporation Act (AktG), Article 7 of the company's Articles of Incorporation governs the Management Board's composition as follows: The Management Board shall comprise one or more persons. The Supervisory Board shall determine the number of Management Board members. Deputy members of the Management Board may be appointed. They have the same rights as the regular members of the Management Board when representing the company vis-a-vis third parties. The Supervisory Board shall determine the number of both regular and deputy members of the Management Board and appoint them, enter into director's contracts with them as well as dismiss them. Likewise, the Supervisory Board may also appoint a member of the Management Board to serve as its chairperson or speaker and appoint additional Management Board members to serve as deputy chairpersons or speakers.

Under Sections 133 and 179 of the German Stock Corporation Act, in conjunction with Article 25 (1) of the company’s Articles of Incorporation, the latter may only be amended by resolution of the Annual General Meeting, which must be adopted by the simple majority of the share capital represented at the meeting unless larger majorities are required by law. The Supervisory Board is authorized under Article 12 (2) of the Articles of Incorporation to make amendments that affect solely the given wording.

MANAGEMENT BOARD AUTHORIZATIONS TO ISSUE AND BUY BACK SHARES

The Management Board is authorized by resolution of the scheduled Annual General Meeting on 4 June 2020, subject to the Supervisory Board’s prior approval, to buy back own shares until 3 June 2025 corresponding in total to up to 10% of the company’s share capital either on the date the resolution was adopted or on the date the authorization is exercised, whichever is higher. Together with other own shares held by the company or attributable to it in accordance with Sections 71d and 71e of the German Stock Corporation Act (AktG), the shares acquired may at no time account for more than 10% of the share capital. The authorization may not be used for the purpose of trading in own shares. The authorization may be exercised in whole or in part, on one or more occasions, in pursuit of one or more purposes by the company or companies dependent upon it or majority-owned by it, or by third parties acting on their behalf or on behalf of the company. The Management Board is authorized, subject to the Supervisory Board’s prior approval and in particular cases, to disapply shareholders’ rights to tender or subscribe such shares, respectively, in connection with buybacks and subscriptions.

In May 2021 LPKF bought back a total of 2,601 shares and in November 2021 a further total of 10,844 shares via a middleman under an employee participation program pursuant to Section 71 (1) no. 2 of the German Stock Corporation Act. The shares were transferred to employees in line with the program terms and conditions.

By the resolution adopted by the Annual General Meeting on 20 May 2021, the Management Board is authorized to increase the share capital once or repeatedly until 19 May 2024 with the approval of the Supervisory Board by up to a total of EUR 4,899,309.00 by issuing up to 4,899,309 new no-par value bearer shares in return for contributions in cash or in kind (Authorized Capital 2021). Shareholders shall generally be granted a pre-emption right. However, the Management Board was authorized, in certain cases and within certain capital limits, to disapply shareholders’ pre-emption rights. This authorization was not utilized in the past financial year.

The company’s share capital is contingently increased by up to EUR 4,899,309.00 through issuing up to 4,899,309 new no-par value bearer shares (Contingent Capital 2021/I) in connection with the authorization resolved by the Annual General Meeting on 20 May 2021 to issue warrant bonds and/or convertible bonds up to 19 May 2024 with a total nominal value of up to EUR 200,000,000.00, with the option to disapply pre-emption rights in certain cases and within certain capital limits. The contingent capital increase will only be implemented to the extent that the bearers or creditors of warrant bonds and/or convertible bonds utilize their warrant or conversion rights or fulfill their conversion obligations or the company exercises an option instead of paying the amount of money due for no-par value shares of the company. The Management Board did not utilize this authorization in the past financial year.

More detailed information can be found in the relevant enabling resolution.

CHANGE-OF-CONTROL PROVISIONS

Some of the financing agreements and other contractual obligations of the LPKF Group contain change-of-control clauses. These contractual clauses govern the rights of the contracting parties with respect to a change of control in the ownership structure of the LPKF Group. In the event of a significant change in the ownership structure, the contractual partner often has a special right of termination.

The other disclosures required by Sections 289a and 315a of the German Commercial Code relate to circumstances that do not exist at LPKF AG.

REMUNERATION REPORT

REMUNERATION REPORT FOR THE MANAGEMENT BOARD

INTRODUCTION

The following remuneration report explains the remuneration system and individual remuneration for current and former members of the Management Board of LPKF Laser & Electronics AG in the 2021 financial year. The remuneration report is based in particular on the recommendations of the German Corporate Governance Code (GCGC) and the German Stock Corporation Act (Aktiengesetz). In addition, the remuneration report contains information pursuant to Section 162 of the German Stock Corporation Act in the version applicable under the German Act Implementing the Second Shareholder Rights Directive (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie).

THE REMUNERATION SYSTEM IN THE 2021 FINANCIAL YEAR

Resolution on the approval of the remuneration system for members of the Management Board

The Supervisory Board of LPKF Laser & Electronics AG adopted a resolution in April 2020 on a revised remuneration system for members of the Management Board in accordance with Sections 87 (1) and 87a (1) of the German Stock Corporation Act. The remuneration system was approved in its revised form by the shareholders of LPKF Laser & Electronics AG at the Annual General Meeting on 20 May 2021 with 79.26% of the votes. In view of the shareholders' voting behavior on the current remuneration system, it is currently being reviewed with the involvement of an independent remuneration consultant.

Application of the remuneration system for the Management Board in the 2021 financial year

The revised remuneration system applies to all Management Board employment contracts concluded or extended on or after 7 April 2021 with retroactive effect from the start of the 2021 financial year. That means that it applied only to Management Board member Christian Witt in 2021.

The former CEO, Dr. Goetz M. Bendele, received remuneration in accordance with the old system up until his departure on 30 April 2021.

Britta Schulz was appointed as interim member of the Management Board with effect from 1 May 2021. Her employment contract as an employee of LPKF Laser & Electronics AG was temporarily suspended with respect to her work duties for the period for which she was appointed to the Management Board. Her entitlement to variable, performance-related remuneration is largely based on the provisions of her previous employment contract. The revised remuneration system therefore did not apply to Britta Schulz in principle in the 2021 financial year.

The revised remuneration system at a glance

Remuneration for members of the Management Board of LPKF Laser & Electronics AG is geared towards the long-term and sustainable development of the company. As well as the duties and performance of the individual Management Board member, total remuneration for members of the Management Board takes into account the company's size, complexity and situation. It comprises non-performance-based salary and non-cash benefits, in addition to pension commitments and performance-based (variable) components. The non-performance-based components include a fixed annual salary (basic salary) as well as incidental benefits and benefits in kind.

The performance-based components consist of annual variable remuneration (STI), which relates to the achievement of economic targets within a year, and long-term variable remuneration (LTI), which is invested entirely in shares in LPKF Laser & Electronics AG, which must be held for a minimum period of three years. The financial, economic, social and environmental targets anchored in the performance-based remuneration components are in keeping with the business strategy and the company's sustainable long-term development. Both short-term and long-term variable remuneration includes incentives for members of the Management Board to ensure that the company's development is sustainable.

The Supervisory Board places an emphasis on the long term when looking at the company's development and has therefore given the long-term performance-based remuneration components a high weighting.

The remuneration system is also supplemented by appropriate regulations relating to the start and end of work as a member of the Management Board. Moreover, the employment contracts of all members of the Management Board contain a clause allowing the Supervisory Board to reduce the Management Board's salaries unilaterally within the meaning of Section 87 (1) of the German Stock Corporation Act in accordance with the statutory provision in Section 87 (2) of the German Stock Corporation Act.

The Supervisory Board was advised by an independent remuneration expert when designing the remuneration system. When the new remuneration system was drawn up, the appropriateness of remuneration for Management Board members was also reviewed. As part of this process, remuneration was compared with that of a few selected companies in the laser manufacturing and semiconductor industry, taking into account the parameters of revenue, profit and market capitalization. A vertical comparison in accordance with Section 87a (1) no. 9 of the German Stock Corporation Act was not carried out.

The remuneration system will be reviewed on an ongoing basis. It will be amended if, in connection with forthcoming personnel decisions, and particularly when employment contracts of Management Board members are to be concluded or extended, it becomes apparent that adjustments are necessary in order to attract or retain suitable candidates. In the event of significant changes to the remuneration system, and at least once every four years, the remuneration system will be presented to the Annual General Meeting again for approval.

In accordance with the statutory provisions in Section 87a (2) sentence 2 of the German Stock Corporation Act, the Supervisory Board can temporarily deviate from the remuneration system if this is necessary in the interests of the company’s long-term well-being. This may be the case in the event of exceptional and unforeseeable developments, for example.

Deviation from the remuneration system is possible only if a corresponding resolution is adopted by the Supervisory Board and after the need for the deviation has been carefully examined. The components of the remuneration system that it is possible to deviate from under the aforementioned circumstances are the procedure, the remuneration structure, the individual remuneration components and the performance criteria. Furthermore, the Supervisory Board can temporarily grant additional remuneration components in this situation or can replace individual remuneration components with other remuneration components if this is necessary in order to restore Management Board remuneration to an appropriate level in the specific situation.

Remuneration component	Basis for assessment/paramter	Objective
Non-performance-based remuneration		
Fixed remuneration	Fixed remuneration is paid in equal monthly installments at the end of each month.	Reflects the role on the Management Board, experience, area of responsibility and market conditions. Ensures adequate income, to prevent inappropriate risks from being taken.
Incidental benefits	Benefits in kind, company car (alternatively, cash allowance or flat rate for a rental car), insurance premiums	Absorption of costs and compensation for economic disadvantages
Performance-based remuneration		
Short-Term-Incentive (STI)	Performance period: 1 year Target amount: 50% of fixed remuneration Performance criteria: • 75% corporate targets: 25% revenue, 25% EBIT margin, 25% ROCE • 25% personal targets: Supervisory Board sets corporate targets based on the approved budget and personal targets for each financial year.	The corporate targets are in keeping with the parameters used in corporate management. Personal targets may also take into account social and environmental aspects (as ESG criteria). The financial, economic, social and environmental targets are in keeping with the business strategy and promote the company's sustainable long-term development.
Long-Term-Incentive (LTI)	Total period: 4 years (one-year basis for assessment, followed by a three-year lock-up period for the shares) Target amount: 50% of fixed remuneration Limit: 300% of the target amount Performance criteria: as for STI	Promotes long-term growth in the value of the company and links the interests of members of the Management Board with those of shareholders.
Other regulations on remuneration		

Maximum remuneration	Limit on the total remuneration provided for one financial year pursuant to Section 87a (1) sentence 2 no. 1 of the German Stock Corporation Act: EUR 1.1 million per person	Prevents inappropriately high payments
Severance payment cap	Maximum severance payments of two years' remuneration; may not exceed remuneration for the contract term	Prevents inappropriately high payments due to premature termination of the Management Board contract

The old remuneration system at a glance

As payments were made under the old remuneration system in the 2021 financial year, we will outline the structure of this system, and in particular the design of the performance-based components, below.

The remuneration structure under the old system also consists of fixed basic remuneration, two short-term variable components (with a clawback) and one long-term variable component, as well as incidental benefits (benefits in kind).

The fixed non-performance-based remuneration comprises both the basic salary, which is paid in equal monthly installments, and benefits. The benefits include a company car for both official and private use and health and care insurance contributions.

The variable remuneration components consist of a long-term remuneration component, the LTI options, and two short-term remuneration components with a clawback, the STI 1 ROCE and the STI 2 cash flow (STI 2).

STI 1 corresponds to the performance indicator ROCE. Payment for STI 1 is made in cash for the relevant financial year after approval of the consolidated financial statements. The amount of STI 1 is graded depending on target achievement; a payment is made only if a minimum ROCE figure of 8% (floor) is achieved. The target figure is ROCE of 18% and the cap is 30%.

STI 2 corresponds to the ratio of free cash flow to average total capital. Payment for this performance indicator is also made in cash following approval of the consolidated financial statements in the following year. The amount of STI 2 is graded; the target figure is 13%, the floor is 8% and the cap is 21%.

If there is a negative ROCE or cash flow the following year, this loss will subsequently be taken into consideration and STI 1 and STI 2 will be reassessed in light of the negative ROCE and/or cash flow for the following year. Any overpayments will be repaid by the Management Board members. Other than that, extraordinary developments are not generally included in the calculation of STI 1 and STI 2. This earnings-based clawback clause, which makes the final entitlement to STI 1 and STI 2 contingent upon a positive ROCE or cash flow figure in the following year, extends the assessment period for STI 1 and STI 2 to two years. This means that it essentially constitutes multi-year variable remuneration.

A long-term bonus plan has been created as LTI (Options) and is based on a value-oriented performance target. Fictitious shares, known as phantom stocks, are granted to the Management Board members annually in a contractually stipulated amount. The number of phantom stocks corresponds to the individual amount stated, divided by the average closing price of LPKF shares in the first quarter of the year in which the shares are allotted. The plan term is three years per tranche. Once the respective plan term elapses, the beneficiaries are entitled to a disbursement amount, the calculation of which depends on the final number of phantom stocks. The final number of phantom stocks is calculated by multiplying the number of phantom stocks originally allocated by a performance factor that is dependent on the average value added of the LPKF Group during the relevant performance period. The amount to be paid out is in turn calculated by multiplying the final number of phantom stocks by the average share price of LPKF Laser & Electronics AG for the first quarter following the end of the relevant performance period. A payout occurs only if the average share price on the payment date is greater than the average share price on the allotment date. The amount of the payment is limited to four times the allotment value.

REMUNERATION FOR THE MANAGEMENT BOARD IN THE 2021 FINANCIAL YEAR

The components of the remuneration system and their specific application in the 2021 financial year are explained in detail below.

Fixed annual salary

Members of the Management Board of LPKF Laser & Electronics AG receive remuneration in the form of a fixed annual salary (fixed remuneration). Fixed remuneration is paid in equal monthly installments at the end of each month. It is reviewed at regular intervals by the Supervisory Board and adjusted in future contracts if necessary.

As well as his fixed salary as CFO of the company, Mr. Witt received additional remuneration for temporarily acting as interim CEO.

Benefits in kind and other additional remuneration (incidental benefits)

In addition to fixed remuneration, incidental benefits are granted to each member of the Management Board. These benefits include benefits in kind provided by the company, the use of a company car, contributions to health and care insurance and other types of insurance and absorption of other costs as is customary for the market, including the conclusion of a D&O insurance policy by LPKF Laser & Electronics AG with a deductible for the Management Board member in accordance with the German Stock Corporation Act.

LPKF Laser & Electronics AG makes a company car available to members of the Management Board, including for personal use. When choosing a suitable company car and the type of engine, environmental aspects are taken into account alongside the requirements of the business. As an alternative to a company car, Management Board members may also be offered a cash allowance or a flat rate for a rental car. Furthermore, LPKF Laser & Electronics AG bears reasonable costs for expenses incurred by Management Board members in the course of their work.

Performance-based variable remuneration

Performance-based remuneration for the Management Board consists of performance-related remuneration that is paid annually (STI) and performance-related remuneration for which the amount of the payment is initially invested in shares in LPKF Laser & Electronics AG (LTI), which must be held for a period of at least three years. The details of this are as follows:

Short-term variable remuneration (STI)

How it works

The amount of STI depends on the achievement of corporate targets, which are based on the Group's financial results, and on the achievement of personal targets, which can be set each year.

The corporate targets consist of three key economic figures. The extent to which the targets have been met is measured in relation to the annual approved budget. In line with the key financial indicators used in corporate management, the following parameters are specified for the achievement of targets:

- ROCE (return on capital employed) refers to the ratio of the consolidated operating EBIT to capital employed
- Revenue in accordance with the company's audited, consolidated annual financial statements
- Consolidated operating EBIT as a percentage of consolidated revenue in accordance with the company's audited, consolidated annual financial statements (EBIT margin)

The personal targets for the respective Management Board member are agreed each year. If an agreement has not been reached on personal targets by 31 March of a given year, the Supervisory Board shall set personal targets as it sees fit. Up to four personal targets may be set, which, among other factors, may also take into account social and environmental aspects (as ESG criteria).

Both personal and corporate targets may be achieved within a range agreed each year between the Supervisory Board and the Management Board, which has a floor and a cap. With regard to the achievement of targets, the following percentages of the agreed target bonus will be paid:

- Below the floor 0%
- Floor 25%
- Target 100%
- Cap 200%
- Above the cap 200% (maximum amount)

A linear adjustment will be carried out for figures in between.

To calculate overall target achievement, the average of the respective target achievement for personal and corporate targets is determined in each case. The average figures calculated in this way are then multiplied by a weighting factor and added together to determine overall target achievement. The weighting factor for personal targets is 0.25 and the weighting factor for corporate targets is 0.75. The Supervisory Board can adjust the weighting factors in light of specific influences on the business performance if this is in the company's interests. The weighting factor for corporate targets should not fall below 0.50.

If a member of the Management Board joins or leaves the company during the year, a proportionate share of their entitlement to STI will be deducted.

Graphic: Overview of STI

Target achievement (0% - 200% in each case)		**Weighting**				
ROCE	x	25%		**Overall target achievement** 0% - 200% in each case		
Revenue	x	25%	+	x	=	**STI payment amount** (in cash)
EBIT margin	x	25%		**Target amount** 50% of fixed salary		
Personal targets	x	25%				

Targets and extent to which targets were achieved for the 2021 financial year

The Supervisory Board set three equally weighted corporate and personal targets for Christian Witt and Britta Schulz for the 2021 financial year. The personal targets set for Britta Schulz as an interim member of the Management Board are based on the provisions of her employment contract that was temporarily suspended and therefore primarily comprise financial targets of the DevelopmentQuipment business unit. The target amount also comes to less than 50% of fixed remuneration.

With regard to the performance criteria that apply to the 2021 financial year, the Supervisory Board stipulated the following target figures and thresholds:

Performance criterion	Threshold for 25% target achievement	Target for 100% target achievement	Threshold for 200% target achievement
Revenue (in EUR thousand)	114,801	135,060	141,813
EBIT margin (in %)	10.7	15.3	16.8
ROCE (in %)	8	18	25

Personla targets for Christian Witt:

• Achievement of defined milestones in the market launch of LIDE technology
• Achievement of defined milestones in the ESG project
• Digitalization of the processing of incoming invoices at the German sites

Personal targets for Britta Schulz:

• Achievement of defined milestones in the ESG project
• EBIT of the DevelopmentQuipment business unit
• Capital employed of the DevelopmentQuipment business unit

Dr. Goetz M. Bendele received short-term variable remuneration in accordance with the old system for the financial year. Achievement of targets is measured based on the development of the key figures of return on capital employed (ROCE) and free cash flow in relation to average total capital. The targets and thresholds set out below apply to STI 1 and STI 2:

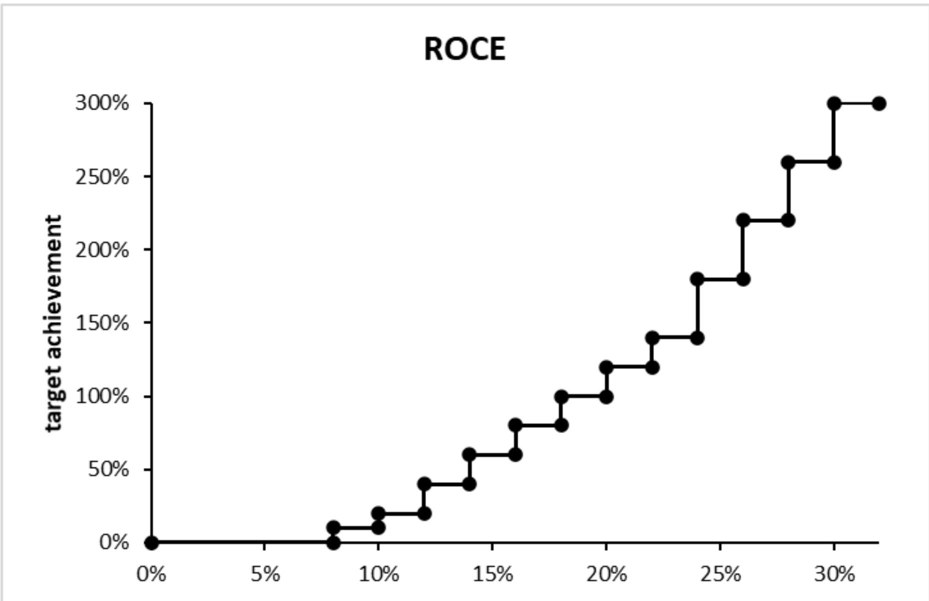
Performance criterion	Threshold for 10% target achievement	Target for 100% target achievement	Threshold for cap
ROCE (in %)	8	18	30
Cash flow / Ø Total capital (in %)	8	13	21

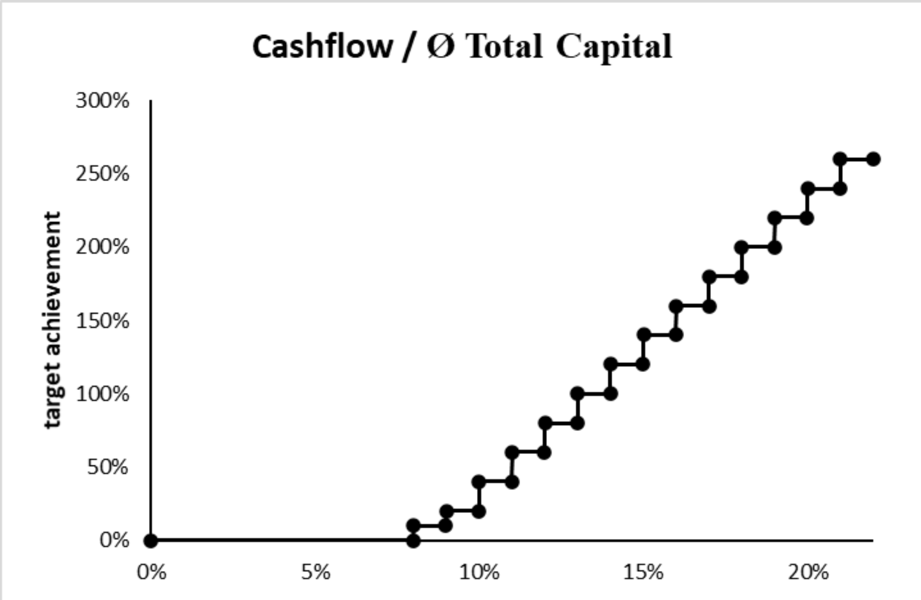
The amounts calculated based on the respective overall target achievement for short-term variable remuneration will be paid to current and former members of the Management Board in April 2022. They will therefore count towards the remuneration granted and owed in the 2022 financial year within the meaning of Section 162 (1) sentence 2 no. 1 of the German Stock Corporation Act.

Payments from the short-term incentive (STI) for the 2020 financial year

The remuneration granted and owed in the 2021 financial year in accordance with Section 162 (1) of the German Stock Corporation Act, on the other hand, includes the STI for the 2020 financial year, which was paid out in April 2021. The STI for the 2020 financial year is based on the remuneration system that was in place at that time. Achievement of targets is measured based on the development of the key figures of return on capital employed (ROCE) and free cash flow in relation to average total capital.

The target achievement curves set out below apply to STI for the 2020 financial year:





LPKF's business performance was severely impacted by the coronavirus pandemic in the 2020 financial year, meaning that only the threshold for the key figure of ROCE was achieved. After the end of the financial year, the Supervisory Board determined that the achievement of targets for the 2020 STI was as follows:

Performance criterion	Threshold for 10% target achievement (in %)	Target for 100% target achievement (in %)	Target amount for 100% target achievement (in EUR thousand)	Threshold for cap (in %)	Result for 2020 (in %)	Target achievement (in %)
ROCE	8	18	50	30	9	10
Cashflow / Ø Total capital	8	13	50	21	-4.4	0

The resulting STI payment for the 2020 financial year thus comes to EUR 5 thousand for each of the members of the Management Board who were in office at that time, Dr. Goetz M. Bendele and Christian Witt.

Britta Schulz was not yet a member of the Management Board of LPKF Laser & Electronics AG in the 2020 financial year and did not therefore receive any payment from the STI for the 2020 financial year.

Long-term variable remuneration (LTI)

How it works

A long-term incentive plan has been established as a second performance-based remuneration component, which, with a total period of four years, is intended to provide long-term motivation. The shares granted under the LTI allow Management Board members to participate in the relative and absolute performance of the share price, bringing management's goals and the interests of shareholders more closely into line with each other.

This gives the Management Board an incentive to increase the company's value sustainably and over the long term.

The LTI is issued in annual tranches and is linked to overall target achievement for the STI for the financial year concerned and to the performance of the share price for the following three years.

The target amount for the LTI should in principle be a fixed portion of the basic salary (50%). The target amount for the respective year of allocation is multiplied by a performance factor corresponding to the overall target achievement for the STI in the year of allocation (performance amount). The LTI is then measured based on the performance of shares in LPKF Laser & Electronics AG. To do this, the average share price of LPKF Laser & Electronics AG in the first quarter of the year in which the targets were achieved is calculated (opening share price). The average share price of LPKF Laser & Electronics AG in the first quarter of the year after the year in which the targets were achieved is also calculated (closing share price). The payment amount is calculated based on these figures in accordance with the following formula:

Payment amount = performance amount x closing share price / opening share price

This is paid to the Management Board member immediately after achievement of targets has been determined. However, the net amount received must be invested in shares in LPKF Laser & Electronics AG immediately afterwards. These shares must be held for at least three years after purchase. Only after that can the Management Board members do as they wish with the shares. In a few exceptional cases, entitlement to remuneration that has already been granted will be forfeited in the event of extraordinary termination. This ensures that remuneration is appropriately aligned with long-term growth in the value of the company. The payment amount is also subject to a share price exercise threshold. If the average share price of LPKF Laser & Electronics AG in the fourth quarter of the year in which the targets are achieved and the first quarter of the year after the year in which the targets are achieved (threshold share price) drops below 90% of the opening share price, no LTI will be paid. Consequently, the Management Board does not have to purchase any shares in LPKF Laser & Electronics AG in such a year. The payment amount of the LTI at the end of the first year is limited to a maximum of three times the target amount. If a member of the Management Board leaves the company during the year, a proportionate share of their entitlement to LTI will be deducted.

LTI target amount 50% of fixed salary	x	**Performance factor** Overall target achievement for STI	x	**Closing share price** Q1 in t2 / **Opening share price** Q1 in t1	=	**Payment amount** max. 300% of target amount	–	Purchase of LPKF shares Holding period: 3 years
						If T**hreshold share price** Q4 in t1 and Q1 in t2 / **Opening share price** Q1 in t1 ≥ 0.9		

Allocations from the long-term incentive (LTI) in the 2021 financial year

The table below shows the LTI allocation to Christian Witt in the 2021 financial year in accordance with the new remuneration system. The performance factor used to determine the payment amount corresponds to overall target achievement for the STI for the 2021 financial year. With regard to performance criteria, targets and thresholds and the extent to which targets have been achieved, see also the detailed description under point “Short-term variable remuneration (STI)”.

	LTI target amount	Opening share price
Christian Witt	121,666	EUR 27.35

The payment amount for long-term variable remuneration calculated from the respective overall target achievement and the applicable share prices, which must be invested in shares in LPKF Laser & Electronics AG, will be paid to Christian Witt in April 2022. This amount will therefore count towards the remuneration granted and owed in the 2022 financial year within the meaning of Section 162 (1) of the German Stock Corporation Act.

As an interim member of the Management Board, Britta Schulz received an allocation from the LTI plan for executives at the first level below the Management Board in the 2021 financial year. This LTI plan is equivalent to the phantom performance share plan based on the old remuneration system for Management Board members. The performance criteria are the average value added during the three-year performance period and the performance of the LPKF share. The term of the tranche began on 1 January 2021 and covers a total of three financial years (2021 to 2023). With this LTI plan, the beneficiaries receive a contingent commitment for a defined number of phantom stocks, depending on the target, at plan inception. The number of shares evolves over the term in line with the average value added.

The profit is calculated from the number of phantom stocks obtained multiplied by the share price, and is paid out in cash at the end of the term.

The former CEO, Dr. Goetz M. Bendele, did not receive any further allocation from the LTI plan under the old remuneration system in the financial year. All entitlements under outstanding and current tranches of the LTI lapsed upon his departure on 30 April 2021.

	Allotment value (EUR)	Ø Share price Q1 2021 (€)	Number of provisional shares	Maximum possible number of shares
Britta Schulz	15,000	27.35	548	1,096

Remuneration granted and owed from the long-term incentive (LTI) in the 2021 financial year

The 2018 tranche of the LTI, which is based on the remuneration system that was in place at that time, became due for payment in the 2021 financial year. The performance criteria here were the average value added during the three-year performance period and the performance of the LPKF share. The term of the tranche began on 1 January 2018 and covered a total of three financial years (2018 to 2020). The table below shows details of how the total payment amount is calculated:

Performance criteria	Value added Performance of the LPKF share
Performance period for value added	2018 - 2020
Relevant share price	Ø Share price Q1 2018 compared with Ø share price Q1 2021
Possible target achievement	0% to 400%
Number of phantom stocks provisionally granted	Target amount: EUR 71,666.67 Ø Share price Q1 2018: EUR 9.01 → 7,955 provisional phantom stocks
Target achievement for value added	The average value added actually achieved was EUR 5,004 thousand below the target value added. This corresponds to target achievement of 40%.
Phantom stocks ultimately granted	40% * 7,955 phantom stocks = 3,182 phantom stocks
Payment	3,182 phantom stocks Ø Share price Q1 2021: EUR 27.35 → EUR 87,028

Based on the performance factor achieved and the share price performance, the following amounts were paid to the current and former members of the Management Board listed below in April 2021:

	Allotment value (EUR)	Ø Share price Q1 2018 (EUR)	Number of provisional shares	Target achieve-ment	Final number of shares	Ø Share price Q1 2021 (EUR	Payment amount (EUR)
Christian Witt	21,666.67	9.01	2,405	40%	962	27.35	26,311
Götz M.Bendele	50,000.00	9.01	5,550	40%	2,220	27.35	60,717

Britta Schulz received a payment from the 2017 tranche of the LTI plan for executives at the first level below the Management Board in the 2021 financial year. This is also a phantom performance share plan with the performance criteria of average EBIT margin during the four-year performance period and performance of the LPKF share. The term of the tranche began on 21 July 2017 and covered a total of four financial years (2017 to 2020). The table below shows details of how the payment amount is calculated:

Performance criteria	EBIT margin Performance of the LPKF share
Performance period for EBIT margin	2017 - 2020
Relevant share price	Ø Share price for the 30 trading days prior to 21 July 2017 compared with Ø share price for the 30 trading days prior to 21 July 2021
Possible target achievement	0% to 300%
Number of phantom stocks provisionally granted	Target amount: EUR 5,000 Ø Share price for the 30 trading days prior to 21 July 2017: EUR 9.58 → 522 provisional phantom stocks
Target achievement for EBIT margin	The average EBIT margin actually achieved was 7.8%, compared with a target EBIT margin of 11%. This corresponds to target achievement of 60%.
Phantom stocks ultimately granted	60% * 522 phantom stocks = 313.2 phantom stocks
Payment	313.2 phantom stocks Ø Share price for the 30 trading days prior to 21 July 2021: EUR 23.77 → 7.445 €

Based on the performance factor achieved and the share price performance, the following amount was paid to Britta Schulz in December 2021:

	Allotment value (EUR)	Ø Share price 2017 (EUR)	Number of provisional shares	Target achieve-ment	Final number of shares	Ø Share price 2021 (EUR	Payment amount (EUR)
Britta Schulz	5,000	9.58	522	60%	313.2	23.77	7,445

Upper limits on remuneration ("cap") and maximum remuneration

Remuneration for members of the Management Board is limited in two respects. Firstly, upper limits are specified for each of the performance-based components, which, in the current remuneration system, are 200% of the target amount for the STI and 300% of the target amount for the LTI. For the performance-based remuneration promised on the basis of the old remuneration system, the maximum payment is 300% of the target amount for the STI ROCE, 260% of the target amount for the STI cash flow and 400% of the target amount for the LTI. The table on target remuneration under point "Individual Remuneration for the Management Board" shows the maximum remuneration that can be achieved by individuals. The upper limits for remuneration granted and owed in the 2021 financial year were complied with in all cases, as shown above.

At the same time, the Supervisory Board has stipulated an absolute maximum limit on total annual remuneration in the current remuneration system in accordance with Section 87a (1) sentence 2 no. 1 of the German Stock Corporation Act. This is EUR 1,100,000 gross for the individual Management Board member. Based on the remuneration system, the level of remuneration for Management Board members may also vary in future, bearing in mind the absolute maximum limit. The specific maximum remuneration depends in particular on the basic monthly salary negotiated with the Management Board member.

In derogation from the provisions outlined above, the Management Board contract of Christian Witt, which comes under the new remuneration system, does not specify an absolute maximum limit on total annual remuneration. As can be seen from the table for the compensation granted and owed, the maximum compensation of EUR 1,100,000 provided for in the new compensation system was nevertheless complied with for all members of the Management Board for the financial year 2021. Furthermore, a comparison with the table for target compensation for 2021 also shows that the maximum compensation will not be exceeded if the maximum values are reached.

Benefits upon departure

When appointing Management Board members and with regard to the duration of Management Board employment contracts, the Supervisory Board complies with the provisions of Section 84 of the German Stock Corporation Act and with the recommendations of the German Corporate Governance Code. Management Board employment contracts are concluded for the period of the respective appointment. Initial appointments are generally for three years, while the maximum period for a reappointment is five years. Management Board employment contracts can include an ordinary option of termination on both sides. The mutual right to terminate Management Board employment contracts without notice for cause always remains unaffected.

In detail, the following benefits apply in the event of departure for Management Board members who come under the remuneration system agreed in the 2021 financial year. The Management Board contracts of Dr. Goetz M. Bendele and Britta Schulz, which do not fall within the scope of the new remuneration system, do not contain any provisions on severance payment or a change of control in particular.

a) Severance payment

In the event that the company gives ordinary notice of termination of the employment contract and the Management Board member is not responsible for the reason for termination, the Management Board member shall receive compensation of one year's fixed compensation plus an STI bonus based on target achievement of 100% (in total two years' fixed compensation gross), but no more than the remuneration due for the remaining term of the contract after the end of the notice period.

This severance payment will count towards compensation provided in connection with the post-contractual non-competition clause.

The components of the STI and LTI that relate to the period until the contract actually ends will be paid in accordance with the due dates or holding periods stipulated in the STI and LTI plan.

b) Change of control

In the event of a change of control, Management Board members have a one-time special right to terminate their employment contract with a notice period of 6 months, to end at the end of a month, and to step down from their post on the termination date. If the contract is terminated in this way, the Management Board member is entitled to the severance payment described under a).

c) Release from duties

In the event of termination of an appointment as a member of the Management Board or as CEO for cause in accordance with Section 84 (3) of the German Stock Corporation Act or in the event of resignation, the company may immediately release the Management Board member from the obligation to perform their duties while continuing to pay their salary.

d) Post-contractual non-competition clause – compensation

All members of the Management Board must observe a post-contractual non-competition clause lasting for a minimum of six months (Christian Witt) and a maximum of 12 months (Goetz M. Bendele) after the end of their employment contract. LPKF Laser & Electronics AG has an obligation to pay Management Board members monthly compensation of 50% (gross) of the average fixed monthly remuneration they received in the last 12 months prior to their departure for the duration of the post-contractual non-competition clause. Other payments made by LPKF Laser & Electronics AG to Management Board members, such as temporary allowances and severance payments, shall count towards this compensation.

The compensation system provides that the income that Management Board members earn or refrain from earning during the period of the post-contractual non-competition clause from self-employed, employed or other work shall count towards this compensation insofar as the compensation, taking into account this income, exceeds the amount of the contractual payments most recently received. Income shall also include any unemployment benefit received by Management Board members. Members of the Management Board have a duty to provide the company with information about the level of their income and to furnish proof of this on request. No corresponding contractual provision was made in the Management Board contracts of Christian Witt and Goetz M. Bendele.

LPKF Laser & Electronics AG can waive compliance with the non-competition clause, observing a time limit of one year.

A post-contractual non-competition clause was waived in Britta Schulz's interim employment contract. However, she is also subject to a post-contractual non-competition clause in her function as an employee of LPKF Laser & Electronics AG.

e) Provisions on pensions and early retirement

The company does not offer any pension or early retirement schemes for members of the Management Board.

There were no pension commitments for members of the Management Board who were in office in the 2021 financial year.

f) Continued payment of remuneration in the event of death

If the appointment of a member of the Management Board ends early on account of his death while in office, the fixed monthly remuneration shall still be paid to his heirs for a period of three months.

Penalty/clawback

The old remuneration system includes an option to reclaim variable remuneration under the STI if the underlying performance criteria are negative in the following year. In accordance with this option, variable remuneration under the STI for the financial year concerned is recalculated, taking into account any negative ROCE or cash flow in the following year. If too much variable remuneration has been paid, this must be refunded.

Even taking into account the negative cash flow for the 2021 financial year, however, there was no reason to reduce or reclaim variable remuneration components in the 2021 financial year.

Payments from third parties

No members of the Management Board were promised or granted payments from a third party in respect of their work as a member of the Management Board in the past financial year.

Remuneration for work on supervisory boards or similar bodies

The tasks of Management Board members also include the fulfillment of executive duties at affiliated companies within the meaning of Section 15 et seq. of the German Stock Corporation Act. The performance of such activities is fully covered by the remuneration provided.

INDIVIDUAL REMUNERATION FOR THE MANAGEMENT BOARD

Target remuneration for members of the Management Board in office in the 2021 financial year

The respective target remuneration for members of the Management Board in office in the 2021 financial year is shown below. This comprises the target remuneration promised for the financial year, which will be granted in the event of 100% target achievement, along with information about the minimum and maximum remuneration that can be achieved by individuals.

	Dr. Götz M. Bendele CEO 1 May 2018 to 30 April 2021					Christian Witt Regular member of the Management Board 1 September 2018 - 30 April 2021 CEO 1 May 2021 to 31 December 2021					Britta Schulz Interim member of the Management Board 1 May 2021 to 31 December 2021					**Total**
in EUR thousand	2020	**2021**	in %	Min	Max	2020	**2021**	in %	Min	Max	2020	**2021**	in %	Min	Max	**2021**
Fixed remuneration 1)	240	80	57	80	80	200	331	55	331	331	-	188	77	188	188	599
Incidental benefits 2)	8	3	2	3	3	15	25	4	25	25	-	7	3	7	7	35
Total	248	**83**	59	83	83	215	**356**	59	356	356	**-**	**195**	80	195	195	**634**
One-year variable remuneration																
STI	100	33	23	0	93	100	122	20	0	243	-	40	16	0	80	195
Multi-year variable remuneration																
LTI 2021	-	25	18	0	100	-	122	20	0	365	-	10	4	0	40	157
LTI 2020	75	-	-	-	-	65	-	-	-	-	-	-	-	-	-	-
Total	175	**58**	41	0	193	165	**244**	41*	0	608	-	**50**	20	0	120	**352**
Total remuneration	423	**141**	100	83	276	380	**600**	100	356	964	-	**245**	100	195	315	**986**

1) Christian Witt was granted additional fixed remuneration for acting as interim CEO.

2) Compensation pursuant to Section 162 (1) AktG does not include employer contributions to social security. In this respect, the figures for fringe benefits differ from the figures in the GCGC inflow table from the previous year.

*Rounding difference

The individual target remuneration corresponds to the relevant remuneration system presented.

Remuneration granted and owed to current and former members of the Management Board in accordance with Section 162 of the German Stock Corporation Act

The table below shows the fixed and variable remuneration components granted and owed to current and former Management Board members in the 2021 financial year, including the respective relative share in accordance with Section 162 of the German Stock Corporation Act. Remuneration “granted” and “owed” in accordance with Section 162 (1) sentence 1 of the German Stock Corporation Act is stated in the tables below in the financial year in which it accrued (“granted”) or became due but has not yet been fulfilled (“owed”). This includes the fixed remuneration paid in the financial year, incidental benefits accrued in the financial year, the STI for 2020 paid in the financial year and the tranches of the LTI paid in the financial year. This information essentially corresponds to the information that was previously to be reported as benefits received within the meaning of the definition provided in the German Corporate Governance Code in the version dated 7 February 2017.

The relative shares stated here relate to the remuneration components granted and owed in the respective financial year in accordance with Section 162 (1) sentence 1 of the German Stock Corporation Act. That means that they include all benefits actually received in the financial year concerned, irrespective of which financial year the members of the Management Board received them for. The relative shares stated here are therefore not comparable to the relative shares in the description of the remuneration system in accordance with Section 87a (1) no. 3 of the German Stock Corporation Act. The shares stated in the remuneration system relate to the respective targets.

	Dr. Götz M. Bendele CEO 1 May 2018 to 30 April 2021				Christian Witt Regular member of the Management Board 1 September 2018 - 30 April 2021 CEO 1 May 2021 to 31 December 2021				Britta Schulz Interim member of the Management Board 1 May 2021 to 31 December 2021			
	2020		**2021**		2020		**2021**		2020		**2021**	
	in EUR thousand	in %	in EUR thousand	in %	in EUR thousand	in %	in EUR thousand	in %	in EUR thousand	in %	in EUR thousand	in %
Fixed remuneration	240	49	80	54	200	44	331	86	-	-	188	91
Incidental benefits[1)]	8	2	3	2	15	3	25	6	-	-	7	3
Other[2)]	0	0	0	0	0	0	0	0	-	-	5	2
Total	248	51	**83**	**56**	215	47	**356**	**92**	-	-	**200**	**96**
One-year variable remuneration												
STI 2019	240	49	-	-	240	53	-	-	-	-	-	-
STI 2020	-	-	5	3	-	-	5	1	-	-	-	-
Multi-year variable remuneration												
LTI 2018-2020	-	-	61	41	-	-	26	7	-	-	-	-
LTI 2017-2020	-	-	-	-	-	-	-	-	-	-	7	4
Total	240	49	**66**	**44**	240	53	**31**	**8**	-	-	**7**	**4**
Total remuneration	488	100	**149**	**100**	455	100	**387**	**100**	-	-	**207**	**100**

[1)] Compensation pursuant to Section 162 (1) AktG does not include employer contributions to social security. In this respect, the figures for fringe benefits differ from the figures in the GCGC inflow table from the previous year.

[2)] Britta Schulz received a bonus payment for her work anniversary, based on her employment contract as an employee.

Former members of the Management Board	Bernd Hildebrandt CEO until 17 May 2001 Chairman of the Supervisory Board until 31 May 2012			
	2020		**2021**	
	in EUR thousand	in %	in EUR thousand	in %
Fixed remuneration	-	-	-	-
Incidental benefits	-	-	-	-
Total	-	-	-	-
One-year variable remuneration	-	-	-	-
Multi-year variable remuneration	-	-	-	-
Total	-	-	-	-
Receipt of pensions	17	100	17	100
Total remuneration	17	100	**17**	**100**

REMUNERATION REPORT FOR THE SUPERVISORY BOARD

The remuneration system for the Supervisory Board takes account of the responsibilities and the scope of activities of the members of the Supervisory Board. By monitoring the Management Board's management of the company as incumbent upon it, the Supervisory Board helps to promote the business strategy and the company's long-term development.

The remuneration system for the Supervisory Board is regulated in Article 20 of the Articles of Incorporation. This states that, as well as having all expenses and any VAT payable on remuneration and expenses reimbursed, members of the Supervisory Board shall each receive fixed annual remuneration. There is no provision for variable remuneration or financial or non-financial performance criteria. This takes account of the Supervisory Board's independent control and advisory function, which is geared not towards short-term business success but towards the long-term development of the company. The respective level of fixed remuneration takes into account the specific role and responsibility of members of the Supervisory Board. The greater amount of time required by the Chairman of the Supervisory Board, the Deputy Chairman of the Supervisory Board and the chairs of committees is adequately reflected in higher remuneration. A distinction is made here between the Audit Committee and other committees.

Remuneration and the remuneration system for the Supervisory Board are reviewed regularly by management. In particular, the demands on the time of Supervisory Board members and Supervisory Board remuneration granted by other similar companies are decisive here. Owing to the specific nature of Supervisory Board remuneration and the fact that it is granted for Supervisory Board work, which is fundamentally different from the activities of employees of the company and the Group, a vertical comparison with employee remuneration is not possible.

Design and application of the remuneration system in the 2021 financial year

Each member of the Supervisory Board continues to receive fixed basic remuneration of EUR 32,000 for each full financial year of membership of the Supervisory Board. The Chairman of the Supervisory Board continues to receive double (EUR 64,000) and the Deputy Chairman continues to receive one-and-a-half times the amount (EUR 48,000) of the fixed basic remuneration. The chair of the Audit Committee receives additional remuneration of EUR 5,000, while the chair of the Nomination Committee and the chair of the Remuneration and ESG Committee each receive additional remuneration of EUR 3,500.

Members of the Supervisory Board who do not belong to the board for a full financial year or who have been Chair or Deputy Chair of the Supervisory Board or the chair of a committee receive remuneration on a pro rata basis.

In addition, members of the Supervisory Board shall have all expenses and any VAT payable on their remuneration and expenses reimbursed.

Liability insurance can be taken out to protect Supervisory Board members from risks arising in connection with the performance of their duties as members of the Supervisory Board (directors’ and officers’ liability insurance - D&O insurance) with a total premium of up to EUR 30,000.

The remuneration system for the Supervisory Board was applied in full as regulated in Article 20 of the Articles of Incorporation in the 2021 financial year.

Individual remuneration for the Supervisory Board

The fixed and variable remuneration components granted and owed to current and former Supervisory Board members in the 2021 financial year, including the respective relative share in accordance with Section 162 of the German Stock Corporation Act, are shown below. The introduction of the revised remuneration system was accompanied by a change in the deadlines for payment. While Supervisory Board remuneration for the 2020 financial year was paid as a total amount after the end of the financial year in spring 2021, remuneration will in future be paid in accordance with Article 20 (3) of the Articles of Incorporation in two equal installments, one six months after the start of the financial year and one after the end of the financial year. The remuneration paid in spring 2021 for the full 2020 financial year and the remuneration paid in fall 2021 for the first half of 2021 is therefore reported as remuneration granted and owed for the 2021 financial year. To provide a better overview, the table shows the period for which the remuneration components have been granted.

	Fixed remuneration¹⁾				Remuneration for work on committees²⁾		Total remuneration	
	for 2020	for 1st half of 2021	total					
	in EUR thousand	in EUR thousand	in EUR thousand	in %	in EUR thousand	in %	in EUR thousand	in %
Current members of the Supervisory Board								
Jean-Michel Richard (since 24 November 2020)	6.0	32.0	38.0	100	0	0	38.0	100
Dr. Dirk Michael Rothweiler	48.0	24.0	72.0	100	0	0	72.0	100
Prof. Ludger Overmeyer	32.0	16.0	48.0	100	0	0	48.0	100
Julia Kranenberg (since 14 June 2021)	0.0	2.7	2.7	100	0	0	2.7	100
Former members of the Supervisory Board								
Dr. Markus Peters (until 14 November 2020)	55.8	0.0	55.8	100	0	0	55.8	100
Total	**141.8**	**74.7**	**216.5**		**0**		**216.5**	

[1] The change in payment deadlines means that fixed remuneration includes remuneration received in the 2021 financial year for 2020 and for the first half of 2021.

[2] Committees were established for the first time in October 2021. Pro rata remuneration for work on committees will be paid with remuneration for the second half of 2021 after the end of the financial year. This amount will therefore count towards the remuneration granted and owed in the 2022 financial year within the meaning of Section 162 (1) of the German Stock Corporation Act.

COMPARATIVE PRESENTATION OF THE DEVELOPMENT OF REMUNERATION AND INCOME

The table below shows a comparison of the percentage changes in remuneration for the Management Board and Supervisory Board with development of the income of LPKF Laser & Electronics AG and with average remuneration for employees on a full-time equivalents basis, compared with the previous year. The percentage changes shown in the table for the Management Board and Supervisory Board are based on the remuneration granted and owed within the meaning of Section 162 (1) sentence 1 of the German Stock Corporation Act (see “Individual remuneration of the Management Board”).

The comparison with the development of average remuneration for employees is based on average remuneration for staff of the LPKF Group in Germany. To ensure comparability, only employees and executives within the meaning of Section 5 (3) of the German Works Constitution Act (Betriebsverfassungsgesetz) who are employed in Germany were taken into account. In addition, remuneration for part-time staff has been extrapolated into full-time equivalents.

On the basis of Section 26j (2) sentence 2 of the Introductory Act to the German Stock Corporation Act (EGAktG) and the interpretation variants of the Institute of Public Auditors in Germany (IDW), a vertical comparison will gradually be established for all three benchmarks in the first few years.

Annual change	2021 ggü. 2020
Management Board remuneration Management Board members in office as of 31 December 2021	
Christian Witt	14.8%
Britta Schulz	-
Management Board members who left in the 2021 financial year	
Dr. Goetz M. Bendele	-69.6%
Supervisory Board remuneration Supervisory Board members in office as of 31 December 2021	
Jean-Michel Richard	-
Dr. Dirk Michael Rothweiler	75.6%
Prof. Ludger Overmeyer	166.7%
Julia Kranenberg	-
Former members of the Supervisory Board	
Dr. Markus Peters	-12.9%
Development of income	
LPKF Laser & Electronics AG[1)]	-63.5%
Average remuneration for employees on a full-time equivalents basis	
Employees in Germany	-2.1%

[1)] Result for the year within the meaning of Section 275 (2) no. 17 of the German Commercial Code

CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS

For the LPKF Group and LPKF AG

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FROM 1 JANUARY TO 31 DECEMBER 2021

in EUR thousand	Note	**2021**	2020
Revenue	1	93,568	96,235
Changes in inventory		7,272	171
Other own work capitalized	2	5,890	5,272
Other income	3	3,269	3,697
Cost of materials	4	-36,828	-31,997
Staff costs	5	-44,348	-41,468
Depreciation, amortization and write-downs	6	-7,537	-7,306
Impairment expenses (including reversals) on financial assets and contract assets	30	-73	83
Other expenses	7	-21,154	-17,149
Operating Result (EBIT)	8	**59**	7,538
Finance income	9	18	57
Finance costs	9	-247	-290
Earnings before tax		**-170**	7,305
Income taxes	10	56	-1,963
Period result		**-114**	5,342
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluations of defined benefit plans		124	-38
Tax effects		-39	12
Items that will be reclassified to profit or loss			
Currency translation differences		1,770	-792
Other comprehensive income after taxes		**1,855**	-818
Total comprehensive income		**1,741**	4,524
Earnings per share (basic)	26	0.00	0.22
Earnings per share (diluted)	26	0.00	0.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2021

in EUR thousand	Note	**12/31/ 2021**	12/31/ 2020
ASSETS			
Intangible assets and goodwill	11	19,072	17,340
Property, plant and equipment	12	46,317	45,986
Trade receivables	14	696	262
Other non-financial assets	16	181	32
Deferred tax assets	18	2,766	2,627
Non-current assets		**69,032**	66,247
Inventories	13	28,536	19,845
Trade receivables	14	16,486	12,937
Income tax receivables		1,511	98
Other financial assets	15	13	33
Other non-financial assets	16	1,495	2,421
Cash and cash equivalents	17	15,167	20,074
Current assets		**63,208**	55,408
Total		**132,240**	121,655

in EUR thousand	Note	**12/31/ 2021**	12/31/ 2020
EQUITY			
Subscribed capital		24,497	24,497
Capital reserve		15,463	15,463
Other reserves		12,021	10,166
Net retained profits		40,222	42,786
Equity	19	**92,203**	92,912
LIABILITIES			
Provisions for pensions and similar obligations	21	370	358
Other financial liabilities	23	2,630	4,434
Deferred income	20	676	492
Contract liabilities	1	141	215
Other provisions	22	68	339
Deferred tax liabilities	18	327	1,101
Non-current liabilities		**4,212**	6,939
Other provisions	22	2,270	2,506
Other financial liabilities	23	2,568	2,508
Trade payables		7,213	7,629
Contract liabilities	1	19,081	4,733
Other non-financial liabilities	24	4,693	4,428
Current liabilities		**35,825**	21,804
Liabilities		**40,037**	28,743
Total		**132,240**	121,655

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY TO 31 DECEMBER 2021

in EUR thousand	Note	**2021**	2020
Cash flow from operating activities			
Period result		-114	5,342
Adjustments:			
Tax expenses		-56	1,963
Financial expenses		248	290
Financial income		-18	-57
Depreciation/amortization of non-current assets		7,537	7,306
Gains/losses on the disposal of property, plant and equipment		-9	67
Impairment losses/reversals		1,186	905
Other non-cash expenses and income		97	-296
Changes:			
Inventories		-9,438	-2,003
Trade receivables		-3,604	-1,468
Other assets		838	-363
Provisions		-547	-2,539
Trade payables		-465	2,013
Other liabilities		14,476	-5,625
Other:			
Income from interest		6	24
Income taxes paid		-2,216	-1,593
Cash flow from operating activities		**7,921**	3,966
Cash flow from investing activities			
Investments in intangible assets		-5,441	-4,758
Investments in property, plant and equipment		-3,244	-4,767
Revenue from the disposal of assets		62	13
Cash flow from investing activities		**-8,623**	-9,512

in EUR thousand	Note	**2021**	2020
Cash flow from financing activities			
Dividends paid		-2,450	-2,449
Interest paid		-248	-254
Payments of lease liabilities		-729	-735
Payments for repaying loans		-1,817	-1,966
Cash flow from financing activities		**-5,244**	-5,404
Change in cash and cash equivalents			
Increase (decrease) in cash and cash equivalents		**-5,946**	-10,950
Cash and cash equivalents as of 1 January		20,074	31,341
Effects of exchange rate changes on cash and cash equivalents		1,039	-317
Cash and cash equivalents as of 31 December	**25**	**15,167**	20,074

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FROM 1 JANUARY TO 31 DECEMBER 2021

in EUR thousand	Subscribed capital	Capital reserve	Other retained earnings
As of 01/01/2021	24,497	15,463	10,529
Earnings after tax			
Other comprehensive income after taxes			
Total comprehensive income	0	0	0
Transactions with shareholders			
Use of authorized capital			
As of 12/31/2021	24,497	15,463	10,529

in EUR thousand	Subscribed capital	Capital reserve	Other retained earnings
As of 01/01/2020	24,497	15,463	10,529
Earnings after tax			
Other comprehensive income after taxes			
Total comprehensive income	0	0	0
Transactions with shareholders			
Use of authorized capital			
As of 12/31/2020	24,497	15,463	10,529

	Other reserves				
	Revaluations of defined benefit plans	Share-based payment reserve	Foreign currency translation reserve	Net retained profits	**Total equity**
	-361	490	-492	42,786	**92,912**
				-114	-114
	85		1,770		1,855
	85	0	1,770	-114	**1,741**
				-2,450	-2,450
	-276	490	1,278	40,222	**92,203**

	Other reserves				
	Revaluations of defined benefit plans	Share-based payment reserve	Foreign currency translation reserve	Net retained profits	**Total equity**
	-335	490	300	39,893	**90,837**
				5,342	5,342
	-26		-792		-818
	-26	0	-792	5,342	**4,524**
				-2,449	-2,449
	-361	490	-492	42,786	**92,912**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2021 CONSOLIDATED FINANCIAL STATEMENTS

A. BASIC INFORMATION

LPKF Laser & Electronics AG, Garbsen (the company) and its subsidiaries (hereinafter the LPKF Group) produce equipment and systems for electronics development and production. New laser-based technologies are particularly aimed at customers in the automotive, electronics and solar industries. LPKF Laser & Electronics AG is entered in the Commercial Register of the Hanover Local Court (Reg. No. 110740 B).

The company is a stock corporation that was established and is headquartered in Germany. Its registered office is at:

Osteriede 7

30827 Garbsen

These consolidated financial statements were approved for publication by the Management Board on 15 March 2022.

B. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of LPKF Laser & Electronics AG, Garbsen, were prepared using uniform accounting policies. They take into account all International Financial Reporting Standards (IFRSs) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable on the reporting date and in the form applicable in the EU.

The consolidated financial statements were prepared on the basis of historical cost, limited by the measurement of financial assets and financial liabilities, including derivatives, at fair value through profit and loss.

The Management Board is maintaining its realistic expectation that the Group has sufficient resources to continue its operating activities for at least another twelve months and that the going concern assumption remains appropriate as a basis of accounting.

For the financial year ending 31 December 2021, the Group reported consolidated net loss of EUR -114 thousand. The Group recorded net working capital of EUR 19,283 thousand as of 31 December 2021. At the time of publication of these financial statements, the Group had cash and cash equivalents of EUR 15,167 thousand. In addition, as of 31 December 2021, there are commitments for credit facilities with the core banks of the LPKF Group totaling EUR 25.0 million that can be utilized in the event of additional liquidity requirements.

There is still uncertainty as to how the future development of the pandemic will affect the Group’s business activities and customer demand for its products. The appropriateness of the going concern assumption as a basis of accounting is dependent on the Group’s ability to meet its loan conditions to ensure continued availability of capital. At the time of approval of the financial statements, the Group has sufficient headroom with regard to its credit facilities.

In response to a severe negative scenario, the Management Board can also take the following measures to reduce costs, optimize the Group's cash flows and preserve liquidity:

- non-essential investments can be reduced and discretionary expenses can be postponed or canceled,
- hiring of employees that is not absolutely necessary can be suspended, and
- marketing expenses can be reduced.

Based on these factors, the Management Board expects that the Group has adequate resources at its disposal.

Preparing IFRS consolidated financial statements requires the use of estimates. Furthermore, the application of Group-wide accounting policies requires assessments by management. Areas that permit greater leeway in terms of assessments or exhibit greater complexity, or where assumptions and estimates are of critical significance to the consolidated financial statements, are discussed in the notes under E "Material Accounting and Measurement Estimates and Assumptions."

The financial year corresponds to the calendar year. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (EUR thousand).

The following standards that were amended, revised or issued prior to the reporting date were applied in the 2021 financial year. They have no material effects on the consolidated financial statements.

First-time application	New or amended standards and interpretations
1 June 2020	COVID-19-Related Rent Concessions (Amendment to IFRS 16)
1 January 2021	Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The following standards that were amended, revised or issued prior to the reporting date were not yet applied in the 2021 financial year. The Group is not currently planning to apply these standards at an early date. The effects of the following new or amended standards and interpretations on the LPKF Group are currently being examined.

First-time application	New or amended standards and interpretations
1 April 2021	COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
1 January 2022	Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
	Annual Improvements to IFRS Standards 2018-2020
	Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
	Reference to the Conceptual Framework (Amendments to IFRS 3)
1 January 2023	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
	IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts
	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
	Definition of Accounting Estimates (Amendments to IAS 8)
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
Available for optional adoption/ effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

BASIS OF CONSOLIDATION

As of 31 December 2021, LPKF Laser & Electronics AG had nine subsidiaries, which, together with the parent company, form the group of consolidated companies. In addition to the Group’s parent company, LPKF Laser & Electronics AG, Garbsen, the following subsidiaries have also been included in the consolidated financial statements:

Name **Full consolidation**	Registered office	Equity interest (previous year) in %
LPKF SolarQuipment GmbH	Suhl, Germany	100.0 (100.0)
LPKF WeldingQuipment GmbH	Fürth, Germany	100.0 (100.0)
LPKF Laser & Electronics d.o.o.	Naklo, Slovenia	100.0 (100.0)
LPKF Distribution Inc.	Tualatin (Portland), US	100.0 (100.0)
LPKF (Tianjin) Co. Ltd.	Shanghai, China	100.0 (100.0)
LPKF Laser & Electronics Trading (Shanghai) Co. Ltd.	Shanghai, China	100.0 (100.0)
LPKF Laser & Electronics (Hong Kong) Ltd.	Hong Kong, China	100.0 (100.0)
LPKF Laser & Electronics K.K.	Tokyo, Japan	100.0 (100.0)
LPKF Laser & Electronics Korea Ltd.	Seoul, Korea	100.0 (100.0)

The legal structure of the LPKF Group did not change in the 2021 financial year.

With the approval of the Annual General Meeting on 28 May 2015, a profit transfer agreement exists between LPKF Laser & Electronics AG and LPKF SolarQuipment GmbH that became effective retrospectively from the beginning of the 2015 calendar year. With the authorization of the Annual General Meeting on 2 June 2016, LPKF WeldingQuipment GmbH signed a profit transfer agreement with LPKF Laser & Electronics AG that became effective retrospectively from the beginning of 2016. Both contracts were concluded for a minimum term of five years and are extended indefinitely without termination of the contract. Due to their inclusion in the consolidated financial statements, LPKF WeldingQuipment GmbH and LPKF SolarQuipment GmbH met the requirements of Section 264 (3) of the German Commercial Code and made use of the exemption rule in the form of simplified preparation and disclosure.

C. CONSOLIDATION PRINCIPLES

The consolidated financial statements are based on the financial statements as of 31 December 2021 of the companies included in the consolidated financial statements, which were prepared in accordance with uniform accounting policies.

Subsidiaries include all entities that are controlled by LPKF Laser & Electronics AG. LPKF Laser & Electronics AG controls an associate company when it has power over the associate company, risk exposure or rights to variable returns arise from its investment in the associate company and LPKF Laser & Electronics AG has the ability to use its power over the associate company such that this affects the amount of the associate company’s variable returns.

Consolidation of an associate company begins on the day on which LPKF Laser & Electronics AG gains control over the entity. It ends when LPKF Laser & Electronics AG loses control over the associate company.

Subsidiaries acquired are accounted for using the purchase method. The acquisition costs correspond to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the acquisition date.

Identifiable assets, liabilities and contingent liabilities in connection with a business combination are remeasured upon initial consolidation, irrespective of the scope of the non-controlling interests. The excess of the cost of acquisition over the Group's interest in the fair value of the net assets acquired is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intra-Group transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated. Deferred taxes are recognized for consolidation measures affecting profit or loss.

The accounting policies used by subsidiaries were adjusted as necessary to the Group's uniform accounting policies to ensure uniform accounting.

If the Group loses either its control or significant influence over an entity, its remaining equity interest is remeasured at fair value and the resulting difference is recognized as profit or loss. The fair value of an associate, joint venture or financial asset is the fair value determined upon initial recognition. In addition, all amounts recognized in other comprehensive income in relation to that entity are accounted for on the same basis as would be required if the parent company had directly disposed of the related assets or liabilities. This means that any gain or loss previously shown in other comprehensive income must be reclassified from equity to profit or loss.

D. CURRENCY TRANSLATION

Annual financial statements are prepared in the functional currency of each entity; this is defined as the currency of the economic environment in which the entity mainly operates. For LPKF Laser & Electronics AG's subsidiaries, the functional currency is the same as the local currency in the country in which the subsidiary is domiciled.

If the annual financial statements of a subsidiary are prepared in a different functional currency to the euro, the assets and liabilities are translated into euros at an average exchange rate at the reporting date and equity is translated at the historic exchange rate. Expenses and income are translated at the average annual exchange rate. Translation differences are recognized directly in equity as a currency translation reserve until the subsidiary is disposed of. Foreign currency effects from the translation of transactions are recognized either in other operating expenses (exchange rate losses) or in other operating income (income from currency translation differences).

The exchange rates of the material currencies that were applied in the preparation of these consolidated financial statements are listed below:

1 euro = currency x	Closing rate		Average rate	
	12/31/2021	12/31/2020	**2021**	2020
US dollar	1.1326 USD	1.2271 USD	1.1835 USD	1.1413 USD
Chinese renminbi yuan	7.1947 CNY	8.0225 CNY	7.6340 CNY	7.8708 CNY
Hong Kong dollar	8.8333 HKD	9.5142 HKD	9.1988 HKD	8.8517 HKD
Japanese yen	130.38 JPY	126.49 JPY	129.8575 JPY	121.78 JPY
South Korean won	1,346.38 KRW	1,336.00 KRW	1,353.95 KRW	1,345.11 KRW

E. MATERIAL ACCOUNTING AND MEASUREMENT ESTIMATES AND ASSUMPTIONS

All estimates and assessments are continuously updated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes assessments and assumptions that concern the future. Estimates based on these assessments and assumptions often do not correspond to actual events in the future. The estimates and assumptions associated with a significant risk of triggering material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed in the following.

(A) INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Material assumptions and estimates relate to determining the useful lives and the recoverable residual values of intangible assets and items of property, plant and equipment. The development costs relate to development projects for equipment and related software. Development costs are capitalized if the requirements of IAS 38 are met. Research costs are recorded as expenses. The examination of the capitalization requirements under IAS 38 for projects under development is complex and based on a number of discretionary assumptions. These include, in particular, the forecast cash flows, technical feasibility, the discount rates used and the allocation of costs by origin. More details regarding useful lives are presented under note 11 “Intangible Assets and Property, Plant and Equipment” and under note 12 “Property, Plant and Equipment” in Section H “Consolidated Statement of Financial Position.”

(B) PROVISIONS

Accounting for provisions involves making assumptions regarding probability, maturity and risk level. Actuarial calculations are used to determine the obligation from defined benefit pension commitments and termination benefits paid to employees as well as the obligation from a long-term bonus programs. The amount of the pension obligations is largely dependent on the life expectancies on which it is based and the choice of discount rate, which is recalculated every year. The discount rate is based on the interest rate paid on high-quality corporate bonds in the currency in which the benefits are paid and the maturities of which correspond to the pension obligations. Key parameters in the calculation of provisions for anniversary payments and termination benefits are employee turnover and salary growth. Detailed information is provided in note 21 describing pension provisions. An option pricing model is used to calculate the value of the obligation arising from the long-term bonus programs settled in cash due to the influence exerted by LPKF’s share price. Another material factor is the performance of the EBIT margin for the tranches issued in previous years and the value contribution for the more recent tranches. Both can be derived from the Group’s planning. Detailed information is provided in note 22 describing other provisions.

(C) INCOME TAXES

The Group is subject to income tax payments in various countries. Material assumptions are therefore required to determine income tax provisions on a global scale.

There are numerous business transactions and calculations for which the ultimate level of taxation cannot be definitively determined during the course of normal business activities. The company determines the amount of the provisions for expected tax audits based on best estimates of whether and to what extent additional income taxes may become payable. If the final level of taxation of these business transactions deviates from the initial assumptions, this will have an impact on the actual taxes and deferred taxes in the period in which taxation is definitively determined.

Deferred tax assets are recognized at the amount at which it is probable that future tax benefits will be realized. The assessment of recoverability is based on five-year planning, expected business performance and taxable temporary differences. The actual extent to which earnings in future periods must be taxed, and thus the actual extent to which the tax benefits will be usable, may deviate from the assessment at the time the deferred tax assets are recognized.

(D) FAIR VALUE OF DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

The fair value of financial instruments not traded on an active market is determined by applying suitable valuation techniques selected from a large number of methods. The assumptions applied in this context are based on the market conditions existing on the reporting date.

(E) ESTIMATES USED FOR DETERMINING IMPAIRMENT LOSSES ON RECEIVABLES AND INVENTORIES

The determination of impairment losses on receivables and inventories is based on estimates regarding the amount of the impairment loss or the amount and probability of future payment defaults. In addition to past experience, current information on markets, industries, individual customers and current market developments is used to determine impairment losses.

(F) RECOGNITION OF REVENUE

In the sale of equipment and systems, the performance obligation is generally fulfilled upon delivery at the time of the transfer of control to the customer. According to the Company's assessment, this is usually the transfer of risk in accordance with Incoterms.

F. SEGMENT REPORTING

In accordance with the provisions of IFRS 8 (Operating segments), selected information in the annual financial statements is presented by operating segment and region, with segmentation based on internal reporting to the chief operating decision maker. The chief operating decision maker is responsible for determining the allocation of resources to segments and reviewing their performance. The Management Board of LPKF Laser & Electronics AG has been defined as the Group's chief operating decision maker. Segment reporting aims to lend greater transparency to both the performance and potential of the Group's individual activities.

Primary segment reporting is based on the following segments:

- Development comprises products such as circuit board plotters and ProtoLasers, primarily for development departments of industrial companies as well as public organizations such as research institutes, universities and schools. Since 2021, LPKF has been developing systems and solutions for biomedical research under the name ARRALYZE.
- The Electronics segment comprises production systems for cutting print stencils, rigid and flexible circuit boards, ultra-thin glass and the etching of plastic circuit carriers, as well as the sale of components manufactured with laser systems.
- Welding comprises systems for laser beam welding of plastic components.
- The Solar segment develops and produces laser scribers for the etching of thin-film solar cells and laser systems for the digital printing of functional pastes and inks (laser transfer printing, LTP), which are used in production.

There is insignificant inter-segment revenue. The existing goodwill (EUR 74 thousand) is allocated to the Welding segment.

The segment information was determined as follows:

- The segment result (EBIT) is determined by taking into account any impairment losses on goodwill, but without taking into account the financial result and taxes.
- The investments, depreciation and amortization including impairment losses refer to property, plant and equipment and intangible assets including goodwill.

Unless indicated otherwise, the figures reported are the figures after consolidation.

in Mio. EUR	Revenue (before consolidation)		External revenue		Operating result (EBIT)	
	2021	2020	**2021**	2020	**2021**	2020
Electronics	32.0	31.7	32.0	31.7	-0.8	3.4
Development	23.6	25.2	22.1	22.5	1.2	2.9
Welding	27.4	17.7	27.4	17.7	3.0	-2.8
Solar	12.1	24.3	12.1	24.3	-3.3	4.0
Total	**95.1**	98.9	**93.6**	96.2	**0.1**	7.5

in Mio. EUR	Investments		Depreciation and amortization (non-current assets)*		Write-downs (inventories)	
	2021	2020	**2021**	2020	**2021**	2020
Electronics	4.2	6.0	-2.0	-1.8	-0.5	-0.8
Development	2.3	1.7	-1.4	-1.2	-0.2	-0.3
Welding	0.7	0.4	-1.2	-1.7	-0.2	-0.1
Solar	1.4	2.1	-0.9	-0.8	-0.3	-0.1
Total	**8.6**	10.2	**-5.5**	-5.5	**-1.2**	-1.3

*only direct allocated amortization

EUR 2.0 million (previous year: EUR 1.8 million) relates to depreciation not directly attributable to the segments. Total depreciation of the Group's fixed assets amounted to EUR 7.5 million (previous year: EUR 7.3 million).

Assets, liabilities and cash flows are not allocated to segments.

In the 2021 financial year, revenue of EUR 8 million (previous year: EUR 21 million) was generated in the Solar segment from a single customer.

Write-downs on inventories are shown under cost of materials.

GEOGRAPHICAL INFORMATION

Reporting reflects information on a geographical basis, revenue is based on the geographical locations of customers and assets are based on the geographical locations of assets.

	External revenue			
	2021		2020	
	in EUR million	in %	in EUR million	in %
Germany	11.2	12.0	8.6	8.9
Rest of Europe	19.9	21.3	12.2	12.7
USA	16.6	17.7	18.8	19.5
Rest of North America	0.4	0.4	0.2	0.2
China	28.7	30.7	23.2	24.1
Malaysia	1.9	2.0	17.4	18.1
Vietnam	1.9	2.0	5.5	5.7
Rest of Asia	11.0	11.8	9.4	9.8
Other	2.0	2.1	0.9	1.0
Total	**93.6**	**100.0**	96.2	100.0

	Assets		Non-current assets thereof	
	2021	2020	**2021**	2020
	in EUR million		in EUR million	
Germany	103.4	96.7	60.4	58.3
Rest of Europe	7.2	5.7	4.4	4.4
USA	8.6	8.6	2.1	1.8
Rest of North America	0.0	0.0	0.0	0.0
China	10.1	7.8	1.7	1.4
Malaysia	0.0	0.0	0.0	0.0
Vietnam	0.0	0.0	0.0	0.0
Rest of Asia	2.9	2.9	0.4	0.3
Other	0.0	0.0	0.0	0.0
Total	**132.2**	121.7	**69.0**	66.2

G. CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue breakdown

The core business of the LPKF Group is the sale of equipment and systems used by customers in production and development. In the sale of equipment and systems, revenue is generated at a specific time and is thus recognized on transfer of control.

Revenue recognized over time stems from service contracts, which mainly include maintenance contracts and warranty extensions.

			Time point of revenue recognition			
in EUR million	External revenue (total)		Equipment and systems (at a specific time)		Service contracts (over time)	
	2021	2020	**2021**	2020	**2021**	2020
Electronics	32.0	31.7	30.3	29.8	1.7	1.9
Development	22.1	22.5	21.8	22.0	0.3	0.5
Welding	27.4	17.7	27.3	17.7	0.1	0.0
Solar	12.1	24.3	11.7	23.8	0.4	0.5
Total	**93.6**	96.2	**91.1**	93.3	**2.5**	2.9

Contract balances

The following table provides information on contract assets and contract liabilities from contracts with customers.

in EUR million	**2021**	2020
Contract assets	0.0	0.0
Contract liabilities (by term)	19.2	4.9
Breakdown by maturity:		
Current	19.1	4.7
Non-current	0.1	0.2
Breakdown by type:		
Revenue recognized over time from service contracts	2.3	1.9
Services rendered at a specific point in time (advance payments received)	16.9	3.0

Contract assets arise from claims for consideration on services rendered. There were no contract assets in the 2021 financial year. Accordingly, there has been no impairment of contract assets.

The contract liabilities result from advance payments received under both revenue recognized over time and at a specific time. Once the contracted service has been performed, contract liabilities are recognized as revenue.

The amount of EUR 4.7 million included in contract liabilities as of 31 December 2020 was recognized as revenue in the 2021 financial year (previous year: EUR 9.9 million). In the 2021 reporting period, there was no recognized revenue from performance obligations that were settled or partially settled in prior periods.

During the 2021 financial year, there were no significant or substantial changes to the balances of contract assets and contract liabilities other than those listed in the table. The increase of EUR 14,356 thousand in contract liabilities compared with the previous year is mainly due to higher advance payments received for the sale of equipment and systems as of the reporting date.

Performance obligations

LPKF Group performance obligations arise from the sale of equipment and systems and from service contracts with customers. In older contracts and individual cases where promised services or warranty extensions were sold to customers as a complete package with a system, the transaction prices and the amounts attributable to performance obligations are determined based on individual calculations.

In the sale of equipment and systems, the performance obligation is generally fulfilled upon delivery at the time of the transfer of control to the customer. According to the Company's assessment, this is usually the transfer of risk in accordance with Incoterms. Any subsequent costs that are immaterial in terms of amount, such as installation, are deferred.

Service contracts with customers mainly comprise maintenance contracts and warranty extensions. LPKF uses the output-based method to determine the progress of performance of maintenance contracts, based on the hours worked by employees. Warranty extensions are recognized in revenue over time.

LPKF employs the IFRS 15.121 practical expedient if the original expected duration of the contract is one year or less. This applies to both the sale of equipment and service contracts with a duration of one year or less. The transaction price of unsatisfied (or partially unsatisfied) performance obligations with a duration of more than one year amounts to EUR 141 thousand (previous year: EUR 215 thousand) and corresponds to contract liabilities with an identical duration. The revenue for these will be recognized from 2023 onwards.

The payment received generally corresponds to the invoice price and does not contain significant financing components. The terms of payment are generally between 30 and 45 days.

2. OTHER OWN WORK CAPITALIZED

Own work capitalized by the Group concerned equipment of EUR 5,890 thousand (previous year: EUR 5,272 thousand). This comprised own work for technical equipment and machinery used by Group companies for production as well as prototype development projects capitalized during 2021, which are intended for permanent use in Group operations. Research costs, on the other hand, are immediately expensed when they are incurred. Costs incurred in the context of development projects (in connection with the design and test runs of new or improved products) are recognized as intangible assets if the criteria of IAS 38 are met. Other development costs that do not meet these criteria are expensed on an accrual basis. Development costs expensed in prior periods are not capitalized in subsequent reporting periods. Capitalized development costs are reported as intangible assets and amortized on a straight-line basis over their useful life, not exceeding three years, from the date on which they become usable. This is reported under depreciation and amortization on intangible assets and property, plant and equipment.

3. OTHER INCOME

in EUR thousand	**2021**	2020
Research and development grants	859	425
Income from the reversal of provisions	733	1,263
Income from currency translation differences	576	668
Reversal of deferred item income from grants	37	41
Income from asset disposals	9	13
Income from the reversal of loss allowances	9	77
Income from insurance payments	4	19
Other	1,042	1,191
Total	**3,269**	3,697

Income from the reversal of provisions consists mainly of the reversal of provisions for short- and long-term bonuses in the amount of EUR 539 thousand (previous year: EUR 130 thousand) and for guarantees and warranties in the amount of EUR 159 thousand (previous year: EUR 508 thousand).

Research and development grants are recognized in accordance with IAS 20 and exclusively concern government grants – in some cases with the involvement of private project companies. Grants are granted for costs actually incurred in connection with a specific purpose during the financial year (expenditure grant). Payments are made in line with project progress. Grants received for capitalized development costs and other non-current assets that have been recognized as deferred income are reversed on an accrual basis in accordance with the useful life of the associated capitalized development costs and other assets. The same applies to government grants for building costs in Suhl totaling EUR 943 thousand. The periodic reversal of these government grants for building costs is reported in the item "Reversal of deferred item income from grants" in the amount of EUR 37 thousand (previous year: EUR 41 thousand).

In response to the COVID-19 pandemic, last year many governments introduced programs to support companies whose business operations were affected by the pandemic. At its German locations, the LPKF Group made flexible use of short-time working. The reimbursement amounts requested from the Federal Employment Agency for social security contributions in connection with short-time working amounted to EUR 133 thousand in 2021 (previous year: EUR 455 thousand). Since 1 June 2021, short-time working has no longer been used at the German locations. The Slovenian and Chinese subsidiaries did not receive any reimbursement in connection with social security contributions in the 2021 financial year (previous year: EUR 351 thousand). Further government grants in connection with the COVID-19 pandemic were received in Slovenia in the amount of EUR 15 thousand (previous year: EUR 16 thousand). There were no further government grants in China in 2021 (previous year: EUR 43 thousand). All the aforementioned grants are included under total miscellaneous other operating income of EUR 1,042 thousand (previous year: EUR 1,191 thousand).

4. COST OF MATERIALS

in EUR thousand	**2021**	2020
Cost of (system) parts and purchased goods	-33,370	-28,097
Cost of purchased services	-2,249	-2,589
Write-downs on inventories	-1,209	-1,311
Total	**-36,828**	-31,997

5. STAFF COSTS AND EMPLOYEES

in EUR thousand	**2021**	2020
Wages and salaries		
Expenses for wages	-36,318	-33,907
Other	-1,003	-998
	-37,321	-34,905
Social security costs and pension costs		
Employer's contribution to social security	-6,578	-6,168
Pension costs	-258	-210
Employer`s liability insurance association	-191	-185
	-7,027	-6,563
Total	**-44,348**	-41,468

At its German locations, the LPKF Group made flexible use of short-time working until 31 May 2021. This reduced staff costs by EUR 404 thousand (previous year: EUR 1,475 thousand). There were ongoing pension payments of EUR 17 thousand (previous year: EUR 17 thousand) arising from pension obligations in the 2021 financial year (also see note 21).

The workforce is distributed as follows:

	As of reporting date		Annual average	
	12/31/2021	12/31/2020	**2021**	2020
Development	207	177	196	177
Production	136	133	135	134
Service	100	98	99	99
Sales	141	132	139	131
Administration	162	149	155	147
Total	**746**	689	**724**	724

The increase in personnel is mainly attributable to development in the sectors LIDE, Arralyze and Software. In the Welding segment, there was a change in the allocation of 29 employees from Production to Development in 2021. The allocation was applied retrospectively for the full year in determining the 2021 annual average. The prior-year figures in the table have been adjusted accordingly. Prior to the adjustment, the number of employees at the reporting date of December 31, 2020 was 148 in Development and 162 in Production; the annual average for 2020 was 147 in Development and 164 in Production.

6. DEPRECIATION, AMORTIZATION AND WRITE-DOWNS

The depreciation and amortization for various groups of non-current assets is shown under the reconciliations of the carrying amounts at the beginning and end of the period under notes 11 and 12.

7. OTHER EXPENSES

in EUR thousand	**2021**	2020
Third-party work, temporary work costs	-2,788	-1,386
Repairs, maintenance, operating materials	-2,412	-1,953
Advertising and sales expenses	-2,018	-1,623
Legal and consulting expenses	-1,846	-1,263
Consumables, development and purchased development services	-1,513	-1,422
Travel, meals/entertainment	-1,382	-1,375
Rent, ancillary rental costs, leases, land and building costs	-1,343	-1,303
Insurance, contributions, duties	-1,221	-1,002
Exchange rate losses	-675	-1,273
Vehicle costs	-564	-472
Investor relations	-556	-557
Telecommunications costs	-499	-518
Sales commissions	-488	-914
Trade fair costs	-354	-250
Voluntary benefits, training and further education	-305	-283
Financial statement preparation, publication and auditing costs	-258	-226
Bank charges	-243	-193
Expenses for warranties	-220	-160
Office supplies	-168	-138
Supervisory Board remuneration incl. reimbursement of expenses	-168	-147
Addition to loss allowance on receivables and losses on receivables	-58	-55
Other	-2,075	-636
Total	**-21,154**	-17,149

Expenses for R&D/effect on income statement

in EUR thousand	**2021**	2020
Materials and other costs	-4,209	-3,019
Other costs (including staff costs and D&A)	-9,103	-7,986
Total expenses für R&D	**-13,312**	-11,005

8. OPERATING RESULT (EBIT)

The operating result or EBIT (Earnings Before Interest and Taxes) is the profit or loss from operating activities from the continuing revenue-generating main activities of the LPKF Group plus other income and expenses from operating activities. The operating result does not include the financial result and income taxes.

9. FINANCIAL RESULT

in EUR thousand	**2021**	2020
Finance income		
Other interest and similar income	18	57
Finance costs		
Interest and similar expenses	-247	-290
	-229	-233

Other interest and similar income arose from overnight and time deposits totaling EUR 6 thousand (previous year: EUR 24 thousand) and from the fair value measurement of derivatives of EUR 12 thousand (previous year: EUR 33 thousand). Other interest expense of EUR 206 thousand (previous year: EUR 254 thousand) was incurred in connection with long-term loans and short-term money market loans. In addition, interest expenses of EUR 42 thousand (previous year: EUR 36 thousand) from leases were recognized. For materiality reasons, borrowing costs are recognized as an expense in the period in which they are incurred.

10. INCOME TAXES

Actual and deferred taxes are reported in the income statement as tax expense or tax income unless they affect items recognized directly in equity or in total comprehensive income. In this case, the taxes are recognized directly in equity.

in EUR thousand	**2021**	2020
Corporate income tax and solidarity surcharge	-773	-751
Trade tax	-75	-117
	-848	**-868**
of which related to prior period	-44	94
Deffered taxes	904	-1,095
	56	**-1,963**

Other comprehensive income includes tax income from the remeasurement of defined benefit plans in the amount of EUR -39 thousand (previous year: EUR 12 thousand).

The German entities of the LPKF Group are subject to trade tax of 14.8% or 15.7%, depending on the applicable trade tax assessment rate. As in the previous year, a corporate income tax rate of 15.0% plus a solidarity surcharge of 5.5% on corporate income tax applies. Foreign income taxes are calculated on the basis of the laws and regulations applicable in the individual countries. The income tax rates applicable to the foreign entities vary from 11.0% to 34.6% for deferred taxes (previous year: 11.0% to 33.6%) and 11.0% to 34.6% for current taxes (previous year: 11.0% to 33.6%).

The corporate tax rates applicable in the respective countries were used to calculate the deferred tax assets and tax liabilities in connection with the preparation of the consolidated financial statements.

Reconciliation of anticipated to current tax expense:

in EUR thousand	**2021**	2020
Consolidated profit/loss before income taxes	-170	7,305
Anticipated tax expenses 31.5% (previous year: 31.5%)	54	-2,301
Effect of different tax rates	173	288
Effect from previously unrecognized defered tax assets	-87	111
Effects of legal tax rate changes	0	-23
Tax-free income	152	82
Trade tax additions and deductions	0	3
Tax effect of non-deductible operating expenses	-157	-233
Prior-period tax effects	-44	94
Other differences	-35	16
Effective tax expenses 32.9 % (previous year: 26.9 %)	**56**	-1,963

The tax rate applied for the reconciliation presented above corresponds to the corporate tax rate of 31.5% (previous year: 31.5%) that is to be paid on taxable profits by the company in Germany in accordance with German tax law.

The effect from unrecognized deferred tax assets is derived from the non-recognition of deferred tax assets on tax loss carryforwards and temporary differences of EUR 4 thousand (previous year: EUR 30 thousand) and from the opposite effects as a result of the use of previously unrecognized tax losses and temporary differences of EUR -91 thousand (previous year: EUR -81 thousand) and the reinstatement of tax losses carried forward of EUR 0 thousand (previous year: EUR 0 thousand).

H. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Reconciliation of the carrying amount at the beginning and end of the period:

in EUR thousand	Goodwill	Development costs	Other intangible assets	**Total**
Acquisition and production costs				
As of 01/01/2020	74	46,083	11,327	**57,484**
Additions	0	4,724	33	4,757
Disposals	0	0	-14	-14
Reclassification	0	0	0	0
Currency differences	0	0	-1	-1
As of 12/31/2020	74	50,807	11,345	**62,226**
Additions	0	5,289	152	5,441
Disposals	0	0	0	0
Reclassification	0	0	0	0
Currency differences	0	0	3	3
As of 12/31/2021	74	56,096	11,500	**67,670**
Accumulated depreciation				
As of 01/01/2020	0	-31,242	-10,312	**-41,554**
Additions	0	-3,032	-315	-3,347
Disposals	0	0	14	14
Reclassification	0	0	0	0
Currency differences	0	0	1	1
As of 12/31/2020	0	-34,274	-10,612	**-44,886**
Additions	0	-3,487	-222	-3,709
Disposals	0	0	0	0
Reclassification	0	0	0	0
Currency differences	0	0	-3	-3
As of 12/31/2021	0	-37,761	-10,837	**-48,598**
Carrying amount as of 12/31/2020	74	16,533	733	**17,340**
Carrying amount as of 12/31/2021	**74**	**18,335**	**663**	**19,072**

Goodwill

As a rule, the goodwill arising from business combinations (capitalized differences arising from acquisition accounting) is assumed to have an unlimited useful life. The carrying amount of the goodwill is compared with the recoverable amount at each reporting date. The goodwill is depreciated if its carrying amount exceeds its recoverable amount. It is assigned to a cash-generating unit for an impairment test. Based on the Welding segment, a detailed planning period of five years and an appropriate rate of return on capitalization are applied. Based on this, there was no impairment in 2021, as in previous years.

Development costs

Own capitalized development costs are also amortized over their useful life on a straight-line basis. For materiality reasons, borrowing costs are not capitalized, but are expensed in the period in which they are incurred. The item is broken down by segment as follows:

in EUR thousand	**2021**	2020
Electronics	7,314	6,499
Development	3,203	3,028
Welding	2,141	2,365
Solar	5,677	4,641
Total	**18,335**	16,533

Both the residual carrying amounts and the useful lives of the intangible assets are tested for impairment, at a minimum, as of the end of every financial year. Intangible assets are amortized in accordance with IAS 36 if the recoverable amount of the respective asset has dropped below its carrying amount. Capitalized development costs not yet available for use are tested for impairment annually.

Development costs for which an impairment loss was recognized in the past are reviewed at each reporting date to determine whether a write-up is required. No other impairment losses or write-ups were necessary in the reporting year.

For development costs, a useful life of three years was assumed as planned.

Other intangible assets

As an intangible asset, purchased software is recognized at cost less straight-line amortization. For software, a useful life of three years was assumed as planned.

For other intangible assets amortized in the past, a review is performed at each reporting date to determine whether a write-up is required. No other impairment losses or write-ups were necessary in the reporting year.

12. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of the carrying amount at the beginning and end of the period:

in EUR thousand	Land and buildings	Technical equipment	Other equipment, operating and office equipment	PPE in construction	Right-of-use assets	**Total**
Acquisition and production costs						
As of 01/01/2020	**50,211**	**12,633**	**14,171**	**539**	**2,822**	**80,376**
Additions	18	877	599	3,274	709	5,477
Disposals	0	-161	-103	-4	0	-268
Reclassification	1,819	-249	1,758	-3,328	0	0
Currency differences	-212	-71	-28	0	0	-311
As of 12/31/2020	**51,836**	**13,029**	**16,397**	**481**	**3,531**	**85,274**
Additions	91	1,053	1,069	1,031	802	4,046
Disposals	-4	-166	-88	0	0	-258
Reclassification	0	596	0	-596	0	0
Currency differences	192	134	34	0	0	360
As of 12/31/2021	**52,115**	**14,646**	**17,412**	**916**	**4,333**	**89,422**
Accumulated depreciation						
As of 01/01/2020	**-13,455**	**-9,826**	**-11,707**	**0**	**-672**	**-35,660**
Additions	-1,362	-1,074	-909	0	-614	-3,959
Disposals	0	97	91	0	0	188
Reclassification	0	163	-163	0	0	0
Currency differences	54	66	23	0	0	143
As of 12/31/2020	**-14,763**	**-10,574**	**-12,665**	**0**	**-1,286**	**-39,288**
Additions	-1,394	-883	-973	0	-578	-3,828
Disposals	3	158	44	0	0	205
Reclassification	0	0	0	0	0	0
Currency differences	-51	-121	-22	0	0	-194
As of 12/31/2021	**-16,205**	**-11,420**	**-13,616**	**0**	**-1,864**	**-43,105**
Carrying amount as of 12/31/2020	37,073	2,455	3,732	481	2,245	**45,986**
Carrying amount as of 12/31/2021	**35,910**	**3,226**	**3,796**	**916**	**2,469**	**46,317**

Property, plant and equipment are measured at cost less accumulated straight-line depreciation. For materiality reasons, borrowing costs are not capitalized, but are expensed in the period in which they are incurred. Land is not depreciated. Property, plant and equipment is tested for impairment if certain events or changes in circumstances indicate it.

Property, plant and equipment is depreciated in accordance with IAS 36 if the recoverable amount of the respective asset has dropped below its carrying amount. The recoverable amount is the higher of its value in use and fair value less costs to sell. Corresponding write-ups are made if the reasons for an earlier depreciation no longer apply.

Production costs cover the costs of materials and related overheads as well as the manufacturing costs and related overheads.

They are deemed to have the following useful lives:

	years
Buildings	33 or 25
External facilities	10
Plant and machinery	3-10
Other equipment, operating and office equipment	3-10
Right-of-use assets	2-5

Bank loans totaling EUR 3,029 thousand (previous year: EUR 4,846 thousand) are secured by land and buildings.

Leases

LPKF Laser & Electronics AG acts solely as a lessee. Additional information is provided to indicate the effects of this on net assets, financial position and results of operations. This is outlined in the following table.

in EUR thousand	**2021**	2020
Write-downs of right-of-use assets	**-578**	-614
of which für property leases	-271	-270
of which for movable asset leases	-307	-344
Additions to right-of-use assets	**802**	709
of which for property leases	457	182
of which for movable asset leases	345	527
Carrying amount of right-of-use assets on 12/31	**2,470**	2,245
of which for property leases	1,437	1,251
of which for movable asset leases	1,033	995
Expenses for short-term leases	0	-3
Expenses for leasing low-value assets	-35	-56
Interest expense on lease liabilities	-42	-36
Total cash outflow for leases	-729	-735

LPKF leases immobile leasing goods such as office space and warehouses, and mobile leasing goods such as motor vehicles. The contract term for mobile goods is three to four years. Some real estate leases contain extension options. Where possible, the Group seeks to include extension options when entering into new leases to ensure operational flexibility. The extension options are exercisable only by the Group and not by the lessor. At the commencement date, the Group assesses whether the exercise of extension options is reasonably certain. The Group reassesses whether the exercise of an extension option is reasonably certain upon the occurrence of a significant event or a significant change in circumstances within its control.

Short-term and low-value contracts and ancillary rental costs are not recognized.

13. INVENTORIES

in EUR thousand	**2021**	2020
Raw, auxiliary and operating materials	8,797	7,701
Unfinished products and services	7,474	4,965
Finished products and goods	12,165	7,101
Advance payments	99	78
Total	**28,536**	19,845

Inventories are recognized at the lower of cost and net realizable value at the reporting date.

The costs of conversion of inventories include costs directly related to the units of production (such as production costs and directly attributable material costs). They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. For materiality reasons, borrowing costs are not capitalized, but are expensed in the period in which they are incurred. Inventories are measured using the weighted average cost formula. Inventories were written down below cost to their net realizable value and scrapped in the amount of EUR 1,209 thousand (previous year: EUR 1,311 thousand).

14. TRADE RECEIVABLES

in EUR thousand	**2021**	2020
Nominal amount of receivables	17,300	13,339
+/- Loss allowances for non-credit-impaired receivables	-85	-12
+/- Loss allowances for credit-impaired receivables	-33	-128
Receivables after loss allowances, discounts and currency losses	**17,182**	13,199
of which receivables with a remaining term of more than one year	696	262
of which receivables with a remaining term of less than one year	16,486	12,937

Items recognized in foreign currencies are measured at the middle spot foreign exchange rate as of the reporting date.

There was no income from the recovery of derecognized receivables in the 2021 financial year, as was the case in the previous year. See the risk management notes in Section 30 for more information on default risks for trade receivables.

15. OTHER FINANCIAL ASSETS

in EUR thousand	**2021**	2020
Derivatives - without hedge accounting	13	33
Total	**13**	33

Derivatives products are measured at fair value through profit or loss.

16. OTHER NON FINANCIAL ASSETS

in EUR thousand	**2021**	2020
Net assets for defined benefit plans	158	12
Other	23	20
Non-current other non-financial assets	**181**	32
Input tax receivables	582	1,632
Deferred income	419	395
Contract assets	46	27
Other	448	367
Current other non-financial assets	**1,495**	2,421

With the exception of the net assets for defined benefit plans, other assets are measured at cost. Disclosures on the determination of the net assets are explained in note 21.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of bank balances and are reported at their nominal value. Cash and cash equivalents in foreign currencies are translated at the respective reporting date exchange rate.

in EUR thousand	**2021**	2020
Cash and cash equivalents on the statement of financial position	15,167	20,074
Overdraft facilities used for cash management	0	0
Cash and cash equivalents shown in the statement of cash flows	**15,167**	20,074

18. DEFERRED TAXES

Deferred taxes are determined using the liability method pursuant to IAS 12. Accordingly, deferred taxes are recognized for all temporary differences between the tax base of the assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax assets are recognized only if it is probable that adequate earnings will be available in future periods to offset the tax benefits. Income tax liabilities are netted against income tax receivables within the same fiscal territory if maturity and type are matched.

The income taxes are calculated in accordance with applicable laws and regulations.

Capitalized deferred tax assets encompass deferred taxes mainly on loss carryforwards and intercompany profits. Deferred tax liabilities largely comprise capitalized development costs. Deferred taxes consist of the following:

DEFERRED TAX ASSETS

in EUR thousand	**2021**	2020
Tax loss carryforwards	5,545	5,233
Intangible assets	69	102
Property, plant and Equipment	463	463
Trade receivables	1,136	18
Provisions	668	706
Elimination of intercompany profits and other deductible temporary differences	637	332
Other liabilities	14	113
Other liabilities	24	82
Offsetting with deferred tax liabilities	-5,790	-4,422
Total	**2,766**	2,627

DEFERRED TAX LIABILITIES

in EUR thousand	**2021**	2020
Capitalized development costs	5,589	5,017
Property, plant and equipment	356	379
Trade receivables	0	84
Other	172	43
Offsetting with deferred tax assets	-5,790	-4,422
Total	**327**	1,101

The recoverability of the deferred tax assets from loss carryforwards is based on the multi-year planning calculations of the probable future taxable profits of the German fiscal unity in particular.

EUR 1,263 thousand (previous year: EUR 3,181 thousand) in deferred tax assets and EUR 899 thousand (previous year: EUR 1,284 thousand) in deferred tax liabilities will be realized within the next twelve months.

For entities that, in the reporting period or in the previous year, made a tax loss, deferred tax assets in the amount of EUR 480 thousand (previous year: EUR 251 thousand) are capitalized because planning assumes the achievement of taxable profits.

The amount for tax losses not yet used and temporary differences for which no deferred tax assets were recognized in the statement of financial position was EUR 3,640 thousand (previous year: EUR 3,274 thousand). Of these tax losses carried forward, EUR 1,789 thousand (previous year: EUR 1,255 thousand) will expire within the next five years and EUR 1,581 thousand (previous year: EUR 2,020 thousand) will expire within the next six to ten years.

No deferred tax liabilities were recognized on temporary differences of EUR 1,110 thousand (previous year: EUR 1,045 thousand) related to investments in subsidiaries and branches.

19. EQUITY

Subscribed capital

The company's subscribed capital is EUR 24,496,546 and is divided into 24,496,546 no-par value ordinary bearer shares (no-par shares), each with a pro-rata interest of EUR 1.00.

Capital reserve

The capital reserves comprise only a capital reserve pursuant to Section 272 (2) no. 1 of the German Commercial Code.

Other reserves

Other reserves include other retained profits, remeasurements of defined benefit plans, a reserve for share-based payment, and the currency translation reserve.

Authorized capital / Contingent capital

By the resolution adopted by the Annual General Meeting on 20 May 2021, the Management Board is authorized to increase the share capital once or repeatedly until 19 May 2024 with the approval of the Supervisory Board by up to a total of EUR 4,899,309.00 by issuing up to 4,899,309 new no-par value bearer shares in return for contributions in cash or in kind (Authorized Capital 2021). Shareholders shall generally be granted a pre-emption right. However, the Management Board was authorized, in certain cases and within certain capital limits, to disapply shareholders' pre-emption rights. This authorization was not utilized in the past financial year.

The company's share capital is contingently increased by up to EUR 4,899,309.00 through issuing up to 4,899,309 new no-par value bearer shares (Contingent Capital 2021/I) in connection with the authorization resolved by the Annual General Meeting on 20 May 2021 to issue warrant bonds and/or convertible bonds up to 19 May 2024 with a total nominal value of up to EUR 200,000,000.00, with the option to disapply pre-emption rights in certain cases and within certain capital limits. The contingent capital increase will only be implemented to the extent that the bearers or creditors of warrant bonds and/or convertible bonds utilize their warrant or conversion rights or fulfill their conversion obligations or the company exercises an option instead of paying the amount of money due for no-par value shares of the company. The Management Board did not utilize this authorization in the past financial year.

Own shares

The Management Board is authorized by resolution of the scheduled Annual General Meeting on 4 June 2020, subject to the Supervisory Board's prior approval, to buy back own shares until 3 June 2025 corresponding in total to up to 10% of the company's share capital either on the date the resolution was adopted or on the date the authorization is exercised, whichever is higher. Together with other own shares held by the company or attributable to it in accordance with Sections 71d and 71e of the German Stock Corporation Act (AktG), the shares acquired may at no time account for more than 10% of the share capital. The authorization may not be used for the purpose of trading in own shares. The authorization may be exercised in whole or in part, on one or more occasions, in pursuit of one or more purposes by the company or companies dependent upon it or majority-owned by it, or by third parties acting on their behalf or on behalf of the company. The Executive Board is authorized, with the prior approval of the Supervisory Board, to exclude shareholders' tender rights when acquiring or their subscription rights when using treasury shares in certain cases.

2021 employee participation program

On 16 November 2021, LPKF Laser & Electronics AG repurchased a total of 10,844 no-par value own shares, each with a pro-rata interest of EUR 1.00 in the share capital as part of an employee share program and transferred them to the participating employees through an intermediary. The average buyback price was EUR 20.9463 per share. The total amount came to EUR 227,141.41.

From 26 May to 28 May 2021 (inclusive), LPKF Laser & Electronics AG has already acquired a total of 2,601 shares as part of the share buyback program. The average buyback price was EUR 22.5110 per share. The total value amounted to EUR 58,551.11.

The shares have a two-year lock-up period.

LPKF Laser & Electronics AG created an incentive to participate in the employee participation program by fully subsidizing employee payments up to a maximum amount of EUR 720.00 per employee. The resulting expense of EUR 143 thousand was recognized under staff costs.

2020 employee participation program

From 10 to 13 November 2020 (inclusive), LPKF Laser & Electronics AG bought back on the capital market a total of 12,775 no-par value own shares, each with a pro-rata interest of EUR 1.00 in the share capital, under an employee participation program, and transferred them to the participating employees through an intermediary.

The average buyback price was EUR 18.9931 per share. The total amount came to EUR 242,636.70. The shares have a two-year lock-up period.

LPKF Laser & Electronics AG created an incentive to participate in the employee participation program by fully subsidizing employee payments up to a maximum amount of EUR 720.00 per employee. The resulting expense of EUR 243 thousand was recognized under staff costs.

20. DEFERRED INCOME

Deferred income was recognized for grants for capitalized development costs and other non-current assets. The components are released on an accrual basis in accordance with their useful lives. The same applies to government grants for building costs at the Suhl site totaling EUR 943 thousand.

21. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Post-employment pension benefits

Germany has a statutory defined contribution national pension scheme for employees that pay pensions contingent on income and contributions made. The company has no benefit obligations other than the payment of its contributions to the statutory pension insurance entity. Some of the Group's employees have also taken out policies with a private insurer as part of the company pension plan and based on a shop agreement. In this case, too, the company has no other benefit obligations above and beyond the cost of contributions that are reported in current staff costs.

The provisions reported as pension benefits in the statement of financial position comprise only defined benefit obligations to former Management Board members of the parent company for which fixed pension benefits have been stipulated. The plan is financed through payments to a fund and to insurance companies. The promised benefits comprise payments for retirement pensions, disability pensions and widow's and orphan's pensions. Once the age threshold has been attained by reaching the end of the 65th year of life, or if eligibility to receive a disability pension is established prior to reaching the end of the 65th year of life, a commitment is made to pay the beneficiary a monthly pension payment for life. The widow's pension paid to a surviving wife amounts to 60% or 70% of the relevant retirement pension entitlement. The weighted average term of the defined benefit plans is 17.5 years.

There is longevity and interest rate risk with regard to the pension provision. Reinsurance policies were obtained for hedging purposes and pledged to the beneficiaries. The fair value amounts are reported in the offsetting and reconciliation of the excess of plan assets over post-employment benefit liability.

The carrying amount in the statement of financial position of the net liabilities (assets) for defined benefit plans in accordance with IAS 19 corresponds to the present value of the defined benefit obligation (DBO) on the reporting date less the fair value of the plan assets. The DBO is calculated annually by an independent actuary using the projected unit credit method. The DBO's present value is determined by discounting the expected future cash outflows at the interest rate of high-quality corporate bonds. The resulting revaluations (actuarial gains and losses) in connection with the remeasurement of net liabilities and net assets are recognized directly in other comprehensive income (OCI) due to IAS 19.

The following amounts were reported in the statement of financial position for defined benefit plans:

in EUR thousand	**2021**	2020
Present value of the defined benefit obligation at beginning of period	**853**	812
Current service cost	0	0
Interest expense	4	7
Pension payments	-17	-17
Actuarial gains (-) and losses (+)	-67	51
Present value of the defined benefit obligation at the end of period	**773**	853
Plan assets		
Reinsurance cover	-484	-427
Securities	-447	-438
Deficit (net liability (+)/Excess (net asset (-)) shown in the statement of financial position	**-158**	-12

Development of net liabilities/assets:

in EUR thousand	**2021**	2020
Net assets at beginning of period	**12**	34
Total amount in the income statement	0	0
Total revaluations recognized in OCI	129	-38
Benefit payments	0	0
Employer contributions	16	16
Net assets at end of period	**158**	12

All defined benefit plans are covered by plan assets; there are no unfunded plans. The fair value of the plan assets developed as follows:

in EUR thousand	**2021**	2020
At beginning of period	**865**	846
Interest income from plan assets	4	7
Cost of/income on plan assets without interest income	63	12
Payments from plan assets	-17	-17
Funded by the employee	16	16
At end of period	**932**	865

The plan assets are made up as follows:

	2021	
in EUR thousand	Absolute	Percentage
Equity instruments	0	0%
Debt securities	447	48%
Other	484	52%
Total	**931**	100%

	2020	
in EUR thousand	Absolute	Percentage
Equity instruments	0	0%
Debt securities	438	51%
Other	427	49%
Total	865	100%

The debt securities include mixed fund shares that are primarily invested in fixed-income securities. Insurance plans are reported under Other. As in the previous year, the plan assets do not contain any financial instruments.

The following amounts were recognized in the income statement:

in EUR thousand	**2021**	2020
Interest income from plan assets	4	7
Interest expenses on the obligation	-4	-7
Total effect on earnings in the income statement	**0**	0

The provisions for pensions were determined based on the following assumptions:

in %	**2021**	2020
Discount rate as of 12/31	1.05	0.50
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	1.05	0.50
Employee turnover	0.00	0.00

The determination of the expected return on the plan assets was based on the estimated return on the assets, taking into account the changes in the yields of non-current fixed-income instruments. The allocations to plans for post-employment benefits and pension payments payable in the financial year ending 31 December 2022 are estimated to total EUR 33 thousand.

The undiscounted pension payments based on the average life expectancy of 17.5 years result in the following maturity analysis:

12/31/2021 in EUR thousand	Up to 1 year	Between 1 and 5 years	Between 5 and 10 years	**Total**
Pension benefits	17	35	116	**168**

Regarding possible changes in the significant actuarial assumptions made, the following sensitivities were determined:

Baseline values	
Discount rate	1.05%
Pension trend	1.75%
DBO	773,671

Sensitivities	Revalued DBO	Percentage change in the DBO
Discount rate plus 0.5%	719,651	-6.98%
Discount rate minus 0.5%	833,924	7.79%
Pension trend plus 0.25%	797,823	3.12%
Pension trend minus 0.25%	750,553	-2.99%

Anniversary payments and benefits similar to pensions

One Group company is obligated to pay its employees a benefit equal to three months of an employee’s salary based on the most recently paid salary when employment is terminated due to the employee reaching the maximum age threshold. In addition, the company is required to pay a benefit calculated based on the attainment of a certain number of years of service with the company. The company, which is included in the consolidated financial statements, meets these obligations itself as soon as they become due. These obligations are measured annually by an independent actuary. No plan assets are maintained for this purpose. The amount of the obligation is therefore reported in the statement of financial position under provisions for employee benefits.

Payments totaling EUR 64 thousand are expected in the next five years.

The amounts recognized in the statement of financial position are comprised as follows:

in EUR thousand	**2021**	2020
Present value of the defined benefit obligation at the beginning of period	**357**	345
Current service cost	32	23
Interest expense	4	3
Benefit payments	-7	-6
Employees left	-18	-7
Benefit changes	0	0
Actuarial gains (-) and losses (+)	2	-1
Present value of the defined benefit obligation at end of period	**370**	357

The following amounts were recognized in the income statement:

in EUR thousand	**2021**	2020
Current service cost	32	23
Interest expense on the obligation	5	3
Total amount in the income statement	**37**	26

Regarding possible changes in the significant actuarial assumptions made, the following sensitivities were determined:

Baseline values	
Discount rate	1.27%
Salary trend	2.00%
DBO	370,164

Sensitivities	Revalued DBO	Percentage change in the DBO
Discount rate plus 0.5%	345,352	-6.70%
Discount rate minus 0.5%	397,604	7.41%
Salary trend plus 0.5%	397,185	7.30%
Salary trend minus 0.5%	345,465	-6.67%

22. OTHER PROVISIONS

Provisions are recognized for legal or constructive obligations resulting from past events if it is probable that settling the obligation will lead to an outflow of Group resources and that a reliable estimate of the amount of the obligation can be made. Other provisions are recognized at their estimated settlement value in accordance with IAS 37.

in EUR thousand	Guarantees and warranties	Bonuses	LTI	Other	**Total**
As of 01/01/2021	944	939	633	329	**2,845**
Utilization	-631	-796	-138	-243	-1,808
Reversals	-159	-204	-335	-27	-725
Additions	701	863	28	381	1,973
Currency differences	2	47	1	3	53
As of 12/31/2021	857	849	189	443	**2,338**
Long-term	0	0	68	0	68
Short-term	857	849	121	443	2,270

Guarantees and warranties

The provisions for guarantees and warranties cover potential statutory or financial obligations under guarantee and goodwill cases.

Bonuses

The provision for bonuses is recognized for variable remuneration components that will be paid out after the end of the current financial year. It includes short-term bonus components for the Management Board and senior management as well as other short-term variable remuneration components for other employees and functions. Detailed information on Management Board remuneration can be found under note 33 and in the remuneration report, which is part of the management report.

LTI for executives: 2012 – 2018 tranches

In 2012, a long-term incentive program (LTI) was launched in which a selected group of LPKF Group executives can participate. The beneficiaries are entitled to a long-term bonus. This is paid to the beneficiaries depending on the long-term bonus allotment granted to each individual, the average EBIT margin of the LPKF Group during a four-, five- or six-year performance period and the performance of LPKF's share price. The program does not stipulate settlement by granting of equity instruments. Payment requires beneficiaries to have an unterminated employment contract as of 20 July of the year in which the payment is made.

At plan inception, a preliminary number of phantom stocks corresponding to the allotment value were specified, which were representing the starting point for calculating the bonus payment. The final number of phantom stocks is determined at the end of the performance period. The performance period amounts to at least four years, but can be extended to five, or no more than six years, upon the request of an individual beneficiary. The final number of phantom stocks is determined based on an in-house measure of the company's success, the EBIT margin. If the target is exceeded or the actual figure falls short of the target, the preliminary number of phantom stocks at the time of the allotment is increased or decreased accordingly. The payment amount is determined by measuring the value of the phantom stocks using the average XETRA closing price for LPKF shares on the 30 trading days prior to

21 July after the end of the four-, five- or six-year performance period. The amount of the payment is limited to no more than 300% of the individual allotment value.

No executive tranche was issued in the 2019 financial year.

LTI for executives: 2020 tranche and 2021 tranche

In 2020, the LTI program for key executives was largely aligned with the program for Management Board members applicable in 2020. The beneficiaries are entitled to a long-term bonus. This is paid to the beneficiaries depending on the long-term bonus allotment granted to each individual, the average value contribution of the LPKF Group during a three-year performance period, and the performance of LPKF's share price, subject to compliance with further requirements in accordance with the long-term bonus plan. The individual performance periods begin on 1 January of each year. The program does not stipulate settlement by granting of equity instruments. Payment requires beneficiaries to have an unterminated employment contract at the end of the three-year performance period.

At plan inception, a preliminary number of phantom stocks corresponding to the allotment value is specified, which represents the starting point for calculating the bonus payment. The final number of phantom stocks is determined at the end of the performance period. The final number of phantom stocks is determined based on an in-house measure of the average value contribution of the LPKF Group over the respective three-year performance period.

If the target is exceeded or the actual figure falls short of the target, the preliminary number of phantom stocks at the time of the allotment is increased or decreased accordingly. The final number of phantom stocks is limited to twice the number of phantom stocks originally allocated. The amount to be paid out is calculated by multiplying the final number of phantom stocks by the average XETRA closing price for LPKF shares for the first quarter following the end of the three-year performance period. The average XETRA closing share price is increased by the sum of all dividends per share paid out during the performance period. The maximum amount of the payment is limited to four times the individual allotment value.

A 2021 tranche was also issued in the current financial year under the plan conditions described for the 2020 tranche.

LTI for members of the Management Board: 2018–2020 tranches

The LTI program for members of the Management Board served as a template for the LTI program for executives relaunched in the 2020 financial year and described above. A key difference is that the amount to be paid out for the Management Board is still increased by the dividends per share paid out during the performance period.

LTI accounting

Reporting of share-based payment transactions settled in cash is governed by IFRS 2 Share-based Payment. The expense expected to arise from the long-term bonus program is estimated at fair value at each reporting date using an option pricing model. The expected total expense from the program is distributed pro rata temporis across the time period up to the first possible exercise date.

The following parameters were used in the option pricing model (modified Black Scholes (Merton) model) for determining the fair value as of 31 December 2021:

	LTI (executives)			
	Tranche 2017	Tranche 2018	Tranche 2020	Tranche 2021
Expected volatility	64%	64%	64%	64%
Risk-free interest rate	0.00% p. a.	0.00% p. a.	0.00% p. a.	0.00% p. a.
Allotment value	EUR 60 thousand	EUR 40 thousand	EUR 210 thousand	EUR 183 thousand
Expected remaining maturity	7 months	7 months	1 year	2 years
LPKF share price as of 12/31/2021	EUR 19.54	EUR 19.54	EUR 19.54	EUR 19.54
Initial price of LPKF shares	EUR 9.58	EUR 7.02	EUR 19.18	EUR 27.35
Number of phantom stocks at the allotment date	6,212	5,660	10,950	6,704

	LTI (members of the Management Board)	
	Tranche 2019	Tranche 2020
Expected volatility	64%	64%
Risk-free interest rate	0.00% p. a.	0.00% p. a.
Allotment value	EUR 140 thousand	EUR 140 thousand
LPKF share price as of 12/31/2021	EUR 19.54	EUR 19.54
Initial price of LPKF shares	EUR 6.75	EUR 19.18
Number of phantom stocks at the allotment date	20,741	7,299

LTI provision as of reporting date is:

in EUR thousand	**12/31/2021**	12/31/2020
LTI (executives)	120	361
LTI (members of the Management Board)	69	272
Total	**189**	633

The expenses and income from share-based payments recognized in the 2021 financial year amount to:

in EUR thousand	**2021**	2020
Other income	-306	75
Personnel expenses	28	-417
Total	**-278**	-342

LTI for members of the Management Board: 2021 tranche

At the Annual General Meeting on May 20, 2021, the compensation system for the members of the Executive Board was approved in a revised form. The revised remuneration system applies to all Management Board employment contracts concluded or extended on or after 7 April 2021 with retroactive effect from the start of the 2021 financial year. That means that it applied only to Management Board member Christian Witt in 2021. As part of the revision, there was an adjustment to the long-term compensation component. The new LTI will be issued in annual tranches and is linked to the overall achievement of the Short Term Incentive („STI“) target for the respective fiscal year and to the share price performance of the subsequent three years. The LTI is measured according to the development of the LPKF Laser & Electronics AG share price. To do this, the average share price of LPKF Laser & Electronics AG in the first quarter of the year in which the targets were achieved is calculated (opening share price). Also, the average share price of LPKF Laser & Electronics AG in the first quarter of the year in which the targets were achieved is calculated (opening share price). These values are used to calculate a payment amount, which is paid out to the Executive Board member immediately after it has been determined that the target has been achieved. However, the net amount received must be invested in shares in LPKF Laser & Electronics AG immediately afterwards. These shares must be held for at least three years after purchase. Only after that can the Management Board members do as they wish with the shares. If the average share price of LPKF Laser & Electronics AG in the fourth quarter of the year in which the targets are achieved and the first quarter of the year after the year in which the targets are achieved (threshold share price) drops below 90% of the opening share price, no LTI will be paid.

As of December 31, 2021, no entitlement to payment of the bonus arose due to the shortfall of the threshold share price, therefore no provision was recognized for the tranche 2021 was recognized.

The revised and currently valid program of the Executive Board members is explained in detail in the compensation report as part of the management report.

Other

Other provisions mainly include provisions for inventor remuneration, sales commissions and license fees.

23. OTHER FINANCIAL LIABILITIES

Upon initial recognition, financial liabilities are measured at fair value after deduction of transaction costs. They are subsequently measured at amortized cost. Any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is amortized over the term of the liability in the income statement using the effective interest rate method.

	2021			
in EUR thousand	**Total**	of which current	of which non-current	Secured amounts
Liabilities to banks	**3,029**	1,808	1,221	3,029
Liabilities from leases	**2,169**	760	1,409	
Other financial liabilities	**5,198**	2,568	2,630	

	2020			
in EUR thousand	**Total**	of which current	of which non-current	Secured amounts
Liabilities to banks	4,846	1,816	3,030	4,846
Liabilities from leases	2,096	692	1,404	
Other financial liabilities	6,942	2,508	4,434	

All loans were issued in euros. They are earmarked for financing new construction, purchases of property, investments to expand capacities, and equipment. The loan maturity dates range from March 2023 to December 2024. The agreed interest rates are between 1.0% and 2.4%. The loans are secured by land charges.

No overdraft facilities were utilized at the reporting date of 31 December 2021. The overdraft facilities are secured by land charges, assignment of receivables and security assignment of inventories. The carrying amount of the inventories pledged as collateral as of the reporting date is EUR 13,301.

24. OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities of EUR 4,693 thousand (previous year: EUR 4,428 thousand) mainly include accrued liabilities of EUR 1,936 thousand (previous year: EUR 970 thousand) that are fixed in principle but subject to residual uncertainty as to amount and timing. Short-term employee benefits from wages, salaries and social security contributions of EUR 797 thousand (previous year: EUR 838 thousand) and from paid absences such as vacation and reduction of overtime in the amount of EUR 1,579 thousand (previous year: EUR 1,231 thousand) are also reported under this item. In addition, liabilities to the Supervisory Board of EUR 91 thousand (previous year: EUR 142 thousand) are recognized.

I. OTHER DISCLOSURES

25. STATEMENT OF CASH FLOWS

Cash flow from operating activities is derived from the consolidated financial statements using the indirect method; pursuant to IAS 7, it presents the changes in cash flows broken down by inflows and outflows for operating activities. Cash flows from investing and financing activities, on the other hand, are calculated using the direct method. The total is the change in cash and cash equivalents. This comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

RECONCILIATION FOR LIABILITIES FROM FINANCING ACTIVITIES AS PER IAS 7

			Non-cash changes			
2021 in EUR thousand	01/01/2021	Cash changes	Acquisi-tions	Currency-exchange-related changes	Fair value changes	**12/31/2021**
Non-current loans	3,030	-1,809	0	0	0	1,221
Current loans	1,816	-8	0	0	0	1,808
of which overdraft facilities	0	0	0	0	0	0
Lease liabilities	2,096	-729	802	0	0	2,169
Total	6,942	-2,546	802	0	0	**5,198**

			Non-cash changes			
2020 in EUR thousand	01/01/2020	Cash changes	Acquisi-tions	Currency-exchange-related changes	Fair value changes	**12/31/2020**
Non-current loans	4,846	-1,816	0	0	0	3,030
Current loans	1,966	-150	0	0	0	1,816
of which overdraft facilities	2	-2	0	0	0	0
Lease liabilities	2,086	-735	745	0	0	2,096
Total	8,898	-2,701	745	0	0	**6,942**

26. EARNINGS PER SHARE

According to IAS 33, basic earnings per share are determined by dividing the consolidated net profit for the year attributable to the shareholders of LPKF Laser & Electronics AG by the weighted number of shares outstanding during the financial year. There are currently no transactions that would trigger dilution.

in EUR thousand	**2021**	2020
Number of shares, undiluted	24,496,546	24,496,546
Number of shares, diluted	24,496,546	24,496,546
Consolidated net profit/loss (in EUR thousand)	-114	5,342
Basic earnings per share (in EUR)	0.00	0.22

27. DIVIDEND PER SHARE

From the perspective of the Management Board and the Supervisory Board, investments in LPKF's innovative technologies are essential in the current situation to enable sustainable and profitable growth in the coming years. For this reason, the Management Board will propose to the Annual General Meeting on May 19 2022 that no dividend will be paid for the 2021 financial year. The financial resources from the retained profits are to be used specifically for the development and commercialization of future technologies.

28. TRANSACTIONS WITH RELATED PARTIES

As of the reporting date, LPKF Laser & Electronics AG had EUR 91 thousand in liabilities to members of the Supervisory Board (previous year: EUR 142 thousand).

Apart from these, there were no other receivables from or liabilities to, nor were any payments or benefits granted to, related parties or LPKF Group companies. Notes 33 and 34 provide details on the corporate bodies of LPKF Laser & Electronics AG.

29. GERMAN CORPORATE GOVERNANCE CODE

The declaration of compliance by the Supervisory Board and the Management Board required under Section 161 of the German Stock Corporation Act on the application of the recommendations of the Government Commission of the German Corporate Governance Code, as well as the disclosures of any non-compliance with the recommendations, were made permanently available to the public on the company’s website (https://www.lpkf.com/de/investor-relations/corporate-governance).

30. FINANCIAL INSTRUMENTS

Classification of financial assets and liabilities

The financial instruments reported in the LPKF consolidated statement of financial position comprise trade receivables, cash and cash equivalents, derivatives, trade payables, liabilities to banks as well as other assets and liabilities under contractual agreements.

Financial assets are measured at fair value, net of any transaction costs, at the settlement date. Trade receivables, on the other hand, are initially recognized at the transaction price. Subsequent measurement of financial assets varies depending on classification.

Within the classification of financial assets, IFRS 9 differentiates between debt instruments and equity instruments. LPKF Laser & Electronics AG's consolidated financial statements do not include any equity instruments.

The first step in classifying debt instruments is to analyze how the entity manages the relevant financial instruments in order to realize cash flows from them (business model test). The cash flows to be realized are analyzed to determine whether they originate primarily from the **HOLDING** or **SELLING** of financial assets or from a **COMBINATION OF THE TWO**. The second step is to analyze the contractual cash flows to determine whether the financial asset meets the core principle of a normal lending arrangement. This is the case when the contractual cash flows of a financial asset give rise to payments on specified dates that are solely payments of **PRINCIPAL** and **INTEREST** on the principal amount outstanding.

Based on the business model test and the cash flow criterion, the Group's financial assets are predominantly classified under the "at amortized cost" category. On the other hand, derivatives do not meet the cash flow criterion and should therefore be assigned to the "at fair value through profit or loss" category. Income and expenses related to the financial assets are recognized in profit or loss.

At initial recognition, financial liabilities are measured at fair value plus any transaction costs. They are subsequently measured at amortized cost using the effective interest rate method. Transaction costs are taken into account when calculating the effective interest rate. Income and expenses related to the financial liabilities are recognized in profit or loss.

2021 in EUR thousand	Measure-ment category as per IFRS 9	Carrying amount as of 12/31/ 2021	IFRS 9 carrying amount Amortized cost	Fair Value through other compre-hensive income	Fair value through profit or loss	Fair Value as of 12/31/ 2021	FVH*
Assets							
Other financial liabilities	AC	15,167	15,167	-	-	15,167	-
Trade receivables	AC	17,182	17,182	-	-	17,182	-
Derivatives - without hedge accounting	FVtPL	13	-	-	13	13	2
Total		**32,362**	**32,349**	**-**	**13**	**32,362**	**-**
EQUITY AND LIABILITIES							
Trade payables	FLAC	7,213	7,213	-	-	7,213	-
Liabilities to banks	FLAC	3,029	3,029	-	-	3,067	2
Other interest-free liabilities	FLAC	1,606	1,606	-	-	1,606	-
Lease liabilities	n.a.	2,169	-	-	-	-	-
Total		**14,017**	**11,848**	**-**	**-**	**11,886**	**-**

* FVH: Fair Value Hierarchy level

Aggregated by measurement category as of IFRS 9	in EUR thousand	Carrying amount
Amortized cost	(AC)	32,349
Fair value through profit or loss	(FVtPL)	13
Financial liabilities at amortized cost	(FLAC)	11,848
not to be classified	(n.a.)	2,169

2020 in EUR thousand	Measure-ment category as per IFRS 9	Carrying amount as of 12/31/ 2020	IFRS 9 carrying amount Amortized cost	Fair Value through other compre-hensive income	Fair value through profit or loss	Fair Value as of 12/31/ 2020	FVH*
Assets							
Other financial liabilities	AC	20,074	20,074	-	-	20,074	-
Trade receivables	AC	13,199	13,199	-	-	13,199	-
Derivatives - without hedge accounting	FVtPL	33	-	-	33	33	2
Total		**33,306**	**33,273**	**-**	**33**	**33,306**	**-**
EQUITY AND LIABILITIES							
Trade payables	FLAC	7,629	7,629	-	-	7,629	-
Liabilities to banks	FLAC	4,846	4,846	-	-	4,967	2
Other interest-free liabilities	FLAC	1,664	1,664	-	-	1,664	-
Lease liabilities	n.a.	2,096	-	-	-	-	-
Total		**16,235**	**14,139**	**-**	**-**	**14,260**	**-**

* FVH: Fair Value Hierarchy level

Aggregated by measurement category as of IFRS 9	in EUR thousand	Carrying amount
Amortized cost	(AC)	33,273
Fair value through profit or loss	(FVtPL)	33
Financial liabilities at amortized cost	(FLAC)	14,139
Not to be classified	(n.a.)	2,096

Determination of the fair value – fair value hierarchy

As far as possible, the LPKF Group uses observable market data to determine the fair value of an asset or liability. Based on the inputs used in the measurement, the fair values are assigned to different levels of the fair value hierarchy:

- Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities.
- Level 2: Measurement parameters other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Measurement parameters for assets or liabilities not based on observable market data.

The LPKF Group recognizes reclassifications between different levels of the fair value hierarchy as of the end of the reporting period in which the change occurred. There were no transfers between different levels of the fair value hierarchy in 2021 or the year before.

Because of short remaining maturities, the fair values of cash and cash equivalents, current receivables, trade payables as well as current financial assets and liabilities closely correspond to the respective carrying amounts. The fair value of liabilities to banks was determined by discounting future cash flows with risk-adjusted interest rates corresponding to the respective term. The fair value of derivatives is determined externally by banks using a mid-market valuation.

The net gains/losses from financial instruments are as follows:

in EUR thousand		**2021**	2020
Amortized cost	(AC)	-142	-686
Fair value through profit or loss	(FVtPL)	13	50
Financial Liabilities at amortized cost	(FLAC)	-248	-290
		-377	-926

The net gains and losses from financial instruments measured at amortized cost include changes in loss allowances, gains and losses on disposal, payments received, reversals of write-downs on receivables as well as currency translation.

Hedging policy and risk management

The LPKF Group uses various derivative financial instruments to hedge future transactions and cash flows. Particularly derivatives such as forwards, options and swaps are used to that end. Special hedge accounting rules may be applied under IFRS 9 if certain conditions are met. The hedging relationship between the hedged item and the hedging instrument must be documented, and its effectiveness must be evidenced. As of 31 December 2021, there were no hedge relationships with hedge accounting.

Risk management principles

The assets, liabilities and planned transactions of LPKF Laser & Electronics AG are exposed, in particular, to risks from fluctuations in foreign exchange rates and interest rates. The aim of financial risk management is to limit these risks. Depending on the nature of the risk, this primarily involves the use of derivative financial instruments. These instruments are exclusively used for hedging, i.e. they are not used for trading or speculative purposes.

Risk management is handled by the Management Board, which fixes the general guidelines for risk management and determines the relevant procedures. It is implemented by the specialist departments and subsidiaries subject to compliance with authorized business guidelines and coordinated by the Group Risk Officer. The Audit Committee of the Supervisory Board of the Company monitors compliance with the guidelines and processes issued by the Management Board as well as the effectiveness of the risk management system.

The material risks from financial instruments and the attendant risk management system of the LPKF Group are disclosed below:

Currency risk

The currency risks to which the LPKF Group is exposed mainly arise from receivables, liabilities, cash and future transactions in foreign currencies. Assets recognized in currencies with declining exchange rates decline in value. Liabilities reported in currencies with rising exchange rates increase in value. From the Group’s point of view, only the difference between income and expense in a foreign currency is exposed to risk.

As a rule, risks are hedged only if they have an impact on the Group’s cash flows. Foreign currency risks that have no impact on the Group’s cash flows are not hedged. These include risks from the translation of the assets and liabilities reported in the annual financial statements of foreign subsidiaries into euros, the Group’s reporting currency. Most invoices related to operations are issued in euros. Sales in North America are invoiced in USD. Cash flows in other foreign currencies are required in some cases. As far as possible, the Group pays for its procurement in USD, thus applying a natural hedge philosophy. In net terms, however, this does give rise to USD cash inflows. Foreign currency forward contracts are used to hedge net foreign currency inflows contracted for up to twelve months. Foreign currency hedges cannot fully offset the negative effects of the euro’s continued strength against the US dollar on the Group’s competitive position.

The disclosure of market risks requires sensitivity analyses pursuant to IFRS 7. They show the effects of hypothetical changes in the relevant risk variables on performance and equity. Currency risks arising from changes in the USD exchange rate have priority for LPKF in this respect. The periodic effects are determined by relating the hypothetical changes in the risk variables to the holdings of financial instruments as of the reporting date. The assumption is that the value of the holdings as of the reporting date is representative for the whole year. Differences from foreign currency translation of the annual financial statements of foreign subsidiaries into euros, the Group’s functional currency, are not taken into account.

The currency sensitivity analysis is based on the following assumptions:

Pursuant to IFRS 7, the analysis shows only the effects of exchange rate changes on financial instruments held by the Group as of the reporting date.

Based on a net foreign currency exposure of EUR 239 thousand, if the euro had risen by 10% against the US dollar, earnings before income taxes would have decreased by EUR 367 thousand. A 10% decline in the euro would have resulted in a positive effect on earnings (before income taxes) of EUR 300 thousand.

Interest rate risk

Variable interest rates give rise to cash flow risks that affect cash and cash equivalents. Based on a risk exposure of EUR 17,621 thousand, an increase in interest rates by 25 basis points yields a gain of EUR 44 thousand, while a decrease in interest rates by 25 basis points yields a loss of EUR -6 thousand. Given low interest rates, the sensitivities were determined using a hypothetical change by 25 basis points. The low interest rate sensitivities relative to cash and cash equivalents largely stem from low-interest cash and cash equivalents.

The long-term loans within the LPKF Group obtained to finance buildings are subject to fixed interest rates.

Liquidity risk

The liquidity risk concerns the risk of not being able to satisfy existing or future payment obligations due to a lack of cash. The Group's objective in managing liquidity is to ensure that, as far as possible, sufficient cash is available under both normal and stressed conditions to meet payment obligations as they fall due without incurring unacceptable losses or causing damage to the Group's reputation.

LPKF counters liquidity risks with forward-looking, currency-differentiated liquidity and working capital planning.

Liquidity planning

Currency-differentiated planning enables the Group to initiate measures at an early stage with regard to the required liquidity resources. In addition to the main influences on cash flows, contingencies that could have an impact on the future liquidity situation are also taken into account. Because the LPKF Group is only moderately indebted, it also has adequate liquidity reserves of EUR 25.0 million available through credit facilities.

In addition, two unsecured guarantee lines of EUR 10.0 million each were opened with internationally renowned insurance companies.

Working capital

In the past year, the liquidity situation was particularly affected by problems in the supply chain. Due to delivery delays and general uncertainties in the logistics sector, LPKF decided to increase its inventory levels. This should lead to a high level of delivery reliability with regard to the LPKF Group's machines and spare parts.

The board of Managing Directors expects that the Group will have sufficient financial resources to continue its business activities in the coming year and that the going concern assumption remains appropriate as the basis of accounting.

This risk is managed centrally within the LPKF Group.

The liquidity risk is minimized through continuous liquidity planning. In addition to existing cash and cash equivalents, credit lines are also available from various banks. The European companies of the LPKF Group pool their liquidity peaks by way of cash pooling. All other companies carry out their ongoing cash management locally. LPKF is continually reviewing whether to expand cash pooling to other international companies. In the event of a significant financing requirement, reviews are performed to determine whether to utilize local financing or financing via LPKF Laser & Electronics AG. Long-term bank loans were used to finance the buildings in Garbsen, Suhl and Fürth.

FINANCIAL LIABILITIES MATURITY BREAKDOWN

The contractual remaining maturities of the financial liabilities at the reporting date, including estimated interest payments, are presented below. These are undiscounted gross amounts including contractual interest payments, but without presentation of the effect of offsetting.

	2021				
in EUR thousand	**Carrying amount as of 12/31**	Total amount	Up to 1 year	Between 1 and 5 years	More than 5 years
Trade payables	**7,213**	7,213	7,213	0	0
Financial obligations and loans	**3,029**	3,080	1,865	1,215	0
Other interest-free liabilities	**1,606**	1,606	1,606	0	0
Lease liabilities	**2,169**	2,548	731	1,817	0

	2020				
in EUR thousand	**Carrying amount as of 12/31**	Total amount	Up to 1 year	Between 1 and 5 years	More than 5 years
Trade payables	7,629	7,629	7,629	0	0
Financial obligations and loans	4,846	4,978	1,898	3,080	0
Other interest-free liabilities	1,664	1,664	1,664	0	0
Lease liabilities	2,096	2,378	692	1,686	0

Credit risk

The LPKF Group's operating business and some of its financing activities expose it to default risks. Outstanding receivables from the operating business are monitored on an ongoing, decentralized basis by the segments and subsidiaries. Default risks are accounted for by appropriate loss allowances. There are no significant counterparty credit risks by customer group or geographical region. Receivables are hedged in part through credit insurance or bank guarantees (LC).

The maximum default risk for financial assets normally corresponds to the carrying amount. There is also EUR 140 thousand in payment commitments from banks (letters of credit) to cover trade receivables. This leaves solely the credit risk of the collateral provider. In addition, EUR 14,737 thousand in trade receivables is securitized through credit default insurance. 31%

of the trade receivables are securitized and 69% are not. The maximum default risk for trade receivables is therefore 69% of the carrying amount.

Impairment model for financial assets

Impairment is based on the expected loss model. The amount of the impairment is measured as the difference between the carrying amount of a financial asset and the present value of the estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognized directly in profit or loss under respective impairment loss items. The expected credit losses are adjusted as of the end of each reporting period to reflect changes in the credit risk since initial recognition of the respective instrument.

Trade receivables are managed on a rolling basis. With a few exceptions, trade receivables from third parties are covered by trade credit insurance. So far, no significant changes in bad debt losses compared with previous years have been identified as a result of the COVID-19 pandemic.

General approach:
The general approach to the impairment model as per IFRS 9 contains three stages:

Stage 1 (low default risk)
At the date of addition, all financial instruments are categorized as stage 1. An exception to this is financial instruments that are already impaired at the date of addition. These financial instruments do not exist at LPKF. The loss allowance is based on the value of the expected credit losses over the next 12 months. The expected credit risk is based on historic and current information as well as future-oriented estimates.

Stage 2 (significant default risk)
If a stage 1 financial instrument is subject to a significant increase in its credit risk, then it is reclassified as stage 2. As long as there is no rebuttable presumption, contractually agreed payments that are more than 30 days past due constitute a significant increase in credit risk. The loss allowance is based on the value of the expected losses over the remaining maturity. The expected credit risk is based on historic default rates and is adjusted by individual expectations.

Stage 3 (credit impairment)
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset occur. Indicators of this might be significant financial difficulties on the part of the debtor or an enhanced probability that the debtor will become bankrupt. If there are no other indications in the relevant case, the LPKF Group assumes that a financial asset is credit-impaired when it is more than 90 days past due.

Depreciation, amortization and write-downs
The LPKF Group assumes that a financial asset has defaulted if the receivable is unrecoverable, e.g. if the given debtor is bankrupt. The gross carrying amount of a defaulted financial asset is subsequently written down when the Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Within the LPKF Group, the general approach to the impairment model as per IFRS 9 is used for cash and cash equivalents. The losses that may be incurred as a result are immaterial to the LPKF Group.

Simplified approach:
In accordance with IFRS 9, the LPKF Group exercises the option to apply a simplified approach to current trade receivables. Accordingly, the receivables are to be assigned to stage 2 on initial recognition and an assessment of a significant increase in credit risk is not required.

The LPKF Group uses an impairment matrix to determine the expected losses for current trade receivables. The default rates used in this matrix are based on historic default rates and are adjusted by future-oriented estimates. Forward-looking information includes, but is not limited to, audited annual financial statements, management calculations, cash flow forecasts and available press information about customers as well as information about the future prospects of the industries in which the Group's debtors operate obtained from various sources. The historic default rates are updated and the future-oriented estimates are reanalyzed on each reporting date.

The time bands used in the impairment matrix to determine the expected losses are as follows:

	Gross value of receivables in EUR thousand			
Days past due	**12/31/2021**	Credit-impaired	12/31/2020	Credit-impaired
Current	14,357	No	11,269	No
1-30 days past due	2,113	No	1,057	No
31-60 days past due	418	No	305	No
61-90 days past due	250	No	401	No
More than 90 days past due	162	Yes	307	Yes
Total	**17,300**		13,339	

The changes in loss allowances on trade receivables were as follows in the reporting year:

Loss allowances recognized on trade receivables and loans in EUR thousand	**2021**	2020
As of 01/01	**-140**	-629
+/- Stage 2 loss allowances	-73	83
+/- Stage 3 loss allowances	95	406
- Depreciation, amortization and write-downs	0	0
As of 12/31	**-118**	-140

Capital management disclosures

The Group's capital management serves to secure the company's existence as a going concern and pursue opportunities for growth with the aim of continuing to funnel profits to its shareholders and provide other interested parties with services due to them. Maintaining the best possible capital structure to reduce capital costs is another objective. To maintain or modify its capital structure, depending on the given situation, the Group adjusts dividend payments to its shareholders, repays capital to its shareholders, issues new shares or sells assets in order to discharge liabilities.

Equity available in EUR thousand	**12/31/2021**	12/31/2020
Equity	92,203	92,912
Debt securities	40,037	28,743

31. OTHER FINANCIAL OBLIGATIONS

There are framework agreements for purchase orders with the aim of fixing prices for a larger quantity that will not be accepted until after the reporting date, amounting to EUR 522 thousand (previous year: EUR 812 thousand). For annually recurring maintenance contracts, mainly for software applications, there are contracts amounting to EUR 1,510 thousand (previous year: EUR 1,241 thousand) beyond the reporting date. There are no other significant financial obligations.

32. DISCLOSURES PURSUANT TO SECTION 315E OF THE GERMAN COMMERCIAL CODE

The requirements of Section 315e of the German Commercial Code for the preparation of consolidated financial statements according to IFRS, as applicable in the EU, have been fulfilled. In addition to IFRS disclosure obligations, LPKF also publishes details and explanations required under the German Commercial Code.

33. DISCLOSURES ON MANAGEMENT BOARD REMUNERATION

Christian Witt (CFO)	Finance, Investor Relations, Compliance and Legal Affairs
interim CEO from 1 May 2021 to 31 December 2021	
Britta Schulz	Strategy, Sales, Human Resources, Marketing
from 1 May 2021 to 31 December 2021	
Dr. Götz M. Bendele (CEO)	Strategy, Sales, Human Resources, Marketing
until 30 April 2021	

Dr. Klaus Fiedler joined LPKF AG as Chief Executive Officer (CEO) on 1 January 2022.

The remuneration of the Management Board is performance-based and consists of a fixed component and variable, performance-based salary components. Details regarding the remuneration system and individual disclosures are presented in the remuneration report, which is part of the Group management report.

The members of the Management Board received total remuneration of EUR 743 thousand in the 2021 financial year in accordance with Section 162 of the German Stock Corporation Act (AktG) (previous year: EUR 943 thousand). EUR 639 thousand of this was attributed to fixed remuneration components, including incidental benefits that were fully paid out in the 2021 reporting year. A total of EUR 104 thousand (previous year: EUR 480 thousand) is attributable to the variable remuneration components that accrued to the members of the Management Board for tax purposes in the 2021 financial year.

No expenses (previous year: EUR 127 thousand) were recognized relating to setting of provisions for share-based payments as defined in IAS 24.17 (e) for members of the Management Board and EUR 116 thousand (previous year: EUR 75 thousand) were reversed. An amount of EUR 55 thousand (previous year: EUR 10 thousand) was set aside for the 2021 bonus. The fair value of the share-based remuneration at the allotment date was EUR 130 thousand.

Commitments to members of the Management Board upon departure

A post-contractual non-competition clause for a period of twelve months after departure is in place for members of the Management Board irrespective of whether the departure was ordinary or extraordinary.

If the appointment of a member of the Management Board ends early on account of his death while in office, the fixed monthly remuneration shall still be paid to his heirs for a period of three months.

The company did not make any performance-based pension commitments to the current members of its Management Board in the reporting period.

Total remuneration of former members of the Management Board

Provisions were recognized for EUR 688 thousand (previous year: EUR 651 thousand) in pension commitments (pension plan, disability pension and widow's pension) to former members of the Management Board and their survivors. A total of EUR 17 thousand (previous year: EUR 17 thousand) in pensions was paid to a former member of the Management Board in 2021.

The interest income from plan assets of EUR 4 thousand (previous year: EUR 7 thousand) and the interest expense on the obligation of EUR 4 thousand (previous year: EUR 7 thousand) offset each other, so there is no effect on the income statement.

34. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION

Jean-Michel Richard (Chairman)	Founder and independent senior advisor at Fisadis Consulting Ltd, Rushall, UK
Dr. Dirk Rothweiler (Deputy Chairman)	Independent management consultant, Weimar, Germany
Julia Kranenberg (Member of the Supervisory Board from 14 June 2021)	Member of the Executive Board (CHRO) of Avacon AG, Helmstedt, Germany Membership in comparable German and foreign supervisory bodies of business enterprises Stadtwerke Wunstorf GmbH & Co. KG, Wunstorf, Member of the Supervisory Board (not listed) LeineNetz GmbH, Neustadt, Member of the Supervisory Board (not listed) Stadtwerke Garbsen GmbH, Garbsen, Vice Chairwoman of the Supervisory Board (not listed) Stadtnetze Neustadt GmbH & Co. KG, Neustadt, Vice Chairwoman of the Supervisory Board (not listed) Stadtwerke Burgdorf GmbH, Burgdorf, Member of the Supervisory Board (not listed) Stadtwerke Wolfenbüttel GmbH, Wolfenbüttel, Vice Chairwoman of the Supervisory Board (not listed)
Prof. Dr.-Ing. Ludger Overmeyer (Member of the Supervisory Board)	University professor and Head of the Institute of Transport and Automation Technology at Leibniz University Hanover, Germany Member of other statutory supervisory boards: Member of the Supervisory Board of Viscom AG, Hanover, Germany (listed company)

Accordingly, in addition to reimbursement of all expenses and any sales tax payable on remuneration and expenses, the members of the Supervisory Board each receive fixed annual remuneration, which is determined by resolution of the Annual General Meeting. Each member of the Supervisory Board receives a fixed basic remuneration of EUR 32,000 for each full financial year of membership of the Supervisory Board. The Chairman of the Supervisory Board receives double and the Deputy Chairman one and a half times the amount of the fixed basic remuneration. The Chairman of the Audit Committee receives additional remuneration of EUR 5,000 and the Chairman of the Nomination Committee and the Chairman of the Remuneration and ESG Committee each receive additional remuneration of EUR 3,500.

Members of the Supervisory Board who have not belonged to the Supervisory Board for a full financial year or have chaired or dechaired the Supervisory Board or chaired a committee receive pro rata remuneration. Since fiscal year 2021, compensation has been payable in two equal installments after 6 months from the beginning of the fiscal year and after the end of the fiscal year.

The remuneration of the Supervisory Board's active members solely concerns short-term benefits as defined in IAS 24.17 (a). Further disclosures regarding the remuneration of the Supervisory Board, particularly individual disclosures, are set out in the remuneration report, which is part of the Group management report.

35. AUDITOR FEES INVOICED DURING THE FINANCIAL YEAR

The company is obligated under the German Commercial Code (Section 314 (1) no. 9) to disclose Group auditor's fees for auditing the annual financial statements invoiced during the financial year:

in EUR thousand	**2021**	2020
Audits of financial statements	194	139
of which prior-period	55	19
Other assurance services	0	0
Other services	30	16
Total	**224**	155

36. EVENTS AFTER THE REPORTING PERIOD

On 23 February 2022, the Management Board and the Supervisory Board of LPKF Laser & Electronics AG resolved to implement a conversion of LPKF Laser & Electronics Aktiengesellschaft into a Societas Europaea (SE) by way of a change of legal form pursuant to Art. 37, 2 para. 4 of Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European company (SE) ("SE Regulation"). The Terms of Conversion are to be submitted to the Annual General Meeting on 19 May 2022 for resolution.

Beyond this, no events occurred after the end of the 2021 financial year that are of particular significance for the Group's net assets, financial position and results of operations.

Garbsen, 17 March 2022

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

DR. KLAUS FIEDLER

CHRISTIAN WITT

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Garbsen, 17 March 2022

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

Klaus Fiedler Christian Witt

AUDITOR’S REPORT

INDEPENDENT AUDITOR'S REPORT

TO LPKF LASER & ELECTRONICS AKTIENGESELLSCHAFT, GARBSEN

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of LPKF Laser & Electronics Aktiengesellschaft, Garbsen and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income , consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2021 to 31 December, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report (hereinafter referred to as the “combined management report”) of LPKF Laser & Electronics Aktiengesellschaft including the remuneration report for the financial year from 1 January 2021 to 31 December 2021.

In accordance with German legal requirements we have not audited the content of those components of the group management report specified in the “Other Information” section of our auditor’s report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021 and of its financial performance for the financial year from 1 January 2021 to 31 December 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those components of the group management report specified in the “Other Information” section of the auditor´s report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2021 to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Capitalization of development costs

Please refer to section G.2 and H.11 in the notes to the consolidated financial statements for information on capitalized development costs.

The risk for the financial statements

Capitalized development costs amounted to EUR 18.3 million as of 31 December 2021, representing 13.9% of total assets.

The development costs relate to development projects for equipment and related software. Development costs are capitalized if the requirements of IAS 38 are met. Research costs are recognized as expenses.

The examination of the capitalization requirements under IAS 38 for projects under development is complex and based on a number of discretionary assumptions. These include, in particular, the forecast cash flows and technical feasibility. Against this background, there is a risk for the financial statements that an intangible asset has been recognized although the requirements have not been met.

Our audit approach

We have gained an understanding of the company’s process of capitalizing development costs through explanations provided by accounting staff and an appreciation of the Group’s accounting guidelines. We have examined the control implemented in this process with regard to the fulfillment of the capitalization requirements for design, application and effectiveness.

As part of our audit, on a spot check basis we evaluated the documentation on which the capitalized development costs. For the projects in the sample, we examined the recognition criteria in accordance with IAS 38 and, in particular, discussed the expected cash flows with those responsible for planning and traced the steps taken to determine technical feasibility.

Our conclusions

The capitalization of development costs is in accordance with the provisions of IAS 38 and the assumptions and parameters used by the company are appropriate

Accrual of sales

For information on sales, please refer to section G.1 of the Notes.

The risk for the financial statements

The Group's revenues in the 2021 financial year amount to EUR 93.6 million. Revenues are mainly generated from the sale of machines.

LPKF AG recognizes revenue when it fulfills a performance obligation by transferring a promised asset to a customer. An asset is deemed to have been transferred when the customer obtains control over the asset. In accordance with the transfer of control, revenue is recognized either on a time proportion basis or on a time proportion basis at the amount to which LPKF AG expects to be entitled.

The Group's main markets are in Europe, the USA and Asia. For the global delivery of products, the Group enters into various agreements with customers that include not only the sale of equipment but also service components such as maintenance and warranty extensions.

Due to the use of different contractual arrangements in the various markets and the discretionary nature of the indicators used to determine and assess the timing of the transfer of control, there is a risk to the financial statements that revenue will be recognized prematurely as of the reporting date.

Our audit approach

To audit the accrual basis of revenue recognition, we assessed the design and establishment of internal control related to the proper accrual basis. We also assessed the presentation of revenue recognition in the Group-wide accounting policy for compliance with IFRS 15.

For the new contracts concluded in the fiscal year, we assessed the interpretation and weighting of the indicators used by the legal representatives to assess the timing of the transfer of control. For this purpose, we assessed the appropriate implementation of the accounting guideline on the basis of representatively selected samples of contracts from a population defined according to risk-oriented criteria from December 2021.

In addition, for trade receivables not yet settled at the balance sheet date, balance confirmations were obtained, selected on the basis of a mathematical-statistical procedure. For missed balance confirmation responses, alternative audit procedures were performed by reconciling revenue to underlying purchase orders, contracts, invoices, proof of delivery, and acceptance records, among others.

Our conclusions
LPKF AG's approach to the accrual of revenue is appropriate.

OTHER INFORMATION

Management respectively Supervisory Board are responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- the separate combined non-financial report of the Company and the Group expected to be made available to us after the date of this auditor's report and referred to in the combined management report; and
- the group corporate governance statement, where reference is made in the group management report,

The other Information includes also the remaining parts of the annual report. The other Information does not include the consolidated financial statements, the group management report information audited for content and our auditor’s report thereon.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the above-mentioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The Board of Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Board of Management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Board of Management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of the combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

The Board of Management and the Supervisory Board of LPKF Laser & Electronics Aktiengeselleschaft are responsible for the preparation of the remuneration report, including the related disclosures, in accordance with the requirements of Section 162 AktG. The Board of Management and the Supervisory Board are also responsible for such internal control as they have determined necessary to enable the preparation of the remuneration report that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the

prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT ON THE ASSURANCE ON THE ELECTRONIC RENDERING OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT PREPARED FOR PUBLICATION PURPOSES IN ACCORDANCE WITH SECTION 317 (3A) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the electronic file „lpkf-2021-12-31-de.zip" (SHA256-Hashwert: 7b9036746043aee299a74351a 00e24756407651494ce66b8daf7fcd1734e5d9e) made available and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the combined management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from 1 January 2021 to 31 December 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the consolidated financial statements and the combined management report contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the company's management is responsible for such internal control that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the the process of preparing the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and the audited combined management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated

Regulation (EU) 2019/815, as amended as at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the Annual General Meeting on 20 May 2021. We were engaged by the Supervisory Board on 16 December 2021. We have been the group auditor of the LPKF Laser & Electronics Aktiengesellschaft without interruption since the financial year 2019.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor´s report must always be read together with the audited consolidated financial statements and the audited combined management report as well as the examined ESEF documents. The consolidated financial statements and group management report converted to the ESEF format – including the versions to be published in the German Federal Gazette [Bundesanzeiger] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Björn Kniese.

Hanover, 18 March 2022

KPMG AG

Wirtschaftsprüfungsgesellschaft

gez. Kniese	gez. Meyer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

EXTRACT FROM INDIVIDUAL FINANCIAL STATEMENTS – INCOME STATEMENT

from 1 January to 31 December 2021

in EUR thousand	**2021**	2020
1. Revenue	47,767	46,185
2. Change in inventories of finished and unfinished products	419	-904
3. Other own work capitalized	500	67
4. Other operating income	2,508	2,267
	51,194	47,615
6. Cost of materials Costs for raw, auxiliary and operating materials and purchased goods	-21,319	-17,796
6. Staff costs		
a) wages and salaries	-16,562	-14,753
b) social security costs and pension costs (of which pension costs: EUR 115 thousand; previous year: EUR 103 thousand)	-3,090	-2,879
7. Depreciation and amortization of non current assets and property, plant and equipment	-2,110	-2,268
8. Other operating expenses	-14,663	-12,447
	-57,744	-50,143
9. Income from investments (of which fom affiliated companies: EUR 2,599 thousand; previous year: EUR 4,888 thousand)	2,599	4,888
10. Other interest and similar income (of which from affiliated companies: EUR 471 thousand; previous year: EUR 155 thousand)	472	158
11. Income from profit transfers	4,575	4,486
12. Costs of loss absorption	0	-2,629
13. Depreciation of financial assets	0	-446
14. Interest and similar expenses	-147	-169
15. Taxes on income and earnings	491	97
16. Earnings after tax	**1,440**	3,857
17. Other taxes	-52	-55
18. Net profit	**1,388**	3,802
19. Accumulated profits/losses brought forward from the previous year	17,755	16,403
20. Retained profit	**19,143**	20,205

EXTRACT FROM INDIVIDUAL FINANCIAL STATEMENTS – BALANCE SHEET

ASSETS (in EUR thousand)	**12/31/2021**	12/31/2020
A. NON-CURRENT ASSETS		
I. Intangible assets		
1. Software	242	243
2. Rights of use	12	16
	254	259
II. Property, plant and equipment		
1. Land, similar rights and buildings	16,635	17,323
2. Techinical equipment	1,942	1,197
3. Other equipment, operating and office equipment	3,322	3,217
4. Advance payments made on assets under construction	905	481
	22,804	22,218
III. Financial Assets		
Shares in affiliated companies	15,136	15,136
	38,194	37,613
B. CURRENT ASSETS		
I. Inventories		
1. Raw, auxiliary and operating materials	5,050	5,159
2. Unfinished products	2,055	1,257
3. Finished products and goods	2,662	2,874
4. Advance payments	24	14
	9,791	9,304
II. Receviables and other assets		
1. Trade receivables (of which with remaining maturities of more than one year: EUR 696 thousand; previous year: EUR 262 thousand)	5,333	3,630
2. Receivables from affiliated companies	20,200	22,515
3. Other assets	1,619	1,253
	27,152	27,398
III. Cash on hand, bank balances and checks	**7,372**	13,354
	44,315	50,056
C. Deferred Income	**264**	247
D. Deferred taxes	**6,282**	5,901
E. Capitalized differences from assets offsetting	**244**	214
	89,299	94,031

EQUITY AND LIABILITIES (in EUR thousand)	**12/31/2021**	12/31/2020
A. EQUITY		
I. Subscribed Capital	**24,497**	24,497
(Contingent capital: EUR 0 thousand; previous year: EUR 0 thousand)		
II. Capital reserves	**16,160**	16,160
III. Retained earnings		
1. Statutory reserve	41	41
2. Other retained earnings	11,200	11,200
	11,241	11,241
IV. Retained profit	**19,143**	20,204
	71,041	72,102
B. PROVISIONS		
1. Tax provisions	0	0
2. Other provisions	2,434	2,246
	2,434	2,246
C. LIABILITIES		
1. Liabilities to banks	1,007	1,495
2. Advances received	2,304	1,299
3. Trade payables	3,813	4,624
4. Liabilities to affiliated companies	7,281	9,788
5. Other liabilities	836	1,208
(of which taxes: EUR 241 thousand; previous year: EUR 195 thousand)		
(of which in conjunction with social security: EUR 24 thousand; previous year: EUR 21 thousand)		
	15,241	18,414
D. Accruals and deferred income	**238**	826
E. Deferred taxes	**345**	443
	89,299	94,031

FINANCIAL CALENDAR

28 April 2022	Publication of the three-months report
19 May 2022	Annual General Meeting (virtual event)
28 July 2022	Publication of the six-months report
27 October 2022	Publication of the nine-months report

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For more information on LPKF Laser & Electronics AG and the addresses of our subsidiaries, please go to www.lpkf.com. This financial report can also be downloaded from our website.

Disclaimer

This Annual Financial Report contains forward-looking statements that are based on the Management Board’s current estimates and forecasts and on information currently available. These forward-looking statements are not to be understood as guarantees of forecast future performance and results. Instead, future performance and results depend on a large number of risks and uncertainties and are based on assumptions that might not prove accurate. We disclaim any obligation to update these forward-looking statements. For mathematical reasons, rounding differences may occur in percentage figures and numbers in the tables, illustrations and texts of this report.

This Annual Financial Report is published in German and English. In case of any discrepancies, the German version shall prevail.

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