WE ENABLE

INNOVATION

ANNUAL REPORT 2020

LPKF
Laser & Electronics

AT A GLANCE
LPKF LASER & ELECTRONICS AG

CONSOLIDATED REVENUE AS OF 31 DECEMBER 2020

in EUR million	2016	2017	2018	2019	**2020**
Revenue	91.1	102.1	120.0	140.0	**96.2**
Revenue by region					
Germany	12.9	10.4	12.8	9.7	8.6
Rest of Europe	16.5	20.5	31.9	29.2	12.2
North America	17.7	23.0	24.7	37.5	19.0
Asia	42.3	45.7	49.1	60.8	55.5
Other	1.7	2.5	1.5	2.8	0.9
Revenue by segment					
Development	22.6	24.4	24.3	24.5	22.5
Electronics	30.6	31.7	34.6	43.7	31.7
Welding	24.0	25.4	22.2	27.7	17.7
Solar	13.9	20.6	38.9	44.1	24.3

CONSOLIDATED FINANCIAL KEY FIGURES AS OF 31 DECEMBER 2020

in EUR million	2016	2017	2018	2019	**2020**
EBIT	−6.8	4.0	6.8	19.2	7.5
EBIT-Marge (in %)	−7.4	3.9	5.7	13.7	7.8
Consolidated net profit after non-controlling interest	−8.8	1.2	8.0	13.1	5.3
Diluted EPS (in EUR)	−0.40	0.05	0.33	0.54	0.22
Dividend per share* (in EUR)	0.0	0.0	0.0	0.10	0.10
ROCE (in %)	−6.9	4.1	7.0	25.5	9.0
Equity ratio (in %)	46.5	46.5	60.4	71.0	76.4
Investment in property, plant and equipment and intangible net assets	7.5	6.8	5.7	5.8	10.2
Free cash flow	−1.8	3.3	5.8	42.2	−5.5
Orders on hand	27.8	38.8	58.4	32.3	38.3
Incoming orders	105.7	113.2	139.8	114.0	102.2
Employees** (Number)	700	683	655	682	689

* 2020: Annual General Meeting recommendation
** not including trainees and marginal employees

CONTENTS

COVER PICTURE

Our cover picture shows the inner workings of an LPKF Allegro system for structuring thin-film solar modules. Our solar systems make a valuable contribution to climate protection by increasing the efficiency of solar energy.

COMPANY PROFILE
THE LPKF GROUP

ELECTRONICS
Solutions for mass producing assembled and non-assembled printed circuit boards.

WELDING
Solutions for welding plastics in mass production.

SOLAR
Solutions for thin-film photovoltaic module production and digital printing of ceramic inks via Laser Transfer Printing.

DEVELOPMENT
Solutions for PCB prototyping and micromaterial processing.

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.

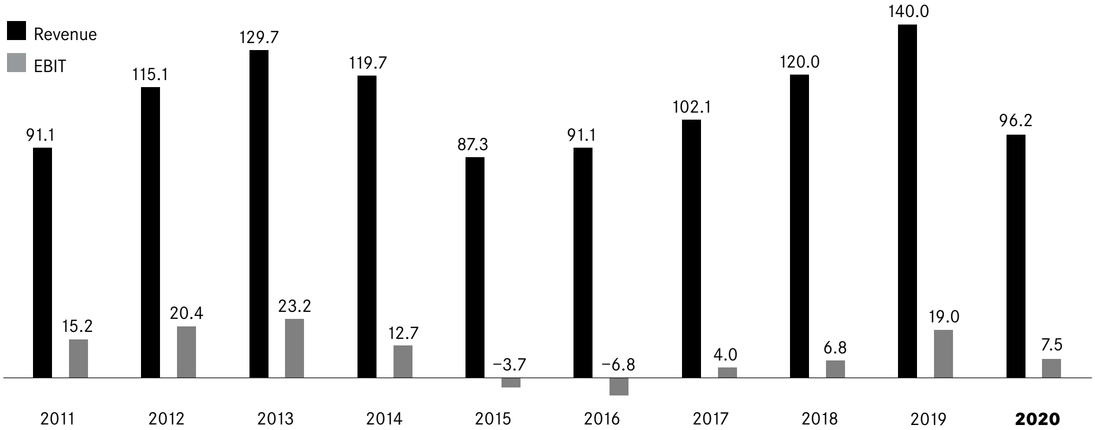
Our employees are laser technology experts and know how to integrate lasers as a tool into powerful machines. This gives us considerable influence over progress in a range of high-tech sectors. The result is more powerful, smaller and more energy efficient products along with improvements in mobility,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

LPKF has 45 years of experience as a technology and innovation leader and will continue to maximize the full potential of laser technology in the digital world.

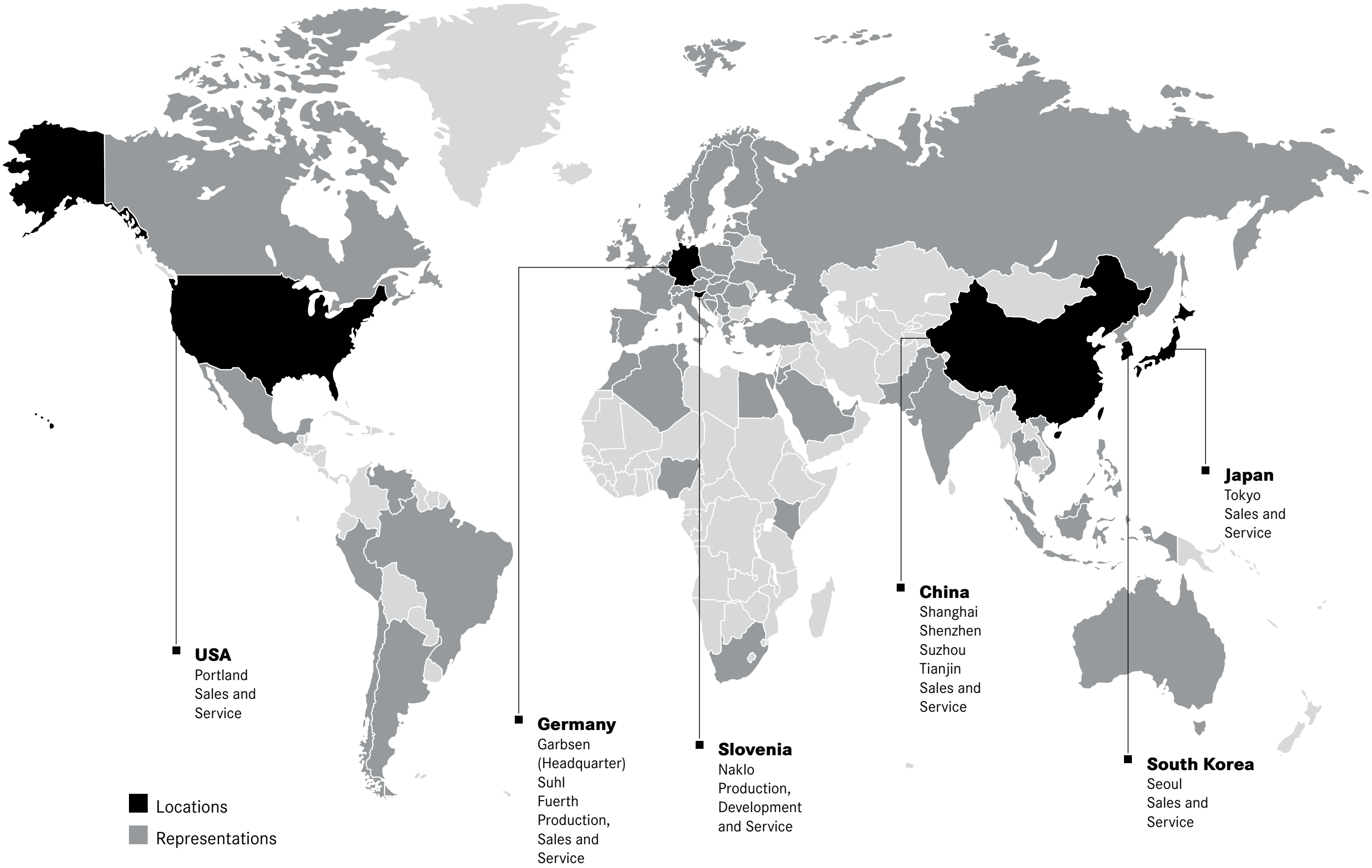
LPKF Laser & Electronics AG is headquartered in Garbsen near Hanover, Germany. We have a broad presence, with locations in Europe, Asia and North America and a total of 689 employees. Our global service network ensures our machines are ready for our customers around the clock.

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

REVENUE AND EBIT
in EUR million

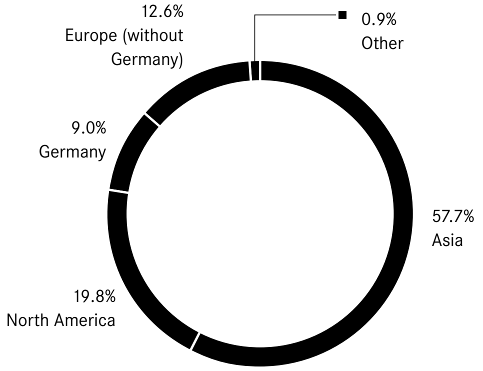


LPKF WORLDWIDE
LOCATIONS & REPRESENTATIONS

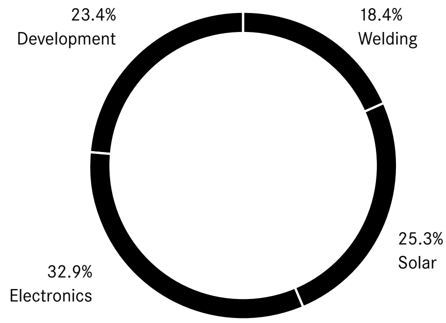


LPKF Laser & Electronics AG is headquartered in Garbsen near Hannover, Germany. We are represented in more than 60 countries, have **10 branches** in Europe, Asia and North America and with a total of **689 employees** we are broadly positioned worldwide.

REVENUES BY REGION



REVENUES BY SEGMENTS



LETTER TO OUR SHAREHOLDERS

DEAR SIR OR MADAM,

Today, we are reporting to you the development and financial results of LPKF Laser & Electronics AG during the 2020 financial year. It has now been over a year since the beginning of the pandemic, and the world today – in the fourth week of March 2021 – remains in the midst of the unprecedented crisis caused by it. This has impacted our business throughout 2020, and it continues to affect the outlook for our company at least through the end of the current year. At the same time, it does not impact our growth plan and perspective.

IMPACT OF COVID-19 PANDEMIC ON LPKF

Before discussing the development of our business in 2020, we want to share with you how the people of LPKF have addressed and been affected by the situation all around us.

First of all, we are extremely grateful that there have not been any fatalities related to COVID-19 among our employees or their family members anywhere in the world. Furthermore, no one has been infected at any of our locations since the beginning of the pandemic. Finally, our business operations – including production at all locations – have continued without restrictions or interruptions throughout this time and continue to do so today.

This does not mean the past year has been without difficulty – on the contrary: addressing the COVID-19 pandemic's impact has been one of our main priorities for over a year now and at the same time, the economic impact on LPKF has been substantial, including delayed orders and deliveries especially from our large customers, leading to a substantial drop in revenue for 2020.

Dr. Goetz M. Bendele
CEO

OUR COLLEAGUES HAVE GONE ABOVE AND BEYOND **IN THEIR DEDICATION TO OUR CUSTOMERS'** MISSIONS THIS YEAR.

Dr. Goetz M. Bendele (CEO)

Since the beginning of the pandemic, the way we work together and with our customers and partners has changed profoundly. Our teams are largely working from home, our locations are divided into sections with limited or no physical interaction, various protective measures continue to be in place. We have eliminated most incoming and outgoing travel, while at the same time continuing to serve our customers as well as possible. The degree to which the way we work has changed can hardly be overstated: beyond across-the-board online collaboration, we have been able to service and, in some cases, even install our systems remotely, i.e., without travel of our technical experts to the customer, e.g., involving use of live video feeds. In other cases, where travel was unavoidable, our colleagues have accepted to quarantine in several locations – often both after departure and after arrival back home – in order to serve our customers. LPKF colleagues have gone above and beyond in their dedication to our and our customers' missions this year, and for this we give our heartfelt gratitude to each and every one of them.

As the pandemic appears to enter its next phase, with global vaccination efforts underway, LPKF is in good shape, both operationally and financially. Against the difficulties we have faced, we have become a stronger and better-performing company – in how we serve our customers, how we develop, manufacture, deliver and install our systems, how we work together. This will continue to help us grow and succeed going forward.

DEVELOPMENT OF OUR BUSINESS IN 2020

In the financial year 2020, we have once again accomplished one of our main goals – for LPKF as a technology company to return to and maintain to sustainable profitability and create value for our shareholders. We are especially happy that we were able to do so even against the significant revenue drop triggered by the COVID-19 pandemic – i.e., showing in practice that over the past 2-3 years, we have succeeded in meaningfully increasing the company's financial performance and reducing its fixed cost base with the strategic decisions and operational improvements made in the recent past.

On the other hand, we have not been able to generate growth this year, the other of our main goals. While caused in no small part by the pandemic, we need to address and change this for 2021 and following years and we believe that we are well on track to do so. The various cost measures, including short time work, which we have leveraged in 2020 were implemented in such a way to ensure that our development and commercialization of new technologies does not slow down.

Company profit (EBIT) is down by more than half compared to the prior year, but still above the company's cost of capital; net working capital is slightly up but still well below historical levels. We have generated profit in three of our four segments, with only Welding – affected by the automotive sector weakness in addition to the pandemic – experiencing a loss in 2020. LPKF remains (net) debt-free and with a substantial net cash reserve on hand.

In summary, and in spite of the impact of the pandemic, we were able to deliver a decent financial result, continue our planned investments into new technologies without cuts or delays, and keep the company well-positioned for its future growth path.

These are the significant outcomes in the past financial year:

Revenue has dropped by 31.3% to EUR 96.2 million. With that, earnings before interest and taxes (EBIT) have declined to EUR 7.5 million with an EBIT margin of 7.8% after 13.7% in 2019. Even in this challenging year, LPKF has proven that it is fundamentally and sustainably profitable, and capable of delivering a return on capital which has created value. At the same time, we continue to develop our global position as a leading technology company in a wide range of applications.

With revenue for the year at EUR 96.2 million, we have reached the lower end of our forecast. At EUR 102.2 million in 2020, our order intake is down 10.3% on the previous year, while orders on hand as of December 31, 2020 are at EUR 38.3 million, 6 million (18.3%) above the prior-year figure of EUR 32.3 million. The significant revenue drop compared to 2019 is driven to an overwhelming degree by large projects with our two of our biggest customers that were paused or postponed past the end of 2020. Both customers have explicitly given the pandemic as the reason for these delays. In total, our business without this effect has roughly remained flat from 2019 to 2020. Corresponding to that, the revenue share of our two largest customers has decreased from more than 50% in 2019 to under 30% in 2020.

Our revenue drop had a negative impact on earnings, but we have taken a number of cost reduction measures to limit this, and it was less than the magnitude of the drop would suggest: At 7.8%, our EBIT margin was still more than half of what it was in 2019 when LPKF recorded record revenue. It was also higher than our 2018 margin, even as revenue then was 25% higher than in 2020. Return on capital employed (ROCE) was also down significantly at 9.0% from 25.5% in 2019. Nevertheless, the company has earned its cost of capital and created value for its shareholders in 2020.

On the balance sheet side, we have continued to focus on improving capital employed and reducing net working capital. Improved logistics, receivables management and trade payables have helped to improve our net working capital. However, the pandemic had a noticeable effect on our working capital and cash flow development in 2020. Down payments for Q4 orders in the Solar segment were not received until the beginning of 2021. Accordingly, advance payments decreased by more than EUR 5 million compared with the prior year figure and net working capital rose from EUR 17.1 million to EUR 20.5 million. We expect these effects to be temporary and remain committed and confident to reduce working capital to less than 10% of revenue.

LPKF remains in a position to generate additional operating cash flow from growth, while not having earnings consumed by additional capital requirements. Overall, our operating cash flow remained positive in 2020, at EUR 4.0 million. At the same time, we have been able to invest in our future technologies independent of the pandemic. With those investments, total free cash flow for LPKF was EUR –5.5 million in 2020. LPKF continues to have net cash reserves of EUR 15.2 million at the end of 2020.

We have shown in 2020 that we have continued to improve the overall performance of the company, increased our efficiency and reduced our fixed cost base leading to a reasonable overall profitability even during the pandemic. From a performance perspective, this is a significant milestone. Nevertheless, we have not yet reached our ultimate goals, especially regarding growth. Much remains to be done for 2021 and subsequent years – especially once the pandemic recedes. LPKF is well prepared for this and we have continued to invest in our growth areas. Today, LPKF is a profitable company which has sufficient financial resources to invest in research & development and in the commercialization of future technologies, even during a serious economic crisis and regardless of the impact of outside events. We are very pleased by that.

DEVELOPMENT OF OUR SEGMENTS

The largest contribution to 2020 revenue came from the Electronics segment, even as revenue declined by 27% to EUR 31.7 million after EUR 43.7 million in 2019. Nevertheless, the Electronics segment has remained profitable with EUR 3.4 million in earnings (EBIT). More than 100% of the revenue drop is from the delay of large orders from one customer, with the pandemic given as the reason for these delays. Notably, this is not driven by any projects lost to competitors. Revenue in the Electronics segment from all other customers has actually increased by 11.8%, reflecting the positive impact of product and sales initiatives which were started earlier on and which are now showing positive business impact. Our LIDE technology for microprocessing ultra-thin glass, one of the company’s main future growth drivers, has made a meaningful yet still modest revenue contribution. Among other things, we have delivered the first Vitrion system to a major display industry customer. Customer orders for engineering samples in our foundry manufacturing services business have also continued to grow. Our clean room factory at the company's headquarters in Garbsen was opened and started production in December. It enables easy access to our technology for a broad set of customers across industries, who now can order structured thin glass components from LPKF for their high-volume applications, and this drives our customers’ competitive advantage.

Following a very strong year 2019, revenue in the Solar segment has declined by 45% to EUR 24.3 million after EUR 44.1 million in 2019. Nevertheless, the Solar segment has also remained profitable with EUR 4.0 million in EBIT, reflecting the early and decisive deployment of cost reduction measures. The Solar segment typically has the longest visibility of our businesses, and prior to the onset of the COVID-19 pandemic, we were expecting a much stronger revenue level for 2020. Once the pandemic hit our customers, key orders were postponed – e.g. due to interruptions in construction of factories we deliver systems into – until after the end of 2020. In line with this, we have received one of our largest Solar orders in late 2020, with delivery expected

Christian Witt
CFO

LPKF IS **PROFITABLE** IN SPITE OF THE ECONOMIC CRISIS AND HAS **INCREASED ITS INVESTMENT** IN RESEARCH, DEVELOPMENT AND THE COMMERCIALIZATION OF **FUTURE TECHNOLOGIES** IN 2020.

Christian Witt (CFO)

in 2021 and into 2022. This order also includes our first large order for modules with CIGS technology. Against the revenue drop of 2020, we are very pleased by this accomplishment of our Solar team.

Revenue in the Welding segment has declined by 36% to EUR 17.7 million, and the segment has experienced a loss of EUR 2.8 million in 2020. In addition to the pandemic impact via delayed orders from the same customer as in Electronics segment, the segment has been affected by the ongoing weakness in the automotive industry.

While we believe that the Welding segment has become more effective in delivering customer value and in operating performance, the effect of this ongoing effort did not translate into better financial results in 2020. The beginning of the 2021 financial year has been stronger, with both revenue and order entry much higher than at the beginning of 2020. Going forward, we continue to expect growth in this area from technologically differentiated new solutions that create competitive advantage for our customers, and we see a good basis for sustained success in this segment for 2021 and subsequent years.

The Development segment is characterized by a continuous and profitable development of its business over many years. At EUR 22.5 million, revenue in the financial year 2020 was 8% lower than the prior year figure. EBIT was at EUR 2.9 million, on par with the 2019 figure. Given that lead times in the Development segment are the lowest among our segments and the fact that Development segment in the past has closely tracked macroeconomic developments, this illustrates the robustness and resilience of our business in this segment. In 2021, we expect to once again participate strongly in the growing number of prototypes produced worldwide.

OUR PEOPLE AND OUR SHAREHOLDERS

For LPKF's success to be sustainable, it is important that we encourage our people to deliver a distinctive performance year after year and that they have the opportunity to participate in the success of the company.

We maintain targets for business units, sales companies and corporate functions which are value-oriented but at the same time tangible and easily comprehensible, and we maintain a high level of transparency throughout the company. This allows our colleagues to check their operational progress at any time and act when needed. This transparency will continue to be an important element in improving our performance going forward.

At the same time, we need to be able to maintain our colleagues' passion for LPKF and bring their enthusiasm into their work. This is a question of mindset, way of working together, and appreciation experienced at work. Despite the challenges of 2020, LPKF has made a profit-sharing payment to our non-managerial staff. While this was significantly less than the record amount we paid in 2019, the fact that we were able to pay anything at all during this year stands out among our peers. We have expanded the employee share purchase program we had started in 2019, which promotes the purchase of LPKF shares by our employees and their participation in the long-term success of LPKF.

We have said that we want to position LPKF such that we are able to invest in technology and pay a dividend. We have succeeded in doing so, and the 2020 Annual General Meeting resolved that – despite Corona-related uncertainties – a dividend of EUR 0.10 per share was paid for the first time after four years. Due to the profitable business performance, solid financing and positive outlook, the Management Board and Supervisory Board will again propose to the Annual General Meeting on 20 May 2021 that a dividend of EUR 0.10 per share be paid to our shareholders.

In September 2020, we explained the growth perspective of our individual segments to institutional investors and analysts at our second Capital Markets Day, this time held virtually. Together with several of our business leaders, we shared with investors the sources of our growth and our specific strategic plans for the different parts of our business.

We are pleased that the positive development of our business continues to be reflected in our share price, and that after being admitted to the SDAX index in February 2020, LPKF was also admitted to the TecDAX index in August 2020. In 2020, our share price has increased by 76.6% (SDAX + 16.8%) following an increase of 185.7% during 2019 (SDAX + 30.8%).

Our shareholder structure has changed significantly in 2020. In May, the share package of the Bantleon Group was successfully placed. Almost 30% of LPKF shares were sold to international institutional investors in a private placement. New shareholders resulting from this placement are actively engaging with and supporting LPKF and its management in pursuing our long term goals. We believe that this placement represents a very positive outcome for LPKF and for all of our shareholders.

OUTLOOK

LPKF has made significant progress in 2020. We have set ourselves new, ambitious goals for the next several years and transparently communicated our targets to the financial markets. We will continue to to develop and launch new applications in new markets and customer segments.

LPKF is and has always been committed to have a positive impact on environment and society. Our solutions enable customers to save resources and, e.g., to produce green energy more efficiently. LPKF will continue to improve the positive impact for our employees, local communities and the environment as a basis for long term success.

At this point in time – in the fourth week of March 2021 – it is still not possible to predict how the next and hopefully final phase of the COVID-19 pandemic will play out in different geographies in the coming weeks. We believe that, as a company, we have responded as well as possible across our business. We will continue to do everything we can to protect our employees, their families, our business partners and the community, to minimize the economic impact, and to continue to serve our customers as effectively as possible.

Last year, we have experienced a pronounced drop in revenue. At this time, we can clearly see that in 2021 we will grow our business significantly once again. However, the timing and speed of the macroeconomic recovery expected in our markets is still uncertain, and there may be another wave of the pandemic coming to some countries before the vaccination programs finally drive down infection rates and case numbers. With that, our ability to forecast the current financial year 2021 remains limited.

For subsequent years, the company continues to expect sustainable, profitable growth in each business unit. In addition, our innovative LIDE technology, whose revenue and profit potential we continue to review and assess following substantial progress made in several LIDE customer projects, will add to this growth. Together with the sales and earnings contribution from LIDE, we continue to expect consolidated revenue of more than EUR 360 million, and an EBIT margin of over 25%, for 2024, with further growth after that.

We are both convinced of this outlook and none of it is changed by the fact that one of us – Goetz M. Bendele – will leave LPKF at the end of April 2021 when his contract ends. LPKF is financially stable, has a broad and growing portfolio of exciting technologies, and is on an exciting growth path despite the impact of the pandemic. The future of LPKF largely depends on its greatest asset: our people. Their consistently strong commitment, their experience, know-how and creativity are the basis for our continued success – in good times and in difficult times alike. This differentiates us from our peers. And for this we give our heartfelt gratitude to each and every one of our colleagues.

We would also like to thank the works councils for their constructive cooperation, especially during this difficult year, which is extremely important. We would also like to thank our Supervisory Board for their support and the trust placed in us.

Our special thanks go to you, our shareholders, and we hope that you will continue to support LPKF in the future.

Best regards,

Dr. Goetz M. Bendele Christian Witt

Garbsen, March 2021

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

This is my first letter to Shareholders following my nomination as Chairman of the Supervisory Board of LPKF Laser & Electronics AG in December 2020.

2020 turned out to be a very challenging year for the global economy, all of us, our family and our loved ones. LPKF's business was not immune to the COVID-19 pandemic. However, despite the resulting unprecedented circumstances, LPKF has proved its capacity to maintain financial resilience while continuing to invest in innovation.

The company can be proud of what it has accomplished over the past few years, and as the Supervisory Board, we are pleased that the strategic changes initiated two years ago show visible success to confirm the path taken then. 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.

Despite the economic uncertainty brought by the COVID-19 pandemic, the Supervisory Board remains confident about the future growth prospects of LPKF. I look forward to exciting years ahead.

MONITORING AND COUNSELING

The Supervisory Board critically 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 seven meetings during the year. Due to the protective measures against COVID-19, all but two meetings were held via video conferences. These meetings were attended by all acting members of the Supervisory Board.

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

ATTENDANCE OF THE SUPERVISORY BOARD MEMBERS AT THE MEETINGS IN 2020

Name	Sessions	Meeting attendance	in %
Dr. Markus Peters (Chairman until 13 November 2020)	5	5	100
Jean-Michel Richard (Chairman from 01 December 2020)	2	2	100
Dr. Dirk Michael Rothweiler (Deputy Chairman)	7	7	100
Prof. Dr.-Ing. Ludger Overmeyer	7	7	100
Average participation rate			**100**

At the beginning of each Supervisory Board meeting, the Supervisory Board meets without the Management Board.

The supervisory board regularly monitored the management of the Management Board during the financial year and advised the Management Board 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 committee 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 satisfied itself of 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.

FOCAL POINTS OF COUNSELING

The focal points of the consultations in the past financial year were the current business development, the challenges posed by the COVID-19 pandemic, the sale of the shares by Mr. Bantleon, as well as continuing LPKF's investment 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 our 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.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board continued to focus intensively on the implementation of Corporate Governance standards in 2020. LPKF Laser & Electronics AG's Corporate Governance is presented in detail in the Corporate Governance report and the declaration on Corporate Governance. On 9 February 2021, the Management Board and the Supervisory Board issued the annual declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG), which reports on any deviations from the recommendations. The declaration of conformity refers to both the version of the German Corporate Governance Code (GCGC) of 7 February 2017 and the new version of 16 December 2019. The declaration of conformity is also publicly available on the internet at 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 for 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 remains an important part of the Group's strategy and will be given an even stronger focus in the future. The Supervisory Board is constructively supporting the activities presented in the sustainability report relating to LPKF Laser & Electronics AG's corporate, social and ecological responsibility. 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 2021 at the latest.

Jean-Michel Richard
Chairman of the Supervisory Board since December 2020

In 2021, we will work closely with the Management Board to establish a clear sustainability strategy, as I am convinced that the success of LPKF depends on much more than just financial performance. In today’s competitive environment, it is essential that we embrace a business model that addresses the environment, the needs of our employees and the communities in which we operate and builds on solid corporate governance.

The Supervisory Board is also keen to embrace gender diversity and will seek to significantly accelerate current initiatives.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The Management Board prepared the annual financial statements for the 2020 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 2020 and, in doing so, determined the focus of the audit in its meeting on 7 December 2020 (continued on 10 December 2020). 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 auditor attended the Supervisory Board meeting on 16 March 2021 (continued on 19 March 2021), where he reported on the audit of the 2020 annual and consolidated financial statements. At this Supervisory Board meeting, he explained the net assets, financial position and results of operations of the company and the Group and was available to answer questions from the members of 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 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 Supervisory Board in good time for inspection and examination. There were no circumstances that would give rise to fears of bias on the part of the auditor. The auditor reported to the Supervisory Board on the other engagement in addition to the audit services as agreed.

The Supervisory Board intensively discussed 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. The Supervisory Board also examined the Management Board's proposal for the appropriation of the balance sheet profit.

Based on its own examination, the supervisory board came to the conclusion that the reports in particular meet the legal requirements of §§ 317, 323 HGB. The Supervisory Board concurred with the results of the audit by the auditor and approved the annual financial statements of the AG and the consolidated financial statements prepared by the Board of Managing Directors at the meeting on 19 March 2021. The annual financial statements of LPKF Laser & Electronics AG are thus adopted.

The Supervisory Board concurred with the Management Board's proposal for the appropriation of the balance sheet profit. Due to the business development in the reporting year and the positive outlook for 2022, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 20 May 2021 to distribute a dividend of EUR 0.10 per share and to carry forward the remaining balance sheet profit of EUR 17,755,097.10

REVIEW OF THE REPORT OF THE MANAGEMENT BOARD ON RELATIONSHIPS WITH AFFILIATED COMPANIES

The Management Board submitted to the Supervisory Board the report it had prepared on relationships with affiliated companies in the 2020 financial year (dependency report). The auditor has audited the dependency report and issued the following audit opinion: „Following our audit and assessment in accordance with professional standards, we confirm that

1. the actual information in the report is correct,

2. in the legal transactions listed in the report, the company's performance was not unreasonably high."

The dependency report of the Management Board and the auditor's report on this were sent to all members of the Supervisory Board in good time. The Supervisory Board discussed and reviewed the reports at the meeting on 19 March 2021. The Supervisory Board approved the dependency report after its own review and also concurred with the result of the auditor's review of the report. As a result of its review, the Supervisory Board determined that there were no objections to the declaration of the Management Board on relationships with affiliated companies.

PERSONNEL

The Chairman of the Supervisory Board, Dr. Markus Peters, resigned from his office as member and Chairman of the Supervisory Board with immediate effect on 13 November 2020. On 25 November 2020, the Hanover Registration Court appointed Jean-Michel Richard as the new Supervisory Board member. In its constituent meeting on 1 December 2020, the Supervisory Board elected Jean-Michel Richard as Chairman and Dr. Dirk Rothweiler as Deputy Chairman. Prof. Dr. Ludger Overmeyer is a further member of the Supervisory Board.

THANKS

The Supervisory Board and I wish to pay tribute to the LPKF's 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. We would like to thank the Executive Team and all of LPKF's employees for their continued commitment to the business.

CEO Goetz Bendele will leave the company when his contract expires on 30 April 2021. We would like to thank Mr. Bendele for his commitment and contributions to LPKF's successful development in recent years and wish him all the best, both personally and professionally. The Supervisory Board has immediately begun the search for a successor.

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.

We would also like to thank Dr. Markus Peters who stepped down as Chairman of the Supervisory Board last November. Under his stewardship, LPKF made significant progress in establishing itself as key global player in the technology industry.

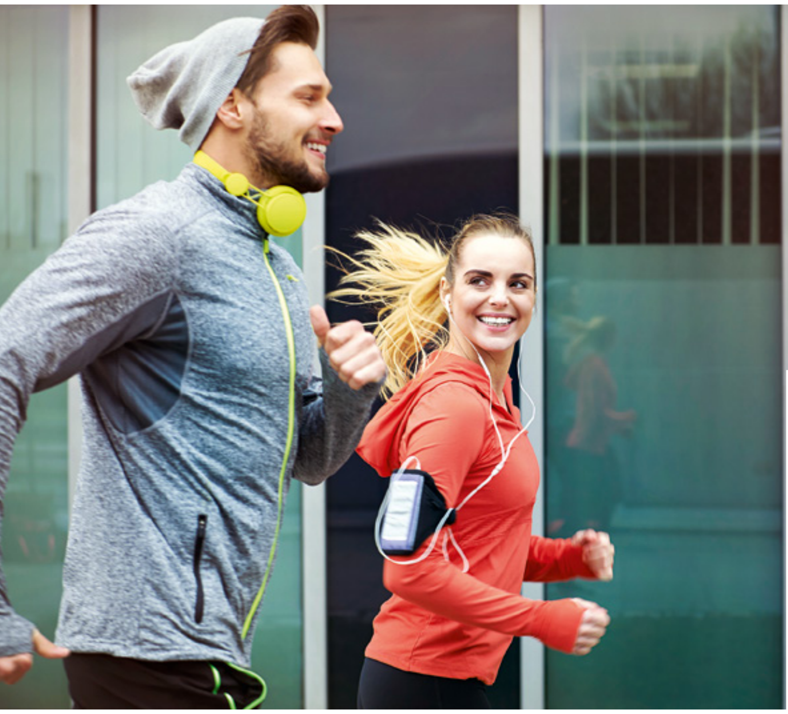
And finally, we thank you, our shareholders, for your continuous support and the trust you have placed in us.

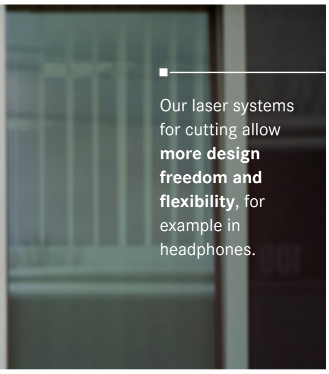
Garbsen, March 2021

For the Supervisory Board

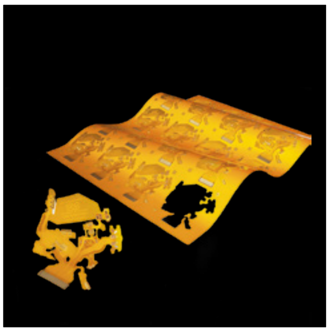
JEAN-MICHEL RICHARD
Chairman

ELECTRONICS





Our laser systems for cutting allow **more design freedom and flexibility**, for example in headphones.



The Electronics segment encompasses a number of our technologies. All machine types in this segment relate to cutting, drilling, separating or removing material. They are all used for large-scale production of electronic components and meet the three core requirements of the electronics industry: precision, speed and flexibility.

30%

MATERIAL SAVING

LPKF MicroLine laser systems cut and drill both flexible and more complex PCB materials with the highest speed and precision. LPKF CleanCut technology enables extremely clean cuts and great freedom of design.

Our StencilLasers cut high-precision stencils for solder paste printing. To date, we have secured our position as global market leader in this highly specialized area through consistent further development. Innovative variants of the high-end LPKF StencilLaser G 6080 laser system set new standards in two dimensions. Extremely small openings allow new applications in stencil cutting and micro cutting parts can be produced from metal sheets up to 4 millimeters thick.

The Electronics segment also includes LDS technology for manufacturing three-dimensional circuit carriers. This allows mechanical and electronic functions to be integrated into injection molded parts. With Active Mold Packaging (AMP), we have developed a process based on this technology that provides 2.5D packages with an electrical circuit on the surface, thus making IC packages even more compact and powerful.

LIDE

LPKF's many years of experience in laser technology and its strong investment in innovation have led to the development of a new revolutionary glass micro-processing technology: Laser Induced Deep Etching (LIDE®). This patented technology makes it possible to machine highly precise micro-holes or cuts through the entire thickness of the glass or down to a specific depth – by use of a single laser pulse.

LIDE not only enables the creation of essentially any type of defect-free features in glass with unmatched precision, but it also does so with very high throughput and unrivaled cost-effectiveness. This LPKF technology is truly unique, and it can be used for applications in any area that does or would benefit from using thin glass.

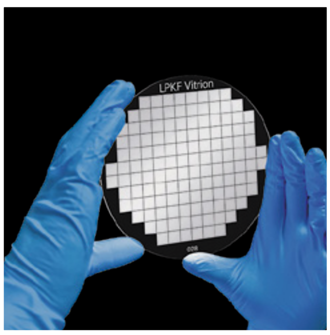
Glass is arguably one of the most interesting materials used in products and processes in various industries due to its high chemical inertness, thermal stability, electrical resistivity, excellent radio-frequency properties and well-known optical properties.

While the amazing characteristics of glass are not new, its processability issues using traditional technologies have – until now – significantly limited its use. Thin glass and its machining have often involved complex and expensive technologies that typically create micro-cracks and internal stresses which are known to result in the loss of certain properties, quality, production yield and reliability during use.

Thanks to LPKF's LIDE technology, glass can now be regarded as a potential material in essentially any industry, from semiconductors to life sciences. Some of the applications of LIDE-processed glass include: Glass interposers, wafer-level heterogeneous integration wafers, glass spacer wafers, display cover glass, foldable display backplane glass, microfluidics, high-density microwell plates, high-yield glass dicing.

The capabilities of LIDE are offered by LPKF as a foundry service under the brand name Vitrion. Vitrion's commitment is to provide specialized glass machining solutions to clients in any industry.

High-precision **components made of glass** are manufactured in the LIDE factory.



WELDING

In the Welding segment, LPKF has been developing and producing highly efficient laser systems for welding plastics for 20 years. Our laser systems produce a reliable and visually appealing weld seam that meets the most demanding quality requirements without the use of chemicals. The advantages of plastic as a material—malleability, low weight, stability—can be fully exploited for countless applications.

In laser transmission welding, two component parts are joined together. One of the components is transparent to the laser wavelength used, while the other absorbs the laser energy. The locally generated heat is transferred to the transparent component by slight mechanical pressure, causing both to melt at the weld seam and creating a secure join. Many different plastics with a wide range of geometries can be welded together in this way.

Our range of solutions for joining plastic components is primarily targeted at automotive suppliers and manufacturers of consumer electronics and medical technology. Laser welding can be used to replace traditional material joining methods such as adhesive bonding. Our customers attach great importance to the easy operation of laser welding machines. We calibrate the systems to produce perfect weld seams quickly and at the touch of a button.

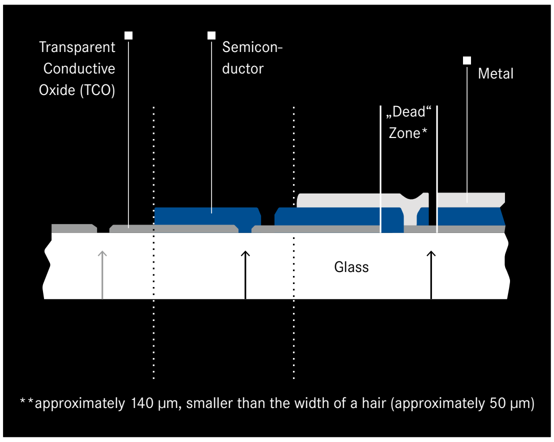
Today, more than 1,200 LPKF systems for laser plastic welding are in use across all continents; more than 3,000 different processes are carried out with our systems. Thanks to the automation interfaces, the Inline systems can be easily and quickly integrated into production lines.

3D

GEOMETRIES

Perfect contour welding ensures seating comfort **with this component.**

SOLAR



LPKF has been developing laser systems to manufacture thin film solar panels for over ten years. The active layers on these panels are deposited homogeneously and then structured.

Our laser systems etch the coated panels with the highest precision and speed. This process step contributes significantly to increasing the conversion efficiency and thus to the market value of the solar modules produced by our customers. In this way, we provide our customers with a unique competitive advantage and contribute to the production of solar energy without subsidies.

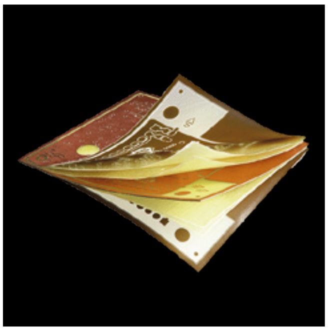
The production of thin film solar panels requires a significant degree of technology compared with silicon-based solar cells. At the same time, it requires fewer raw materials and has the best CO_2 footprint in the industry. Additional advantages of thin film solar panels include good low-light performance, a better temperature coefficient and a greater insensitivity to the sun's angle of incidence. This results in good market prospects for thin film technology – and growth potential for our solar business.

Having been a leading supplier of systems for etching cadmium telluride (CdTe) thin film solar modules for over a decade, in 2020 we received our first order to provide equipment for a factory that will produce CIGS (copper indium gallium diselenide) solar modules. Both technologies have gained acceptance in the manufacture of thin film solar modules and are currently the most widely used.

In the Solar segment, we are developing a new technology for printing functional pastes and colors: Laser Transfer Printing (LTP). This digital printing process is a flexible and efficient alternative to the widely used screen printing process. We envisage LTP having applications in the automotive industry in particular, as well as in the manufacture of printed glass and in other sectors.

DEVELOPMENT

Our ProtoMats enable the **rapid production of PCB prototypes** in our own research laboratory.



Electronics developers in companies or in research institutions need at least one printed circuit board for every prototype. Forty-five years ago, there was only one way to obtain a PCB prototype. This involved giving the layout to a professional PCB manufacturer and in return receiving a prototype including an invoice after a few days. Every time the layout was changed, the process started all over again. This cost time and money, and meant that strictly confidential data had to be taken off-site, a risk that should not be underestimated when it comes to developing innovations.

Forty-five years ago, LPKF developed an alternative that revolutionized the production of PCB prototypes. With the **L**eiter**P**latten**K**opier**F**räse (PCB copy milling cutter), developers could produce circuit boards in their own laboratories faster, cheaper, and without the use of chemicals.

The current generation of ProtoMats and ProtoLasers operates automatically and with high precision. Different laser technologies enable prototypes to be made out of standard materials from the electronics segment using a space-saving desktop device. Laboratory systems with ultra short pulse laser technology are used for special applications on high-frequency or biocompatible materials.

The Development segment caters to a global market with many individual customers. Our customers include the R&D departments of industrial companies, universities, research institutes, schools, electronic design houses and government institutions.

In the 2020 financial year, we developed a completely new analytical instrument for medical applications based on our ProtoMats. Our ARRALYZE systems enable 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.

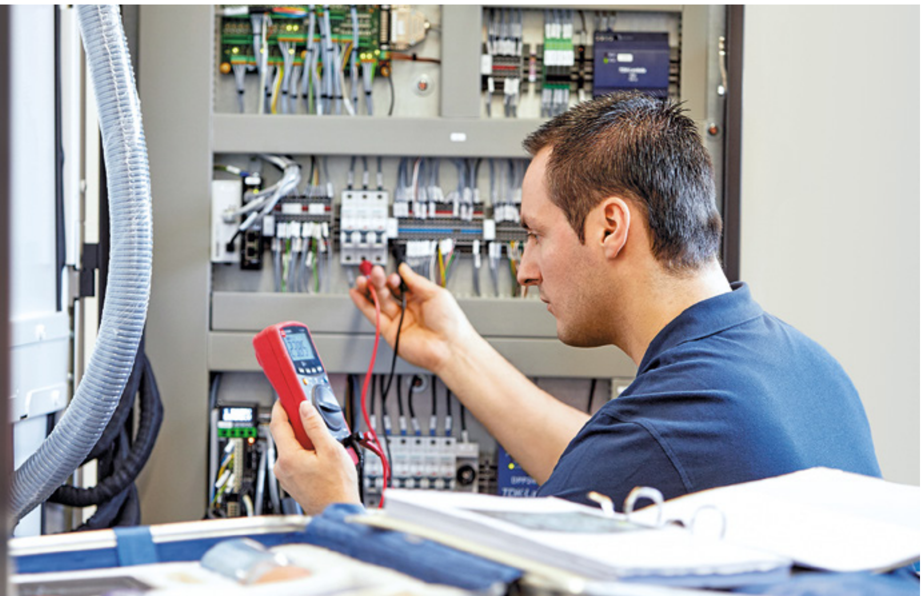
AFTER SALES AND SERVICE

70

COUNTRIES

Our customers manufacture products in over 70 countries and can rely on our competent service network worldwide. Highly qualified LPKF service technicians provide on-demand support on site, over the telephone, by e-mail or remotely 24 hours a day, seven days a week. Thanks to our regional service centers and warehouses, we can promptly supply our customers with original spare parts and install them, thus guaranteeing the constant availability of machinery.

Our service technicians are **available to answer questions around the clock.** The various service packages offer our customers exactly the level of service they need.



Basic Service

THE ENTRY LEVEL

- Fast response time for minimizing downtime of your machine
- Qualified support via e-mail and phone
- Remote support free of charge

Classic Service

THE NEXT STEP

- Probability of failure decreases significantly
- Preventive maintenance secures your investment
- Easy planning with scheduled maintenance
- Basic package included

Premium Service

THE COMPREHENSIVE PACKAGE

- Full service and complete cost control
- Highest uptime of your machine
- Warranty up to 10 years possible
- Basic and Classic package included

LPKF IS ADMITTED TO SDAX AND TecDAX

THE 2020 STOCK MARKET YEAR

For investors who remained loyal to the stock markets, 2020 was not a lost year, contrary to all expectations. Despite the pandemic, the DAX rose by 3.6% and reached an all-time high of 13,903.11 points on 29 December. LPKF is now looking back on a successful 2020 stock market year. LPKF shares were included in no less than two indices of the German Stock Exchange thanks to the positive development in trading volume and market capitalization. In February, LPKF was admitted to the SDAX, followed by its promotion to the TecDAX technology index in August.

REVIEW OF THE 2020 STOCK MARKET YEAR

COVID-19 dominated the 2020 stock market year. The stock markets were largely unaffected by issues such as Brexit, the US presidential elections or the Wirecard scandal.

At the beginning of the year, the DAX celebrated a record high of 13,795.24 points. One month later, on 19 March, it became clear that a fundamental global economic crisis had broken out due to the coronavirus. As a result, the DAX fell by up to 40.15%, followed by a surprisingly quick and strong recovery. Overall, the DAX closed the year with a gain of 3.55%.

The MSCI World Index ended the 2020 stock market year up 14.06%. This was only surpassed by the SDAX, which closed at 14,674.89 points with a plus of 18.01%. The MDAX reached 30,796.26 points at the end of the year, up 8.77%. The DAX and TecDAX also ended the 2020 stock market year with increases of 3.55% and 6.56% respectively.

LPKF SHARES INCREASED BY 77% IN 2020

In the spring, LPKF shares were unable to escape the sharp drop in prices on the trading platforms. The share price was EUR 15.60 at the beginning of the year, before reaching a low of EUR 10.20 on 19 March. LPKF shares peaked at EUR 30.85 on 29 December. They closed the year at EUR 29.45, up 76.62% on the start of the year.

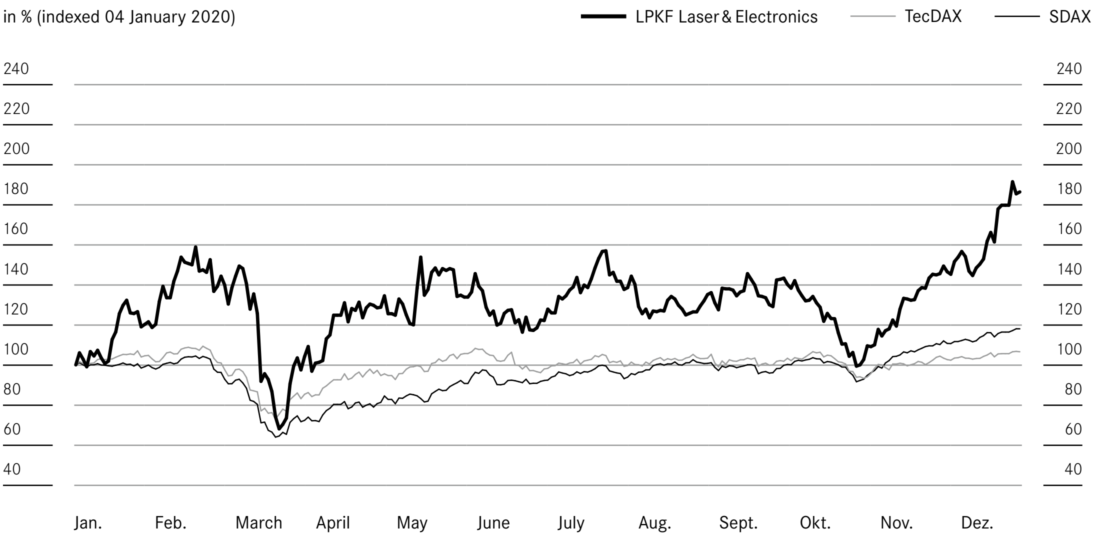
The share price performance also reflected the demand for LPKF shares. The average trading volume on Xetra was EUR 4.17 million per day, an increase of 710.5% year-on-year and even 2,903% compared with 2018. The high liquidity of the share compared with its market capitalization has made LPKF significantly more attractive to institutional investors.

CHANGES IN THE SHAREHOLDER STRUCTURE

The subscribed capital of LPKF Laser & Electronics AG is EUR 24,496,546.00. The corresponding number of ordinary shares were approved for the regulated market of the Frankfurt am Main Stock Exchange (Prime Standard).

PRICE DEVELOPMENT OF THE LPKF SHARE

for the 2020 financial year compared with TecDax and SDAX



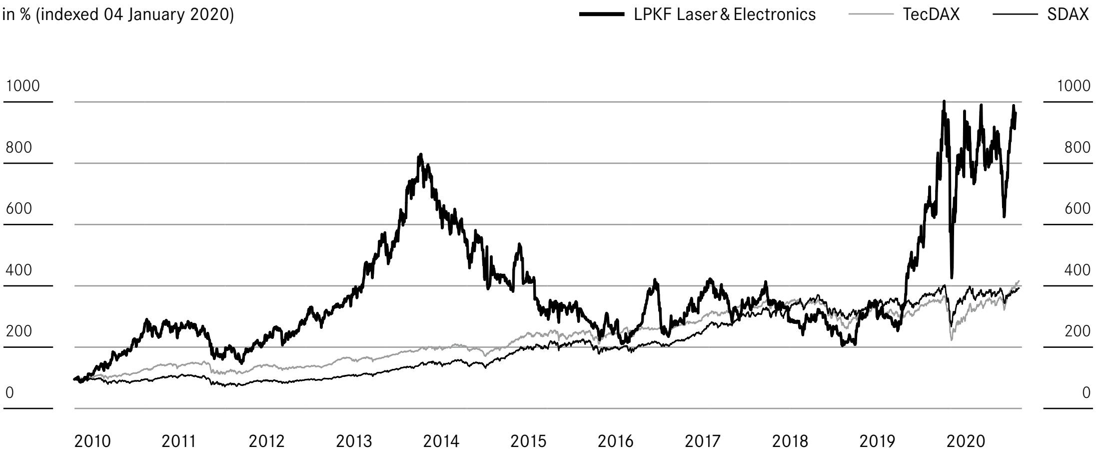
Since 27 May 2020, 100% of LPKF shares have been in free float as defined by Deutsche Börse AG.

SUCCESSFUL PLACEMENT OF THE BANTLEON SHARE PACKAGE

The share package (28.95% of the shares) of the Bantleon Group was successfully placed on 27 May. Approximately seven million shares were sold by Hauck & Aufhäuser as Sole Global Coordinator and Sole Bookrunner in a private placement to international institutional investors. The placement was significantly oversubscribed and was closed after only two hours. The placement attracted a number of new shareholders for LPKF. These include SMALLCAP World Fund Inc. from the USA and SPSW Capital GmbH through its funds at Universal Investment Gesellschaft mbH from Germany, which are still among the company's largest investors today.

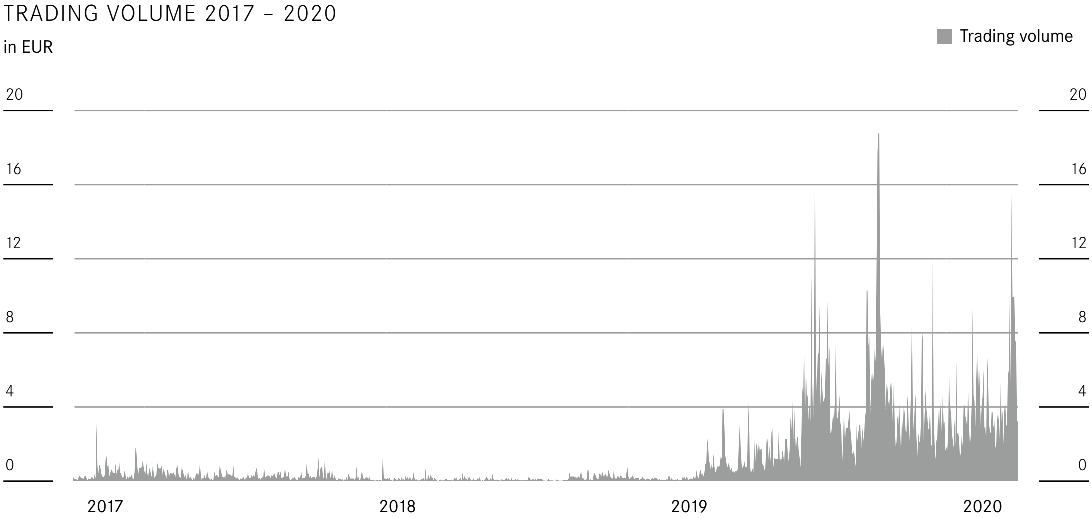
LONG-TERM PERFORMANCE OF LPKF SHARES 2010 – 2020

compared with TecDAX and SDAX



TRADING VOLUME 2017 – 2020

in EUR



ANNUAL GENERAL MEETING AND DIVIDENDS

Due to the unusual circumstances of the COVID 19 pandemic, the Annual General Meeting on 4 June 2020 was conducted as a virtual Annual General Meeting without the physical presence of shareholders or their proxies. A password-protected Internet service was available for shareholders to exercise their voting rights.

The shareholders listened to the report given by the Chairman of the Management Board, Dr. Goetz Bendele and CFO Christian Witt via livestream. A total of 30.37% of the company's share capital was represented by proxy and postal votes (prior year: 53.72%). All of the management recommendations were approved by the shareholders with an overwhelming majority. Detailed voting results can be viewed on our IR website.

In general, the company is planning to propose to the Annual General Meeting that 30% to 50% of the free cash flow be distributed as a dividend. The current corporate situation, economic developments and potential investments, acquisitions or disposal of assets could all lead to a deviation from this policy.

LPKF did not generate a positive free cash flow in the 2020 financial year as a result of the difficult economic conditions imposed by the pandemic. Due to the overall profitable business performance, the solid financing and the positive outlook, the Management Board and the Supervisory Board will nevertheless propose to the Annual General Meeting on 20 May 2021 to distribute a dividend of EUR 0.10 per share and to carry forward the remaining retained profit of EUR 17,755,097.10 to new account. In the previous year, with strong free cash flow, despite the uncertainties surrounding the coronavirus, LPKF also paid a dividend of EUR 0.10 per share to shareholders.

INVESTOR RELATIONS ACTIVITIES

The goal of our investor relations work is to achieve an appropriate valuation of LPKF shares on the capital market. In addition, we aim to sustainably strengthen shareholder confidence through transparent communication and to continually improve the tradability of the share through high liquidity.

We achieve this through ongoing, open dialog with all capital market participants. With regard to professional market participants, the focus is on fund managers and analysts of investment funds as well as banks / brokers and their sales and research teams. In addition, we maintain contact with our private shareholders, who also include our employees.

To keep our target groups comprehensively informed, we use financial reports, analysts' meetings, roadshows, conferences and our Capital Markets Day. Our IR website, where we provide all target groups with the same information at the same time, is particularly important in this respect. In the past financial year, we pushed ahead strongly with digital communications and thus reached even more international dialog partners. These activities are rounded off by active press relations. LPKF offers the financial and business press individual interviews with the Management Board on the publication of quarterly figures to provide shareholders with an independent, comprehensive picture.

In 2020, Dr. Goetz Bendele, CEO, and Christian Witt, CFO, spoke with institutional investors and analysts at a total of 21 investor conferences, gave presentations at two analyst and investor conferences, and held a total of 300 investor meetings. As a result, the average trading volume of LPKF shares on Xetra increased almost fivefold from 44,394 in the previous year to 203,068 in 2020.

LPKF AG's second Capital Markets Day was held as a virtual event on 17 September. Around 100 institutional investors and analysts accepted the invitation to hear about the Management Board's ambitious growth and return targets. In a series of specialist presentations, the company's business unit managers reported on the latest trends in the various markets and the innovations that LPKF is developing for its customers. The presentations were rounded off by videos in which LPKF employees presented the technologies used at the production sites.

In the future, we want to inform our shareholders more comprehensively about our activities in the area of sustainability. As a technology company, LPKF can and will make valuable and future-oriented contributions here and report on them.

LPKF shares are covered and rated by the following institutions:

- **Hauck & Aufhäuser**
- **Warburg Research**
- **Stifel Europe Bank AG**
- **HSBC**
- **Quirin Privatbank**
- **EQUI.TS**

LPKF WILL BE HAPPY TO ASSIST YOU PERSONALLY

Katja Rust
Manager Investor Relations
+49 5131 7095-1387
katja.rust@lpkf.com

Bettina Schäfer
Head of Investor Relations
+49 5131 7095-1382
bettina.schaefer@lpkf.com

LPKF KEY SHARE FIGURES

	2020	2019	2018
Number of shares on 31.12.	24,496,546	24,496,546	24,496,546
Highest price (XETRA)	30.85 EUR	18.30 EUR	10.48 EUR
Lowest price (XETRA)	10.20 EUR	5.34 EUR	5.10 EUR
Closing price at year end (XETRA)	29.45 EUR	15.80 EUR	5.52 EUR
Market capitalization at year end	721.42 Mio. EUR	387.05 Mio. EUR	135.24 Mio. EUR
Share turnover in shares per day (average)	203,068 EUR	44,394 EUR	17,344 EUR
Earnings per share, diluted	0.22 EUR	0.54 EUR	0.33 EUR
Dividend per share*	0.10 EUR	0.10 EUR	0.00 EUR

* 2020: Annual General Meeting recommendation

LPKF SHARES KEY DATA

ISIN	DE0006450000
Ticker symbol	LPK
Trading segment	SDAX since 18 February 2020
Market places	Frankfurt, Berlin, Bremen, Düsseldorf, Hamburg, Hanover, Munich, Stuttgart
Trading advisor	Oddo Seydler Bank AG
Underwriting syndicate	Bankgesellschaft Berlin AG, Commerzbank AG, DG Bank AG (currently DZ Bank AG), M.M. Warburg & Co. KGaA
First trading day (new market)	30 November 1998
Face value	EUR 1

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 statements apply to LPKF AG and its Group companies unless otherwise stated below. The chapter contains the corporate governance statement pursuant to Sections §§ 289f, 315d HGB. The corporate governance statement 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. The remuneration report can be found in the combined management and group management report in this Annual Report.

DECLARATION ON CORPORATE MANAGEMENT AND CORPORATE GOVERNANCE

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 most recent declaration of compliance, LPKF Laser & Electronics AG has complied with the recommendations of the German Corporate Governance Code in the version dated 7 February 2017 with the following exception:

- No stipulation of a severance payment cap when concluding Management Board contracts in the event of premature termination of Management Board activities (Code section 4.2.3, paragraph 4 and 5)

The Management Board contracts do not contain a severance payment cap due to their maximum term of three years. In the event of premature termination of the Management Board contract without good cause, no more than the remaining term of the contract will be paid. Therefore, the Supervisory Board did not see the need to agree on a severance payment cap of two years' compensation when the contracts were concluded.

The Management Board and the Supervisory Board further declare that LPKF currently complies or will comply in future with the recommendations of the German Corporate Governance Code in the version dated 16 December 2019 with the following exception.

- New recommendations on the remuneration of the Management Board (Code Sections G.1 to G.16)

The existing remuneration system for the Management Board and the current Management Board contracts do not currently comply with all recommendations of the Code in sections G.1 to G.16. According to the justification of the Code, amendments to the Code also do not have to be taken into account in current Management Board contracts, but – insofar as they are to be followed – only when current Management Board contracts are extended after the new version of the Code comes into force. The Supervisory Board is currently reviewing the remuneration system for the Management Board and intends to adopt a new remuneration system in accordance with section 87a of the German Stock Corporation Act (AktG) and submit it for approval at the Annual General Meeting in 2021. The Supervisory Board will only decide in the course of adopting the remuneration system pursuant to § 87a AktG to what extent the recommendations relating to Management Board remuneration in sections G.1 to G.16 of the Code will be complied with in the future.

Garbsen, 9 February 2021

JEAN-MICHEL RICHARD	DR. GOETZ M. BENDELE
For the Supervisory Board	For the Management Board

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 and manage risks. The system is continuously developed, adapted to changing conditions and reviewed by the auditors. The Management Board regularly informs the Supervisory Board 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, ecological and social action that complies with applicable law is an indispensable element of LPKF's corporate culture. This also 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 www.lpkf.com/en/company/lpkf-group/compliance-management. In this way, compliance violations 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 become aware of any compliance violations, LPKF provides internal and external whistleblower communication channels for contacting the company, which are listed on the homepage (https://www.lpkf.com/en/company/lpkf-group/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.

Internal auditing, which is carried out by a reputable and internationally recognised auditing company as an external service provider, also plays an important role for the compliance organisation. The corresponding audits are also used with regard to the further development of the internal control system. This is an area that the Supervisory Board wishes to strengthen further in 2021.

WORKING METHODS AND COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

LPKF AG is a stock 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 Chairman. 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/lpkf-group/sustainability. 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 risk management as well as 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, the Supervisory Board reviews how effectively it performs its duties on an annual basis. The last self-assessment took place by means of a questionnaire analysis in February 2020. 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 efficient organization and conduct of meetings and appropriate provision of information. No fundamental need for change emerged. Due to the personnel changes on the Supervisory Board, the next self-assessment will take place later 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, appointed by the court until the end of the Annual General Meeting 2021, Chairman of the Supervisory Board since 1 December 2020
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
Prof. Dr.-Ing. Ludger Overmeyer	Member of the Supervisory Board since 6 June 2019, elected until the end of the Annual General Meeting 2024
Dr. Markus Peters	Member of the Supervisory Board from 13 July 2017 to 13 November 2020, Chairman of the Supervisory Board from 16 October 2017 to 13 November 2020

LPKF AG has taken out directors' and officers' liability insurance (D&O insurance) for all members of the Management Board and Supervisory Board with a deductible amounting to 10% of the damage or a maximum of one and a half times the fixed annual remuneration.

The Supervisory Board of LPKF AG in the 2020 financial year comprised the members listed below, who, with the exception of Jean-Michel Richard, 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/lpkf-group/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 2020 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. Committees of the Supervisory Board, the formation of which the Code recommends only depending on the specific circumstances of the company and the number of members of the Supervisory Board, do not currently exist against the background of the three-member Supervisory Board. Instead, the Supervisory Board performs the tasks itself in its entirety that would be assigned to an audit, nomination, compensation or sustainability committee in larger Supervisory Boards. However the Supervisory will continue to review this point in the context of the potential nomination of a fourth member in 2021 / 2022.

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.

The Supervisory Board currently has set a target of 1 / 3 (=33.33%) for the proportion of women on the Supervisory Board. The Supervisory Board has currently set a target of 0% for the proportion of women on the Management Board.

Due to the composition of the Management Board with only two members the Supervisory Board does not consider it appropriate to set a higher target for the Management Board at this time. The deadline for achieving both targets is 26 February 2024. However the Supervisory Board will continue to assess the situation.

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 the above targets is 30 June 2022.

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

In principle, the Supervisory Board ensures 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 criteria according to the diversity concept 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 profile and draws up a shortlist of available candidates on this basis. Structured interviews are conducted with these candidates. If necessary, the Supervisory Board is supported by external consultants in the development of the requirement profiles and the selection of candidates.

With regard to the composition of the Management Board, the Supervisory Board pursues a diversity concept essentially related to the following aspects:

- The members of the Board of Directors 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 and individual members of the Management Board should have experience in managing a medium-sized company.

- Diversity shall also be considered in the search for qualified personalities 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 deadline for achieving it.

The diversity concept is intended to benefit the work of the board as a whole. The Supervisory Board decides with which personality 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 has 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. The diversity concept for the Management Board will also be taken into account in the search initiated by the Supervisory Board for a successor to the Chairman of the Management Board, who is leaving at the end of April 2021.

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

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

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 company's sector, (ii) knowledge in other defined areas, (iii) expertise in the fields of accounting or auditing for at least one Supervisory Board member, (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 activities are taken into account in election proposals to the Annual General Meeting. In addition to knowledge of the English language, the yardstick here is 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. The criterion of internationality does not necessarily require a foreign nationality, but German nationals can also 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 DCGK 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 DCGK 2019.

At least one shareholder representative shall be independent of a (possible) controlling shareholder. According to recommendation C.9 DCGK 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 or 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, updated in 2020, at younger 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 an election.

e) Consideration of diversity

In the search for qualified personalities 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 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, 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 Supervisory Board aims to propose a female candidate for election to the Supervisory Board at the latest at the Annual General Meeting in 2022.

The members of the Supervisory Board as a whole are familiar with the sector relevant to the company's activities, with several members also having expertise in the fields of accounting or auditing and bringing international experience. The Chairman of the Supervisory Board, Jean-Michel Richard, also has expertise in ESG and will be responsible for this topic on the Supervisory Board. The Supervisory Board also includes the number of members independent of a controlling shareholder, as determined by the Supervisory Board to be at least a majority.

The Supervisory Board considers its current members Jean-Michel Richard, Dr. Dirk Michael Rothweiler and Prof. Dr.-Ing. Ludger Overmeyer to be independent of the Management Board and the company. 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. The company makes it possible to 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.

The AGM on 4 June 2020 was held as a virtual AGM without the physical presence of shareholders or their proxies due to the special circumstances of the COVID-19 pandemic.

TRANSPARENCY

LPKF regularly informs capital market participants and the interested public about the Group's economic situation and new facts. 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, financial press conferences 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 2020 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 and audited by the auditor and the Supervisory Board. The interim reports and the half-year financial report are discussed by the Supervisory Board 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 2020 Annual General Meeting. The audit reports were signed by auditor Björn Kniese (since the 2020 annual financial statements) and auditor Sebastian Geisler (since the 2020 annual financial statements).

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 for this during the audits for the 2020 financial year.

Garbsen, 16 March 2021

JEAN-MICHEL RICHARD
the Supervisory Board

DR. GOETZ M. BENDELE
the Management Board

COMBINED MANAGEMENT REPORT

FOR THE LPKF GROUP AND LPKF AG

LPKF Allegro systems incorporate precise and absolutely parallel lines in large coated glass substrates.

BASIC INFORMATION ON THE GROUP

GROUP STRUCTURE AND BUSINESS MODEL

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 45 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 689 people based at locations in Europe, Asia and North America. LPKF's shares are listed in the TecDAX and SDAX of the German Stock Exchange.

LEGAL STRUCTURE OF THE GROUP

As of 31 December 2020, 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, internal audit, risk management, compliance, marketing, procurement and management systems.

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 2020 financial year, LPKF operated in the following segments:

DEVELOPMENT

Systems for printed circuit board development and research

WELDING

Systems for plastics welding

ELECTRONICS

Systems for electronics production and the manufacture of glass components

SOLAR

Systems for the production of solar cells and for Laser Transfer Printing

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.

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.

The Electronics segment also covers LDS technology (Laser Direct Structuring) for manufacturing three-dimensional circuit carriers. This allows mechanical and electronic functions to be integrated into injection molded parts. With Active Mold Packaging (AMP), LPKF has developed a process based on this technology that makes IC packages even more compact and powerful.

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 is generally limited to pre-assembly and final assembly of machinery and equipment.

With a few exceptions in the mechanical production of minimal quantities, all components including complex assemblies for machinery are purchased from external suppliers. From the first quarter of 2021, LPKF now also procures complete systems from third parties for the Development segment. Group procurement is organized through a central strategic purchasing unit in Garbsen, with operational purchasing activities integrated in the organizational structure on a mainly local basis at the production sites. Whenever it purchases external components, the Group strives to avoid becoming dependent on individual suppliers where possible to guarantee availability and competitiveness.

Sales

Global cross-segment sales are handled by subsidiaries, especially in important regions such as China, Japan, North America and South Korea. 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
	Fürth	Production, development, sales and services	Welding segment • Plastic welding systems
Germany	Suhl	Development, sales, pro-duction 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 2020 financial year:

- Dr. Goetz Matthias Bendele (CEO)
- Christian Witt (CFO)

In the 2020 financial year, the Supervisory Board consisted of the following members:

- Dr. Markus Peters (Chairman) up to 13 November 2020
- Dr. Dirk Rothweiler (Deputy Chairman)
- Prof. Dr.-Ing. Ludger Overmeyer
- Jean-Michel Richard since 25 November 2020 (Chairman since 1 December 2020)

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 and to increase the durability of end products.

Vision

The LPKF Group is driven by the vision that innovative technology is going to sustainably change the world of electronics production. 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 interplay between them:

Core competencies

- Laser technology and optics
- Precision drive technology
- Control technology and software
- 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 designs 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 provides sales and service support to 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. Many customers invest on the basis of an R&D budget. 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. As one example, for a number of years LPKF has been offering micromachining systems for research applications outside of PCB prototyping. This gives it the opportunity to tap into new markets beyond pure electronics development. 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. Since 2019, it has also offered LIDE technology as a production service (foundry) in addition to selling equipment. 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 material joining methods in various sectors, generating a lot of 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. Thanks to the longstanding collaboration with one particular major customer, LPKF believes it has gained a leading position in the surface treatment of thin-film solar modules and is helping this customer to achieve a competitive advantage. The precision and speed of the Allegro systems set LPKF apart as a specialist on the solar market. In 2020, LPKF continued to broaden both its customer base and its technology 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 2020, 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.

Aside from the error rate, no other significant non-financial key performance indicator was used for managing the Group in the 2020 financial year.

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

		2020 target	**2020**	2019	2018	2017	2016
Revenue	EUR million	96–102	**96.2**	140.0	120.0	102.1	91.1
EBIT	EUR million	7.7–12.2	**7.5**	19.2	6.8	4.0	−6.8
EBIT margin	in %	8–12	**7.8**	13.7	5.7	3.9	−7.4
ROCE	in %	Same as EBIT and capital employed	**9.0**	25.5	7.0	4.1	−6.8
Net working capital	EUR million	< 17.1	**20.5**	17.1	37.9	33.3	35.2
Net working capital ratio	in %	< 17.8	**21.3**	12.2	31.6	32.6	38.7
Free cash flow	EUR million	Slightly below EBIT	**−5.5**	42.2	5.8	N.A.	N.A.
Error rate	in %	48	**34**	48	70	78	73

Target / actual comparison of planning and implementation

In its original report on expected developments, due to the increasing economic uncertainty surrounding the growing pandemic, the Management Board made only qualitative statements on the development of key performance indicators. The company issued its first quantitative forecast for 2020 as a whole on 29 October 2020. At that time, consolidated revenue was expected to be between EUR 96 million and EUR 102 million and the EBIT margin between 8% and 12%.

With revenue of EUR 96.2 million, the Group achieved the lower end of the issued forecast. The EBIT margin of 7.8% is outside the range of the most recent guidance. ROCE is in line with the earnings performance at 9.0%.

The net working capital target was missed at the end of the year. At EUR 20.5 million or 21.3% of revenue, the Group fell short of the target range specified.

Free cash flow at EUR −5.5 million was below the projected range. Weaker earnings and the increase in net working capital both impacted this figure.

The quality costs target was achieved as the error rate had improved considerably year-on-year.

NON-FINANCIAL STATEMENT

LPKF AG's separate non-financial consolidated report will be published on the company's website under the Company / LPKF Group/Sustainability (https://www.LPKF.com/en/company/LPKF-group/sustainability) within the legally stipulated period by no later than 30 April 2021.

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 2020 financial year, several new products were manufactured and technologies developed that, in turn, are expected to lead to new competitive products in the short and medium term. To support this process, the development process is continuously improved through the use of ever more 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 2020, development expenses amounted to EUR 11.0 million (previous year: EUR 12.5 million), which is equivalent to 11.4% (previous year: 8.9%) of revenue.

LPKF capitalized EUR 4.7 million development expenses as intangible assets in the reporting year (previous year: EUR 4.0 million), which equates to a capitalization ratio of 30% (previous year: 24%). Amortization of capitalized development expenses amounted to EUR 3.0 million in 2020 (previous year: EUR 2.9 million).

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

EUR million	**2020**	2019	2018	2017	2016
R&D expenses*	**11.0**	12.5	11.7	11.1	11.4
As % of revenue	**11.4**	8.9	9.7	10.9	12.5
R&D employees	**148**	143	141	155	159

* Current R&D expenses include amortization of capitalized development expenses of EUR 3.0 million.

R&D results

New product developments were successfully completed for various markets in the Electronics segment in 2020. The Vitrion family was expanded with the first prototype of the Vitrion CG5000 for manufacturing cover glass for displays. The LIDE production hall for micro-structured glass components was finished. The first machine for the innovative Active Mold Packaging (AMP) process was sold in the chip packaging area. The depaneling product portfolio was revamped with the CuttingMaster 2000 and 3000 series.

The Development segment brought to market a new machine in the form of the ProtoLaser R4, which features an ultrashort-pulse laser developed by LPKF. The machine addresses flexible laser applications in the R&D sector. Development of a versatile system control unit was completed with the SMCU V, which expands the functionalities of old and new systems and elevates system performance to the latest state of the art. It is being used in the implementation of a new ProtoLaser ST to add drilling and cutting functions. Laser source development is currently focusing on enhancing the performance of LPKF's own UV laser.

Development activities involving the machining of CIGS solar modules were brought to a successful close in the Solar segment. Development is currently ongoing on a new generation of machinery that enables brand new processing workflows with a significantly higher throughput. The new generation of machinery is opening up the possibility of creating any number of two-dimensional structures on large surfaces.

In the LTP area, the business unit head estimates that the Callisto system will be made available to customers for sampling since the start of 2021.

The Welding segment completed its activities to finalize new systems for welding radially symmetric components. Work continued on a feasibility study looking into combining plastic welding with LDS technology. Development of process controls for pyrometry and thermography was also successfully continued. Additional features for machining 3D components were added to the new software architecture.

In 2020, the company also embarked on an especially comprehensive range of developments for the new ARRALYZE brand. Core technologies were developed in areas such as microscopy and handling living cells in order to implement the first machines.

REPORT ON ECONOMIC POSITION

OVERVIEW OF THE COURSE OF BUSINESS

Macroeconomic environment

In 2020, the global economy was shaped by the COVID-19 pandemic. Calculations by the Kiel Institute for the World Economy (IfW) indicate that gross domestic product (GDP) contracted by 3.8%. After suffering a significant slump in economic output in spring 2020 brought on by the outbreak of the pandemic, the global economy recovered as the year progressed.

Advanced economies were more severely impacted by the pandemic. The decline was particularly steep in the eurozone (7.2%) and in the UK (11.3%). By contrast, the decline in GDP was smaller in the US (3.6%) and in Japan (5.2%). In 2020, Germany's Federal Statistical Office reported a decline of 5.0% in economic output and 9.3% in exports.

The IfW's figures suggest that the impact of the pandemic was relatively mild in emerging economies in 2020, with economic output contracting by 2.9% overall. However, there were some regional differences. While India and Latin America reported significant declines of 7.9% and 7.6% respectively, the Chinese economy was the only major economy in the world to achieve growth (by 2.3% according to official figures from the National Bureau of Statistics of China).

Sectorspecific environment

In addition to the macroeconomic environment, the business performance of LPKF Laser & Electronics AG is influenced by 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 sectors in 2020 are outlined below.

According to calculations by Gartner, the pandemic caused smartphone sales in the electronics industry to fall by 10.5% in 2020. After reporting a slump of 20.2% in the first quarter of 2020, sales recovered over the course of the year and by the fourth quarter far outstripped the previous year. According to the IDC, an overall figure of 1.29 billion smartphones were sold in 2020.

According to figures from the German Automobile Industry Association (VDA), global sales of passenger cars suffered a decline of 15% in 2020. While sales volumes were down by some 24% in Europe, they declined by around 15% in the US and just 6% in China.

According to figures from IHS Markit, the output of global PV systems rose by 14% – or 142 gigawatts in absolute figures – in 2020. This also reflects the higher demand for generating electricity from renewable sources. According to Bloomberg, for the first time Europe was the continent to generate the most electricity from renewable energies. The solar industry was one of the very few sectors not to be affected by the pandemic in 2020. The German Mechanical Engineering Industry Association (VDMA) noted a significant rise in business activity among German PV system manufacturers during the year, which it puts down to their high innovative prowess including in thin-film technology. Asia is still the most important market for the German mechanical engineering sector.

The German plastics sector was hit hard by the effects of the pandemic at the start of 2020. According to the VDMA, a period of recovery then set in, bringing the decline in revenue to around 10% for the year as a whole.

In the German mechanical and plant engineering sector, a decline in production of 14% is calculated for the year as a whole, which is lower than had been expected over the course of the year.

Effects on the LPKF Group

The global macroeconomic environment deteriorated significantly last year in the wake of the pandemic. In 2020, all LPKF AG's key sectors – apart from the solar industry – reported a significant decline in performance in some areas as a result of the pandemic.

Despite the positive development of the solar market, the pandemic meant that LPKF experienced considerable delays in projects with some customers in the Solar segment. The company did not receive key orders – primarily from customers in China – until the second half of the year. These project delays also resulted in considerably lower advance payments received in contract liabilities and in the 44% decline in revenue in this segment as of the reporting date. On top of this, there were also significant project postponements with a major customer in the Electronics and Welding segments. Business also stagnated beyond the aforementioned aspects and was not stepped up as planned due to the pandemic.

The direct 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 since mid-March. Employees in production and development are having to work under new protective measures, such as significant social distancing and compulsory mask wearing. The company locations were divided into sections without physical interaction, and precautionary hygiene measures were 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.

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. These efforts have been continued into the current financial year.

The company's supply chains were not disrupted. Customer deliveries and services continued as usual – with a few delays in some cases. According to Group information, only one order with a volume of EUR 175 thousand was canceled in the Group in the reporting period.

Many 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 profitable business development 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 adequate cash reserves comprising cash and cash equivalents and the credit facility of EUR 25.0 million, which is available in full.

The rise of the euro against other key currencies such as the US dollar was not conducive to LPKF AG's export activities in 2020.

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

Results of operations

Development of revenue

In the 2020 financial year, the LPKF Group generated revenue of EUR 96.2 million, which was down 31.3% year-on-year (EUR 140.0 million).

In 2020, the **Solar segment** supplied laser systems for etching solar modules within the scope of a major order. However, this was not enough to match the excellent revenue figure from the previous year. Revenue in this segment declined by 44.8%. With the order received in December for a further EUR 10 million, total incoming orders of EUR 28.8 million in the Solar segment in the 2020 financial year are above the previous year's level of EUR 27.3 million. Orders on hand of EUR 23.7 million as of 31 December 2020 were 23% higher than in the previous year. Revenue from a framework agreement is expected to be recognized from the second quarter of 2021 and continuing into 2022.

The revenue generated in the **Electronics segment** totaled EUR 31.7 million and, due to the lack of major orders in printed circuit board processing, was 27.6% lower than the previous year's figure. Business was expanded significantly in areas other than major orders in spite of the pandemic.

The **Welding segment** likewise ended the year with revenue that was 36.2% lower than in the previous year (EUR 27.7 million), with the vast majority of the decline also attributable to a customer postponing a major project.

With revenue of EUR 22.6 million, the **Development segment** almost matched the previous year's level of EUR 24.5 million.

The following table shows the revenue by region:

in %	**2020**	Prior year
Asia	57.7	43.4
Germany	9.0	6.9
Europe excl. Germany	12.6	20.9
North America	19.8	26.8
Other	0.9	2.0
Total	**100.0**	100.0

The Group's export rate fell slightly year-on-year and is now 91.0% (2019: 93.1%). 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 the most important market for LPKF by a clear margin.

Segment performance

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

EUR million		Electronics	Development	Welding	Solar	**Total**
External revenue	2020	31.7	22.5	17.7	24.3	**96.2**
	2019	43.7	24.5	27.7	44.1	**140.0**
EBIT	2020	3.4	2.9	−2.8	4.0	**7.5**
	2019	7.4	2.9	1.1	7.8	**19.2**

Development of orders

At EUR 102.2 million, incoming orders during the reporting period were 10.3% lower than in the previous year. Nevertheless, a book-to-bill-ratio of >1 was achieved again, which means that the total incoming orders for the year is greater than total revenue. Orders on hand of EUR 38.3 million at the end of the year were EUR 6.0 million higher than in the previous year.

Development of main income statement items

In own work capitalized, EUR 4.7 million was recognized for the development costs of products and software. At EUR 3.7 million, other income was at a similarly high level to the previous year (EUR 4.0 million), with the figure in both 2019 and 2020 including income from the settlement of legal disputes in the LPKF Group's favor. In 2020, other income also included reimbursement amounts applied for from the Federal Employment Agency for social security contributions in connection with short-time working at the German locations (EUR 455 thousand) and waived / granted social security contributions totaling EUR 351 thousand in China and Slovenia as a result of the pandemic.

The material cost ratio relative to revenue and changes in inventory declined year-on-year from 38.9% to 33.2%. This can largely be explained by significantly lower revenue from trade goods and lower revenue from major customers.

At EUR 41.5 million, staff costs were lower than the previous year's figure of EUR 44.7 million despite an increase in the employee headcount. The German locations were flexible in their use of the option of short-time working. This reduced staff costs by EUR 1.5 million. The staff costs ratio – being staff costs in relation to revenue – has gone up, despite the lower staff costs, from 32.0% in the previous year to 43.1% in the current year due to the comparatively bigger decline in revenue.

Depreciation decreased to EUR 7.3 million in 2020 (previous year: EUR 7.7 million). Of this amount, EUR 3.0 million was attributable to depreciation and amortization from own work capitalized.

At EUR 17.1 million, other expenses were 21.0% lower than in the previous year. This change is mainly due to the reduction in travel and meals / entertainment expenses (EUR −1.9 million), the decrease in third-party work (EUR −1.0 million) and the reduction in legal and consulting expenses (EUR −0.4 million).

Despite the decrease in revenue, improvements to the cost structure enabled the Group to achieve EBIT (earnings before interest and taxes) of EUR 7.5 million (previous year: EUR 19.2 million). The EBIT margin was 7.8% compared with a margin of 13.7% in 2019.

Multi-period overview of results of operations

		2020	2019	2018	2017	2016
Revenue	EUR million	**96.2**	140.0	120.0	102.1	91.1
EBIT	EUR million	**7.5**	19.2	6.8	4.0	−6.8
Material cost ratio	in %	**33.1**	38.9	39.7	33.4	34.9
Staff cost ratio	in %	**43.1**	32.0	36.9	41.0	48.2
Tax ratio	in %	**26.9**	29.9	−33.2	61.8	−16.4
EBIT / employee	EUR thousand	**10.9**	28.3	10.2	5.3	−9.0

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See Statement of cash flows at Consolidated and annual financial statements on page 78.

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 long-term 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 to hedge foreign exchange rates and interest rates. The European companies optimize their liquidity 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. LPKF Group financing is performed centrally.

Statement of cash flows

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

EUR million	2020	Prior year
Cash flow from operating activities	4.0	48.0
Cash flow from investing activities	−9.5	−5.8
Cash flow from financing activities	−5.4	−14.5
Change in cash and cash equivalents due to changes in foreign exchange rates	−0.3	−0.1
Change in cash and cash equivalents	−10.9	27.7
Cash and cash equivalents on 1 Jan.	31.3	3.7
Cash and cash equivalents on 31 Dec.	20.1	31.3
Composition of cash and cash equivalents:		
Cash on hand, bank balances	20.1	31.1
Overdrafts	0.0	0.2
Cash and cash equivalents on 31 Dec.	**20.1**	31.3

The Group's cash and cash equivalents decreased from EUR 31.3 million at the end of the previous year to EUR 20.1 million. This was due predominantly to high investing activities, with EUR 3.3 million alone spent on construction of the LIDE clean room production facility at the Garbsen location, combined with a low cash flow from operating activities. At EUR 4.0 million, cash flow from operating activities was significantly below the previous year's level of EUR 48.0 million due to the EUR 43.8 million decrease in revenue and the associated deterioration in the period result, accompanied by an increase in net working capital.

Long-term financing is used for non-current assets. Long-term fixed interest periods are generally agreed.

The Group has committed credit facilities of up to EUR 25 million for operating equipment, which were available in full and had not been drawn on the reporting date.

At the end of the financial year, the financial position can be considered as solid, allowing the Group to realize even a large portion of its investing activities using its own resources.

Multi-period overview of financial position

EUR million	**2020**	2019	2018	2017	2016
Free cash flow	**−5.5**	42.2	5.8	3.3	−1.8
Net debt to banks	**−15.2**	−24.5	16.3	37.7	39.9

(-) Credit (+) Debit

Net assets

Analysis of net assets and capital structure

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

	31.12.2020		31.12.2019	
	EUR million	in %	EUR million	in %
Non-current assets	66.2	54.4	64.1	50.1
Current assets	55.4	45.6	63.9	49.9
Assets	**121.6**	**100.0**	128.0	100.0
Equity	92.9	76.4	90.8	70.9
Non-current liabilities	6.9	5.7	8.9	6.9
Current liabilities	21.8	17.9	28.3	22.2
Equity and liabilities	**121.6**	**100.0**	128.0	100.0

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See the consolidated balance sheet in the consolidated financial statements on page 76.

Compared with 31 December 2019, non-current assets increased by EUR 2.1 million to EUR 66.2 million. The change is due to an increase in capitalized development costs of EUR 1.7 million and an increase in property, plant and equipment of EUR 1.3 million.

The decrease in current assets from EUR 63.9 million in the previous year to EUR 55.4 million as of 31 December 2020 is mainly due to the EUR 11.3 million decrease in cash and cash equivalents. By contrast, due to a high-revenue month in December, since 31 December 2019 trade receivables have increased by EUR 1.9 million to EUR 13.2 million and inventories went up by EUR 0.7 million to EUR 19.8 million and other current non-financial assets by EUR 0.9 million to EUR 2.4 million as of the reporting date. These developments have a corresponding impact on net working capital, which went up from EUR 17.1 million in the previous year to EUR 20.5 million. Lower revenue drove the net working capital ratio up from 12.2% to 21.3%.

Non-current liabilities declined by EUR 2.0 million, primarily due to the scheduled repayment of loans (EUR −1.8 million). The decrease in current liabilities can be explained primarily by a EUR 5.2 million reduction in advance payments received in contract liabilities and a EUR 2.9 million reduction in current provisions.

The equity ratio went up from 71.0% in 2019 to 76.4% as of 31 December 2020.

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

Multi-period overview of net assets

		2020	2019	2018	2017	2016
ROCE	in %	**9.0**	25.5	7.0	4.1	−6.8
Net working capital	EUR million	**20.5**	17.1	37.9	33.3	35.2
Net working capital ratio	in %	**21.3**	12.2	31.6	32.6	38.7
Days sales outstanding	days	**55**	44	78	67	63

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

Capital expenditure

In the 2020 financial year, the Group continued to make targeted investments in future growth. In addition to the LIDE clean room production facility for the Electronics segment at the Garbsen location (EUR 3.3 million), which was completed and approved in the fourth quarter, an additional EUR 4.7 million in development costs 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 10.2 million (previous year: EUR 6.7 million).

EUR million		Electronics	Development	Welding	Solar	**Total**
Development services	2020	2.0	1.2	0.3	1.2	**4.7**
	2019	1.4	0.8	0.4	1.2	**3.8**
Other assets	2020	4.0	0.5	0.1	0.9	**5.5**
	2019	1.2	0.6	0.5	0.6	**2.9**
Total	2020	6.0	1.7	0.4	2.1	**10.2**
	2019	2.6	1.4	0.9	1.8	**6.7**

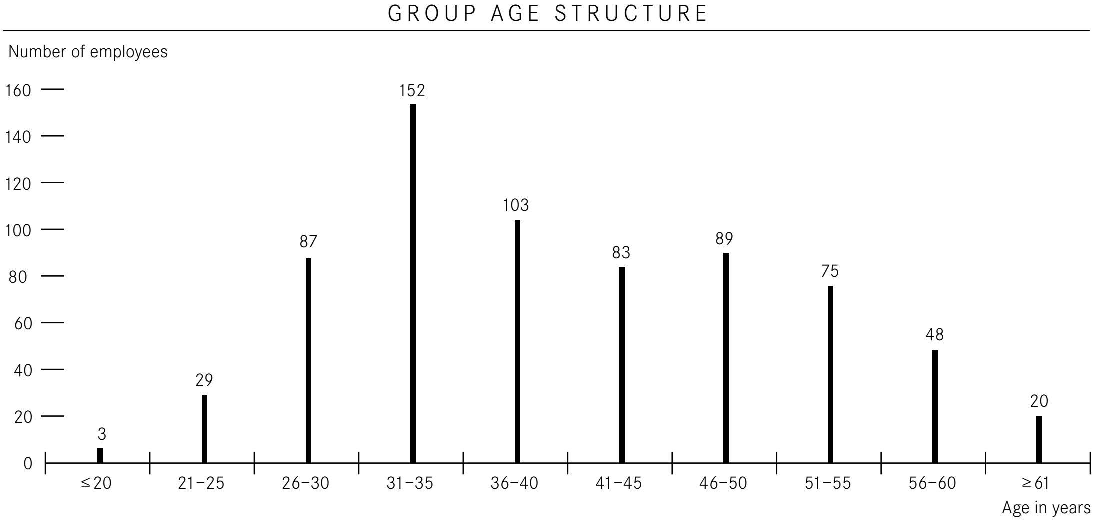
Employees

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 2020. 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, office management assistants, mechatronics technicians, microtechnologists and technical product designers. The Group employed 40 trainees at the reporting date (2019: 43).

Levels of sick leave and employee turnover are important indicators of employee motivation and employee retention. At 3.7%, the sick leave percentage in the LPKF Group was below the average for the metal working and electronics industry in Germany (2019: 5.7%) and lower than the previous year's figure of 4.4%. The Group's employee turnover level went down from 10.1% last year to 6.4% in 2020.

The average age of the workforce at the LPKF Group was 40.9 (previous year: 40.7).

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

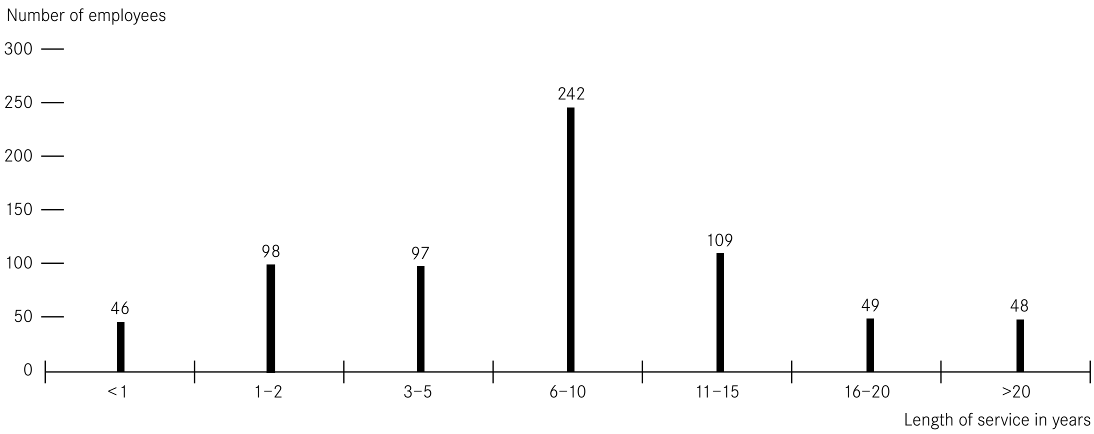


An analysis of the length of service of LPKF Group employees shows an average of 8.8 years (previous year: 8.5 years). LPKF has a healthy mix of experienced and new employees.

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.

LENGTH OF SERVICE IN GROUP



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

In the 2020 financial year, LPKF AG generated revenue of EUR 46.2 million (previous year: EUR 60.0 million). The decline in revenue is predominantly due to the lack of major orders in printed circuit board processing in the Electronics segment (EUR −13.7 million). The Development segment generated revenue of EUR 16.6 million in 2020 (previous year: EUR 17.5 million). The percentage of revenue generated internationally was 82.0% (previous year: 85.8%).

Other operating income fell year-on-year, from EUR 4.3 million to EUR 2.3 million. The previous year's figure included a merger gain from LaserMicronics GmbH of EUR 1.0 million and a payment from a legal dispute.

The material cost ratio went down from 42% to 40% year-on-year.

Personnel expenses decreased to EUR 17.6 million in the current financial year (previous year: EUR 18.6 million). The number of employees went up. There were an average number of 237 employees working at LPKF AG in 2019 and an average of 264 in 2020. The decrease is mainly due to EUR 0.8 million lower additions to bonus provisions compared with the previous year. LPKF AG made flexible use of short-time working. This reduced staff costs by a further EUR 0.5 million. The personnel expenses ratio rose from 31% in the previous year to 38% due to lower revenue.

There was a slight decrease in depreciation of fixed assets year-on-year to EUR 2.3 million (previous year: EUR 2.8 million). Other operating expenses decreased from EUR 16.3 million in the previous year to EUR 12.4 million. The main items that decreased were sales commissions (EUR −1.0 million), travel and meals / entertainment expenses (EUR −0.7 million), and legal and consulting expenses (EUR −0.4 million).

The negative revenue performance meant that LPKF AG achieved a negative EBIT figure of EUR 2.5 million in 2020 (2019: EUR 1.2 million). The financial result includes distributions from LPKF China totaling EUR 4.9 million (2019: EUR 4.7 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 1.9 million (previous year: EUR 10.5 million). This figure includes a positive contribution to earnings of EUR 4.5 million from SolarQuipment GmbH and a loss absorption of EUR 2.6 million from WeldingQuipment GmbH.

After taxes, this constitutes a net profit of EUR 3.8 million (previous year: EUR 12.7 million).

LPKF AG income statement

EUR million	**2020**	2019
Revenue	46.2	60.0
Changes in inventory	−0.9	−0.2
Other own work capitalized	0.1	0.1
Other operating income	2.3	4.4
Cost of materials	17.8	25.4
Personnel expenses	17.6	18.6
Depreciation, amortization and write-downs	2.3	2.8
Other operating expenses	12.5	16.3
Operating result	**−2.5**	1.2
Financial result	**6.3**	14.9
Income taxes	−0.1	3.4
Earnings after taxes	**3.9**	12.7
Other taxes	0.1	0.0
Net profit	**3.8**	12.7
Accumulated losses brought forward from the previous year	16.4	6.2
Net retained profits	**20.2**	18.9

Net assets and financial position
On 31 December 2020, LPKF AG's total assets were EUR 94.0 million, EUR 2.8 million lower than in the previous year (EUR 96.9 million). A total of EUR 4.0 million was invested in tangible and intangible assets in 2020 (previous year: EUR 1.1 million). A large portion of the additions (EUR 3.3 million) relate to the completion of the production hall for LIDE products for the Electronics segment at the Garbsen location, on which construction commenced in 2019.

Inventories and receivables both increased year-on-year. Inventories went up by EUR 1.5 million and receivables from affiliated companies increased by EUR 6.8 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 0.3 million year-on-year to EUR 3.6 million as of the reporting date.

Lower revenue and the resulting poorer earnings situation brought cash and cash equivalents down by EUR 13.8 million to EUR 13.4 million on the balance sheet date.

As of 31 December 2020, equity amounted to EUR 72.1 million, which is higher than in the previous year, and the equity ratio reached 76.7% (previous year: 73.0%). The scheduled repayment of the two mortgage-backed loans with a combined total of EUR 1.7 million that existed on the balance sheet date led to a further reduction in debt. Liabilities to banks amounted to EUR 1.5 million as of the balance sheet date compared with EUR 3.2 million in the previous year. Other liabilities primarily include liabilities to affiliated companies resulting from both supply and service agreements and financing. Total liabilities now amount to EUR 18.4 million compared with EUR 20.6 million in the previous year.

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See the income statement in the extract from the individual financial statements on page 135.

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

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See balance sheet in the extract from the individual financial statements on page 136.

	31.12.2020		31.12.2019	
	EUR million	in %	EUR million	in %
Long-term assets	37.9	40.3	36.3	37.5
Short-term assets	56.1	59.7	60.6	62.5
Assets	**94.0**	**100.0**	96.9	100.0
Equity	72.1	76.7	70.8	73.0
Current liabilities	21.9	23.3	26.1	21.8
Equity and liabilities	**94.0**	**100.0**	96.9	100.0

The net assets and financial position of LPKF AG can be described as extremely solid due to the high equity ratio and unutilized credit facilities.

Capital expenditure

In addition to the LIDE clean room production facility for the Electronics segment at the Garbsen location (EUR 3.3 million), which was completed and approved in the fourth quarter, investments were made to replace property, plant and equipment. In total, investments in fixed assets amounted to EUR 4.0 million. LPKF AG's research and development expenses amounted to EUR 7.4 million in 2020 (previous year: EUR 7.9 million).

Employees

LPKF AG had 271 employees as of the balance sheet date, 18 more than in the previous year.

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 2020 financial year as a result of the difficult economic conditions imposed by the pandemic. Due to the overall profitable business performance, the solid financing and the positive outlook, the Management Board and the Supervisory Board will nevertheless propose to the Annual General Meeting on 20 May 2021 to distribute a dividend of EUR 0.10 per share (previous year: EUR 0.10 per share) and to carry forward the remaining retained profit of EUR 17,755,097.10 to new account.

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 2020 financial year for LPKF was largely dominated by one external factor: COVID-19. At the start of the year, LPKF viewed itself as on course to profitable growth. In February 2020, the Management Board had anticipated revenue and earnings growth. The global spread of COVID-19 triggered the biggest public health crisis and an accompanying recession and also affected LPKF's customer industries. The company recognized the challenge early on and responded with targeted measures, with the health and safety of employees and business partners designated as a top priority. Furthermore, LPKF took responsible steps to ensure business continuity and protect the company's strong financial position as effectively as possible. From the Management Board's point of view, even during the pandemic, 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. 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.

After an expected weak first quarter, the company generated growth again in certain areas over the subsequent three quarters and continued to bring costs down, while also investing in new technologies and applications, including LIDE, and building up the capacities required for this. This has improved LPKF's gross margin and cost structure. Profitability at the respective revenue volume, has improved compared with the past five years. At the same time, there has been more investment in new technologies and future growth than previously.

Orders on hand at the end of 2020 were above prior-year levels. 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 back in April 2020 and has 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.

The LPKF Group counters any liquidity risks with a profitable business performance, a reduction in working capital, moderate debt, a diversified maturity profile and adequate liquidity reserves. The essential core of liquidity management is planning working capital and cash. As of 31 December 2020, there are commitments for credit facilities totaling EUR 25.0 million that can be utilized in the event of additional liquidity requirements. The Management Board is maintaining its 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.

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 focus of 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 its own ideas and 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 and efficient 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 providing a suitable R&D budget of approximately 10% of revenue per annum. 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. Aboveaverage 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.

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. Programs aimed at reducing inventories and trade receivables are continuing. 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 company administration leaner and more efficient.

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, and in the long term this has the potential to bring innovations to market more quickly. Additional potential could also arise from more flexible working arrangements for the company's workforce.

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 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 that are suitable to identify existing risks, hedge them, reduce their probability of occurring, mitigate them or consciously accept them to a reasonable extent. This ensures that risks are identified and controlled proactively. The risk management system is interlinked with compliance management.

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. Four scheduled audits were conducted in the Group in the 2020 financial year.

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 and the Supervisory Board on a monthly 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.

As in previous years, in the 2020 financial year existing and potential risks were reassessed and the reporting system was reviewed to ascertain its efficiency in managing risks. A database-supported reporting system has been installed.

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 set up identically for the most part 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. Explanatory notes on the risk management system can be found in section 5.1.2.

The entries recorded at LPKF AG 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. There have been some positive changes to the risks since the previous year.

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
Financial consequences of dependence on individual customers (Electronics. Welding. Solar)	POSSIBLE	over 25% and up to 50%	MODERATE (significant)	up to EUR 5 million (over EUR 5 million)
Market acceptance of new technologies (Electronics. Welding. Solar)	POSSIBLE	over 25% and up to 50%	MODERATE (significant)	up to EUR 5 million (over EUR 5 million)
Personnel risks relating to key functions (Electronics)	LESS LIKELY	up to 25%	SIGNIFICANT	over 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 “technological developments” that was listed in the previous year was reduced substantially in 2019. The probability of occurrence was reduced further during the reporting year, which means that the risk is now no longer considered a high priority and so is no longer reported on here.

The acute risk of “recession due to COVID-19” is 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. Employees have largely been working from home since mid-March 2020. The company locations are divided into sections without 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.

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.

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

Credit risk management to assess potential customer default risks is being performed even more actively than before.

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.

With the planned cost measures, the Management Board has taken into account the level of flexibility that LPKF requires to respond very quickly to the anticipated uptick in demand – whenever it occurs – and consequently further enhance its competitiveness. The company does not consider there to be 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.

Dependence on individual customers

Cause

In the Solar segment, larger-scale projects are often completed with a small number of customers. In the Electronics and Welding segments, too, there is generally a certain dependence on decisions made on the part of a few major customers for laser-based technologies who provide their suppliers with corresponding instructions. These instructions can have an impact on LPKF's business with these suppliers. Significant customer projects were postponed in 2020 on account of the pandemic.

If the company were to fail to land individual major projects, this could significantly affect the financial success of these business segments.

Measures

LPKF is continuing to work on making the organization more flexible to ensure that it can anticipate larger project-related fluctuations in the business, and made significant progress on this in 2020. In the solar business in particular, the agreed payment terms and other contractual conditions provide a certain level of protection against losses in connection with cancellations and payment defaults.

Effects on economic situation

Possible order cancellations can have a negative impact on the Group's revenue and earnings if, for example, capacities cannot be wound down fast enough or utilized by other business units. Taking into account the overall circumstances, the occurrence of this risk is considered possible. Due to the current order situation, any possible loss is categorized as moderate (see table on specific risks).

Market acceptance

Cause

As a technology company, LPKF primarily supplies manufacturing solutions for current 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 moderate (see table on specific risks).

Personnel risks

Cause

Demand for qualified technical personnel in the mechanical engineering and the 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, particularly in technical departments, 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 head hunting 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 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, on the basis of the existing works agreement, paid a share of profits to employees in Germany in 2020 as well. This boosted employee retention even more, and this is also being reflected in the high participation rate in the employee participation program. HR marketing was continued over the reporting period under the unique circumstances 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 head hunting. 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.

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 to other important markets such as the US.

Measures

In order 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 also be invested in the new and further development of products for the future.

In order 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 dropped considerably over the course of the year due to project postponements for reasons associated with COVID-19. Thanks to a newly negotiated framework agreement in September and incoming orders associated with this, the capacity utilization at the relevant location in Suhl will be ramped back up in the foreseeable future. A new technology, the LTP process, was also developed for the digital printing of functional pastes. Due to significant reluctance to invest in the first major target market, the first revenue contributions from this are not expected until 2021 onwards. LTP 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 the parent company 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, 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. There is a separate budget planning for IT security at LPKF. In the past financial year, the main focus was on making sure all the relevant technical bases were covered to ensure that employees could work from home during the pandemic. 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 sectors relevant to the company exhibited different trends during the financial year just ended. Although 2021 will continue to be shaped by the repercussions of the global pandemic, economic research institutes are forecasting a slight upturn in global economic growth year-on-year. On the whole, current events are making planning reliability and the foreseeability of business trends a lot tougher in most business segments. Despite a more than 30% decline in revenue, the company's solid financial and earnings position lends stability to the financial situation and is allowing LPKF to continue to pursue all its planned investments. The various individual risks have only a limited influence on the overall risk situation of the Group.

A review of the overall risk situation of the LPKF Group concluded that there are currently no concrete risks jeopardizing the Group's existence as a going concern.

LPKF AG's auditor also reviewed the risk early warning system with regard to potential risks to the Company's continued existence in accordance with the Section 317 (4) in conjunction with Section 91 (2) of the German Stock Corporation Act.

REPORT ON EXPECTED DEVELOPMENTS

OVERALL ASSESSMENT OF THE GROUP'S EXPECTED DEVELOPMENT

Economic environment
After the historic slump last year, economic experts believe that the global economy will recover and again generate growth rates. Nevertheless, 2021 and 2022 will continue to be shaped by the impact of the pandemic. The International Monetary Fund (IMF) is expecting the global economy to grow by 5.6% in 2021 and 4.2% in 2022. However, these rates of growth would be lower in the event of a possible third wave of infections and the associated economic impact of this.

Based on a forecast by the Kiel Institute for the World Economy (IfW), advanced economies will increase their economic output by 4.4% in 2021 and 3.6% in 2022. Growth rates of 3.7% for 2021 and 3.5% for 2022 are expected for the US, after a lesser decline in the previous year. After a significant decline in 2020, the eurozone will recover at a stronger pace with growth of 4.9% in 2021 and 4.0% in 2022.

The German economy is recovering at a similar rate to the eurozone as a whole. The IfW is projecting growth of 3.1% for 2021 and 4.6% for 2022. At the end of January 2021, the German government lowered its economic forecast for the current year from 4.4% to just 3.0% due to the impact of the pandemic, and is assuming that the German economy will not return to its pre-pandemic level until mid-2022.

The IfW believes that regional differences in economic performance among emerging economies will continue into 2021 and 2022. On the whole, a strong recovery of 8.0% is expected for 2021 and a high figure of 5.5% still in 2022. But China and India will be the main drivers of this growth. After economic activity in China already started to pick up over the course of 2020, the IMF is anticipating GDP growth of 9.2% in 2021 and around 5.9% in 2022. India's economy suffered a significant decline of 7.9% last year. The IfW is forecasting a strong economic upturn this year with GDP growth of 11.6% in 2021 and 8.8% in 2022.

According to an IfW assessment, the impact of the pandemic on future economic development will lead to lower levels of investment in the long term as a result of loss of income, lower sales forecasts and a reduction in equity. An improvement in general conditions for international trade is anticipated with the change of administration in the US, and the EU and UK managed to agree a Brexit trade deal at the eleventh hour.

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

In the electronics industry, after declining substantially in the previous year smartphone sales will pick up by 11.4% in 2021. Gartner puts this down to pent-up demand and the dissemination of 5G technology.

The German Automobile Industry Association (VDA) is anticipating a significant global recovery on the automotive markets in 2021. The global sales volume is expected to rise by 9% to 73.8 million units, but this would still put the figure much lower than the pre-pandemic level. A study by the Prognos Institut indicates that the German automotive industry will be a strong contributor with growth of around 15%, but this will still compensate for only half of the downturn in 2020.

Significant global growth in installed output is also expected in the solar industry in 2021. IHS Markit is projecting growth of 30%. Electricity generation from PV systems is therefore following the general global trend toward renewable energies. IHS Markit is initially anticipating higher prices for solar modules in 2021. They are then expected to drop back down in the second half of the year and drive investment in PV systems.

The German Mechanical Engineering Industry Association (VDMA) is forecasting revenue growth in the German plastics sector of around 5% for 2021 and 10% for 2022, before figures return to their pre-pandemic level in 2023. IHS Markit is expecting global plastic consumption to continue to rise. Factors contributing to this include demand for new lightweight materials in automotive manufacturing and new applications in medical technology and electrical engineering.

The VDMA is projecting an increase in production in the German engineering industry of 4% in 2021 to around EUR 202 billion. It does not expect the level of around EUR 226 billion seen before the pandemic in 2019 to be achieved again until early 2023.

Group performance

Looking to the future, LPKF does not expect COVID-19 to have a lasting impact on the global economy. As early as in the second half of 2020, in regions where the pandemic was successfully suppressed (e.g. China) LPKF already started to see a recovery in economic activity and resurgence in demand. However, it is possible that more infectious viral mutations of SARS-CoV-2 will continue to have a profoundly negative effect on economic performance, at least in the first half of the year. 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 2021 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 resource efficient and energy efficient.

General political conditions have also improved with the recent presidential election in the US and the trade deal between the EU and the UK.

The strategic focus of LPKF Laser & Electronics AG is on the development of innovative technologies that have the potential to sustainably change 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 is 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. This trend has the potential to be reinforced further by the COVID-19 pandemic.
- 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 become established.
- LIDE technology will be used for the first time for volume manufacturing, e.g. in the semicon-ductor, display and other industries and will be established permanently 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 with delays in the worst-case scenario. Pure customer capacity expansions, on the other hand, 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 in order 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 is able to respond 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 – well positioned financially, and has the necessary funds for investments and further growth.

Development of significant indicators and outlook

2020 financial year

Revenue reached EUR 96.2 million in the 2020 financial year, falling short of the previous year's figure by 31.3%. Despite the decline in revenue, continued cost discipline meant that the company achieved EBIT of EUR 7.5 million (previous year: EUR 19.2 million). The EBIT margin shrank from 13.7% to 7.8%.

ROCE reached 9.0%, which was below the target figure.

There was a deterioration in capital tied up in working capital over the past year. It reached a figure of EUR 20.5 million by the end of the reporting period. Lower and delayed advance payments in the Solar segment was an important contributing factor here. The lower revenue drove the net working capital ratio up from 12.2% to 21.3%.

At EUR 102.2 million, incoming orders during the reporting period were 10.3% lower than in the previous year (EUR 114.0 million). Orders on hand of EUR 38.3 million at the end of the year were EUR 6.0 million higher than in the previous year. This increase is primarily attributable to a major order in the Solar segment.

2021 financial year

LPKF does not expect COVID-19 to have a lasting impact on the global economy. However, it is likely that more infectious viral mutations will continue to have a negative effect on economic performance over the current financial year as well. On the whole, the Management Board anticipates moderate overall economic growth in 2021.

Provided that the global economy remains stable, LPKF is expecting an increase in revenue and earnings in all segments in the current financial year. In addition, there will be increased growth impetus from LIDE technology. The level of uncertainty surrounding the pandemic means that a quantitative forecast is only possible with limited reliability at present.

The company is expecting a reduction in working capital and stable development of the error rate compared with 2020. 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 2020, 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. In June 2020, Jörg Bantleon informed the company that the proportion of voting rights assigned to the shares that he holds directly and indirectly in LPKF AG had fallen to 0% on 28 May 2020.

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, Article 7 of the company's Articles of Incorporation governs the Management Board's composition as follows: The Management Board shall comprise at least two 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-à-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 November 2020, LPKF bought back a total of 12,775 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 31 May 2018, the Management Board is authorized to increase the share capital once or repeatedly until 30 May 2023 with the approval of the Supervisory Board by up to a total of EUR 5,567,397.00 by issuing up to 5,567,397 new no-par value bearer shares in return for contributions in cash or in kind (Authorized Capital 2018). 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 partially utilized in August 2018 by way of a capital increase through issuing 2,226,958 new no-par value shares from Authorized Capital 2018 in exchange for contributions in cash and excluding shareholders' pre-emption rights; the share capital was increased by EUR 2,226,958.00. Authorized Capital 2018 is still EUR 3,340,439.00 and the capital limit on excluding shareholders' pre-emption rights is fully used up for all existing authorizations. This authorization was not utilized in the past financial year.

The company's share capital is contingently increased by up to EUR 5,567,397.00 through issuing up to 5,567,397 new no-par value bearer shares (Contingent Capital 2018/I) in connection with the authorization resolved by the Annual General Meeting on 31 May 2018 to issue warrant bonds and / or convertible bonds up to 30 May 2023 with a total nominal value of up to EUR 80,000,000.00, 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

The financing agreements with the core banks of the LPKF Group used to contain a change-of-control clause that induced a right to terminate credit facilities upon the withdrawal or significant reduction in the shareholding of German Technology AG and any parties affiliated with it. In this context, LPKF is currently negotiating a new agreement to replace the existing credit arrangements for the current account lines not utilized as of the reporting date with a new financing structure and to tailor it to LPKF's medium-term growth.

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

The Management Board consists of a Chairman of the Management Board (CEO) and a Chief Financial Officer (CFO). Dr. Goetz M. Bendele was appointed as Chairman of the Management Board on 1 May 2018. Christian Witt was appointed as the Management Board member with responsibility for finance on 1 September 2018. In both cases, the contracts are for three years.

On 10 March 2021, Dr. Goetz M. Bendele, CEO of LPKF Laser & Electronics AG, informed the Chairman of the Supervisory Board that he does not wish to extend his contract, which runs until 30 April 2021. Dr. Bendele will leave the company at the end of April 2021. As a result, in accordance with the plan's terms and conditions, this Management Board member no longer has the right to receive payments for the 2019 and 2020 tranches of the LTI program.

BASIC FEATURES OF THE REMUNERATION SYSTEM

The Supervisory Board of LPKF AG adopted a resolution regarding the current remuneration system for Management Board members on 20 March 2018. The remuneration system aims to align the interests of the shareholders and those of the Management Board more closely. This means that the Management Board's remuneration is closely linked to an increase in the company's value. In addition, the system is oriented toward return on investment, cash flow and long-term value increase. It combines profitability, liquidity and sustainable growth targets and is geared toward capital market requirements.

Criteria for the appropriateness of Management Board remuneration include the responsibilities of the respective Management Board members; personal performance; the economic situation, success, future prospects and sustainable development of the company; and the customary level of remuneration under consideration of the level of executive remuneration at peer companies and the remuneration structure in place in other parts of the company. The relationship between the remuneration of the Management Board and that of senior management and the workforce overall is taken into account also in terms of its development over time, whereby the Supervisory Board determines how senior managers and the workforce are to be defined for the purposes of comparison. The remuneration of the Management Board is based on performance and calculated such that it is both appropriate and competitive, offering a strong incentive for committed and successful work.

The remuneration structure 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). As stipulated in the German Stock Corporation Act and the Corporate Governance Code, the higher proportion of the remuneration is allotted to variable remuneration components, which have a predominantly perennial assessment base.

NON-PERFORMANCE-BASED COMPONENTS

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, health and care insurance contributions and, for Management Board member Christian Witt, a contractually agreed contribution toward trips home.

PERFORMANCE-BASED COMPONENTS

The variable remuneration components comprise both long-term incentives (LTI) and short-term incentives (STI) with a clawback.

The remuneration component LTI Options is designed as a long-term incentive and the remuneration components STI 1 ROCE and STI 2 Cash flow are designed as relevant short-term incentives (STI). The variable remuneration components are based on different performance indicators, which recognize a swift reorientation of the company and, at the same time, reward sustainable value creation in particular. The LTI, STI 1 and STI 2 remuneration components are based on ambitious targets, the achievement of which is the deciding factor for the amount of the remuneration component in question.

SHORT-TERM INCENTIVES (STI)

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 for the previous year will be reassessed in light of the negative ROCE and / or cash flow. Any overpayments will be repaid by the Management Board members. In addition, extraordinary developments are not 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.

LONG-TERM INCENTIVES (LTI)

A long-term bonus plan has been created as LTI (Options) and is a value-oriented performance target. Details are given in the plan's terms and conditions, which are part of the contractual arrangements with the Management Board members. Decisive factors for the amount of LTI are the development of the LPKF Group's value added and share price performance. LTI is therefore directly tied to the achievement of profitable growth and to a long-term increase in company value.

In detail, LTI is designed as follows: 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 originally allocated phantom stocks 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 payout is capped at four times the allotment value; this is the maximum shown in the benefits table. Advance payments are not available.

The benefits for the 2020 reporting year are presented in the table below, alongside the minimum and maximum amounts that can be reached. The allotment value is stated for LTI options.

BENEFIT AMOUNTS IN THE REPORTING YEAR

BENEFITS GRANTED (PLANNED)

	Dr. Goetz M. Bendele CEO since 1 May 2018				Christian Witt CFO since 1 September 2018				Total
in EUR thousand	2019	**2020**	(Min)	(Max)	2019	**2020**	(Min)	(Max)	**2020**
Fixed remuneration	240	240	240	240	200	200	200	200	440
Incidental benefits	13	13	13	13	24	20	20	20	33
Total	253	**253**	253	253	224	**220**	220	220	**473**
Multi-year variable remuneration*									
STI 1 ROCE (2 years)	50	50	0	150	50	50	0	150	100
STI 2 Cash flow (2 years)	50	50	0	130	50	50	0	130	100
LTI Options 2019 (3 years)	75	n / a	n / a	n / a	65	n / a	n / a	n / a	
Number of phantom stocks (units)	11,111	n / a	n / a	n / a	9,630	n / a	n / a	n / a	
LTI Options 2020 (3 years)	n / a	75	0	300	n / a	65	0	260	140
Number of phantom stocks (units)	n / a	3,910	0	7,820	n / a	3,389	0	6,778	7,299
Other									
Total	175	**175**	0	580	165	**165**	0	540	**340**
Cost of benefits	0	0	0	0	0	0	0	0	0
Total remuneration	428	**428**	253	833	389	**385**	220	760	**813**

* In the 2019 remuneration report, benefits were stated for STI 1 and STI 2 based on corporate planning figures. The contractually agreed target values are now stated.

As Dr. Goetz M. Bendele's contract ends on 30 April 2021, he no longer has the right to receive payments for the 2019 and 2020 tranches of the LTI program in accordance with the plan's terms and conditions.

BENEFITS RECEIVED FOR THE REPORTING YEAR

In compliance with the recommendations of the German Corporate Governance Code (GCGC), the benefits received for the reporting year are stated in the tables below.

BENEFITS RECEIVED (ACTUAL)

	Dr. Goetz M. Bendele CEO since 1 May 2018		**Christian Witt** CFO since 1 September 2018		Total
in EUR thousand	2019	**2020**	2019	**2020**	**2020**
Fixed remuneration	240	240	200	200	440
Incidental benefits	13	13	24	20	33
Total	253	**253**	**224**	**220**	**473**
Multi-year variable remuneration					
STI 1 ROCE	0	110	0	110	220
STI 2 Cash flow	0	130	0	130	260
LTI Options 2018 (3 years)	0	0	0	0	0
LTI Options 2019 (3 years)	0	0	0	0	0
LTI Options 2020 (3 years)	0	0	0	0	0
Other					
Total	0	**240**	**0**	**240**	**480**
Cost of benefits	0	0	0	0	0
Total remuneration as per GCGC (benefits received)	253	**493**	**224**	**460**	**953**

The members of the Management Board received total remuneration of EUR 953 thousand in the 2020 financial year (2019: EUR 477 thousand). EUR 473 thousand of this was attributed to fixed remuneration components, including incidental benefits that were fully paid out in the 2020 reporting year. A total of EUR 480 thousand (2019: EUR 0 thousand) is attributable to the variable remuneration components that accrued to the members of the Management Board for tax purposes in the 2020 financial year. Having regard to the contractual clawback clause, the amount of STI 2 was measured in consideration of the negative free cash flow for 2020. However, the cap of 21% was still exceeded even taking into consideration the negative cash flow, which means that there was no obligation to return payments.

COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD UPON DEPARTURE

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 2020 financial year.

TOTAL REMUNERATION OF FORMER MEMBERS OF THE MANAGEMENT BOARD

Provisions were recognized for EUR 651 thousand (previous year: EUR 617 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 2020.

REMUNERATION OF THE SUPERVISORY BOARD

Each member of the Supervisory Board receives fixed basic remuneration for each full financial year of membership on the Supervisory Board, which is specified by resolution of the Annual General Meeting and is payable after the end of the financial year. If the appointment period does not correspond to a financial year, the remuneration is payable pro rata temporis. The Chairman of the Supervisory Board receives double and the Deputy Chairman receives one-and-a-half times the amount of the fixed basic remuneration. By resolution of the Annual General Meeting on 2 June 2016, the fixed basic remuneration of each member of the Supervisory Board was set at EUR 32 thousand effective from 1 January 2017. A variable remuneration component is not available for the Supervisory Board.

The remuneration of the Supervisory Board is as follows:

in EUR thousand	**2020**	2019
Jean-Michel Richard (Supervisory Board as at 31 December 2020)	6	0
Dr. Dirk Rothweiler (Supervisory Board as at 31 December 2020)	48	41
Prof. Dr.-Ing. Ludger Overmeyer (Supervisory Board as at 31 December 2020)	32	18
Prof. Dr.-Ing. Erich Barke (former Supervisory Board members)	0	21
Dr. Markus Peters (former Supervisory Board members)	**56**	64
Total	**142**	144

SUPERVISORY BOARD MEMBERS

Jean-Michel Richard
(Member from 25 November 2020 and Chairman from 1 December 2020)
- Founder and independent senior advisor at Fisadis Consulting Ltd, Rushall, UK

Dr. Dirk Rothweiler
(Deputy Chairman from 6 June 2019)
- Independent management consultant, Weimar, Germany

Prof. Dr.-Ing. Ludger Overmeyer
- 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)

Dr. Markus Peters
(Member and Chairman up to 13 November 2020)
- Former Head of Finance and Investment of German Technology AG, Hanover, Germany (up to 30 June 2020)
- Former member of the Board of Directors of LPKF Distribution Inc., Portland, US (up to 23 November 2020)

FINAL DECLARATION BY THE MANAGEMENT BOARD CONCERNING THE REPORT ON RELATIONS WITH AFFILIATED COMPANIES AS PER SECTION 312 OF THE GERMAN STOCK CORPORATION ACT

We hereby declare that LPKF AG received an appropriate payment for each of the legal transactions listed in the report on its relations with affiliated companies according to the circumstances that were known to us at the time the legal transactions were performed. Other measures subject to mandatory disclosure have neither been taken nor omitted.

Garbsen, 16 March 2021

DR. GOETZ M. BENDELE
CHRISTIAN WITT

CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS

FOR THE LPKF GR OUP AND LPKF AG

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FROM 1 JANUARY TO 31 DECEMBER 2020

in EUR thousand	Note	**2020**	2019
Revenue	1	96,235	140,034
Changes in inventory		171	−803
Other own work capitalized	2	5,272	4,336
Other income	3	3,697	4,022
Cost of materials	4	−31,997	−54,209
Staff costs	5	−41,468	−44,747
Depreciation, amortization and write-downs	6	−7,306	−7,697
Impairment expenses (including reversals) on financial assets and contract assets	30	83	25
Other expenses	7	−17,149	−21,715
Operating result (EBIT)	8	**7,538**	19,246
Finance income	9	57	22
Finance costs	9	−290	−518
Earnings before taxes		**7,305**	18,750
Income taxes	10	−1,963	−5,601
Period result		**5,342**	13,149
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluations of defined benefit plans		−38	−55
Ttax effects		12	13
Items that should be reclassified to profit or loss:			
Currency translation differences		−792	−1
Other comprehensive income after taxes		−818	−43
Total comprehensive income		**4,524**	13,106
Earnings per share (basic)	26	EUR 0.22	EUR 0.54
Earnings per share (diluted)	26	EUR 0.22	EUR 0.54

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2020

ASSETS

in EUR thousand	Note	**12/31/2020**	12/31/2019
ASSETS			
Intangible assets and property, plant and equipment	11	17,340	15,930
Property, plant and equipment	12	45,986	44,717
Trade receivables	14	262	290
Other non-financial assets	16	32	55
Deferred tax assets	18	2,627	3,160
Non-current assets		**66,247**	**64,152**
Inventories	13	19,845	19,153
Trade receivables	14	12,937	11,035
Income tax receivables		98	260
Other financial assets	15	33	575
Other non-financial assets	16	2,421	1,494
Cash and cash equivalents	17	20,074	31,343
Current assets		**55,408**	63,860
Total		**121,655**	128,012

EQUITY AND LIABILITIES

in EUR thousand	Note	**12/31/2020**	12/31/2019
EQUITY			
Subscribed capital		24,497	24,497
Capital reserve		15,463	15,463
Other reserves		10,166	10,984
Net retained profits		42,786	39,893
Equity	19	**92,912**	90,837
LIABILITIES			
Provisions for pensions and similar obligations	21	358	346
Other financial liabilities	23	4,434	6,932
Deferred income	20	492	533
Contract liabilities	1	215	87
Trade payables		0	4
Other provisions	22	339	0
Deferred tax liabilities	18	1,101	1,028
NON-CURRENT LIABILITIES		**6,939**	8,930
Tax liabilities		0	398
Other provisions	22	2,506	5,396
Other financial liabilities	23	2,508	1,966
Trade payables		7,629	5,612
Contract liabilities	1	4,733	9,958
Other non-financial liabilities	24	4,428	4,915
Current liabilities		**21,804**	28,245
Liabilities		**28,743**	37,175
Total		**121,655**	128,012

CONSOLIDATED STATEMENT OF CASH FLOWS
FROM 1 JANUARY TO 31 DECEMBER 2020

in EUR thousand	Note	**2020**	2019
Cash flow from operating activities			
Period result		5,342	13,149
Adjustments:			
Tax expenses		1,963	5,601
Financial expenses		290	518
Financial income		−57	−22
Depreciation/amortization of non-current assets		7,306	7,697
Gains / losses on the disposal of property, plant and equipment		67	21
Impairment losses / reversals		905	732
Other non-cash expenses and income		−296	−134
Changes:			
Inventories		−2,003	6,057
Trade receivables		−1,468	19,190
Other assets		−363	1,559
Provisions		−2,539	594
Trade payables		2,013	−1,260
Other liabilities		−5,625	−2,906
Other:			
Income from interest		24	22
Income taxes paid / received		−1,563	−2,777
Cash flow from operating activities		**3,966**	48,041
Cash flow from investing activities			
Investments in intangible assets		−4,758	−4,027
Investments in property, plant and equipment		−4,767	−1,770
Revenue from the disposal of assets		13	6
Cash flow from investing activities		**−9,512**	−5,791

in EUR thousand	Note	**2020**	2019
Cash flow from financing activities			
Investments in intangible assets		−2,449	0
Interest paid		−254	−478
Proceeds from disposal of non-current assets		−735	−816
Payments for repaying loans		−1,966	−13,235
Cash flow from financing activities		**−5,404**	−14,529
Change in cash and cash equivalents			
Increase (decrease) in cash and cash equivalents		**−10,950**	27,721
Cash and cash equivalents as of 1 January		31,341	3,707
Effects of exchange rate changes on cash and cash equivalents		−317	−87
Cash and cash equivalents as of 31 December	**25**	**20,074**	31,341

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FROM 1 JANUARY TO 31 DECEMBER 2020

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**

in EUR thousand	Subscribed capital	Capital reserve	Other retained earnings
As of 01/01/2019	**24,497**	**15,463**	**10,529**
Earnings after tax			
Other comprehensive income after taxes			
Total comprehensive income	**0**	**0**	**0**
Transactions with shareholders			
As of 12/31/2019	**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**
−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**

Other reserves				
Revaluations of defined benefit plans	Share-based payment reserve	Foreign currency translation reserve	Net retained profits	**Total equity**
−293	**490**	**301**	**26,744**	**77,731**
			13,149	13,149
−42		−1		−43
−42	**0**	**−1**	**13,149**	**13,106**
−335	**490**	**300**	**39,893**	**90,837**

CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS

FOR THE LPKF GR OUP AND LPKF AG

Ultra-precise structuring with LPKF laser systems makes it possible to significantly increase the efficiency of solar modules.

CONSOLIDATED NOTES
2020 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 16 March 2021.

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 2020, the Group reported consolidated net profit of EUR 5,342 thousand. The Group recorded net working capital of EUR 20,467 thousand as of 31 December 2020. At the time of publication of these financial statements, the Group had cash and cash equivalents of EUR 20.1 million. In addition, as of 31 December 2020, 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 and sufficient headroom with regard to its credit facilities.

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 2020 financial year. They have no material effects on the consolidated financial statements.

First-time application	New or amended standards and interpretations
1 January 2020	Amendments to References to the Conceptual Framework in IFRS Standards
1 January 2020	Amendments to IAS 1 and the IAS 8 Definition of Material
1 January 2020	Amendments to the IFRS 3 Definition of a Business
1 January 2020	Reform of reference interest rates (amendments to IFRS 9, IAS 39 and IFRS 7)

The following standards that were amended, revised or issued prior to the reporting date were not yet applied in the 2020 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 June 2020	COVID-19 Related Rent Concessions (Amendments 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)
1 January 2022	Onerous Contracts – Costs of Fulfilling the Contract (amendments to IAS 37)
1 January 2022	Annual improvements to the IFRS Standards 2018 –2020
1 January 2022	Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)
1 January 2022	Reference to the Conceptual Framework (Amendments to IFRS 3)
1 January 2023	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
1 January 2023	IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts
Still open	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 2020, 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 2020 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 2020 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 rat	
	12/31/2020	12/31/2019	**2020**	2019
US dollar	USD 1.2271	USD 1.1234	USD 1.1413	USD 1.1196
Chinese renminbi yuan	CNY 8.0225	CNY 7.8205	CNY 7.8708	CNY 7.7339
Hong Kong dollar	HKD 9.5142	HKD 8.7473	HKD 8.8517	HKD 8.7558
Japanese yen	JPY 126.49	JPY 121.94	JPY 121.78	JPY 122.06
South Korean won	KRW 1,336.00	KRW 1,296.28	KRW 1,345.11	KRW 1,304.90

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 launched for the first time in 2012. 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. 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 electronics developers.
- 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 EUR million		Electronics	Development	Welding	Solar	**Total**
Revenue (before consolidation)	2020	31.7	25.2	17.7	24.3	**98.9**
	2019	43.7	27.5	27.7	44.1	**143.0**
External revenue	2020	31.7	22.5	17.7	24.3	**96.2**
	2019	43.7	24.5	27.7	44.1	**140.0**
Operating result (EBIT)	2020	3.4	2.9	−2.8	4.0	**7.5**
	2019	7.4	2.9	1.1	7.8	**19.2**
Investments	2020	6.0	1.7	0.4	2.1	**10.2**
	2019	2.6	1.4	0.9	1.8	**6.7**
Depreciation and amortization (non-current assets)*	2020	−1.8	−1.2	−1.7	−0.8	**−5.5**
	2019	−1.9	−1.0	−2.0	−0.8	**−5.7**
Write-downs (inventories)	2020	−0.8	−0.3	−0.1	−0.1	**−1.3**
	2019	−0.3	−0.1	−0.1	0.0	**−0.5**

* only direct allocated amortization

EUR 1.8 million (previous year: EUR 2.0 million) relates to depreciation not directly attributable to the segments. Total depreciation of the Group’s fixed assets amounted to EUR 7.3 million (previous year: EUR 7.7 million).

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

In the 2020 financial year, revenue of EUR 21 million was generated in the Solar segment from a single customer. In the previous year, revenue of EUR 41 million in the Solar segment and EUR 28 million in the Electronics and Welding segments was generated from two individual customers.

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

GEOGRAPHICAL SEGMENTS

Reporting reflects the main geographical regions in which the Group operates.

	External revenue				Assets		Non-current assets thereof	
	2020		2019		**2020**	2019	**2020**	2019
	in EUR million	in %	in EUR million	in %	in EUR million		in EUR million	
Germany	8.6	8.9%	9.7	6.9%	96.7	103.4	58.3	55.7
Irland	2.8	2.9%	18.1	12.9%	0.0	0.0	0.0	0.0
Rest of Europe	9.4	9.8%	11.1	7.9%	5.7	6.0	4.4	4.2
USA	18.8	19.5%	37.2	26.7%	8.6	7.5	1.8	2.1
Rest of North America	0.2	0.2%	0.3	0.2%	0.0	0.0	0.0	0.0
China	23.2	24.1%	25.8	18.4%	7.8	9.0	1.4	1.6
Malaysia	17.4	18.1%	7.5	5.4%	0.0	0.0	0.0	0.0
Vietnam	5.5	5.7%	13.9	9.9%	0.0	0.0	0.0	0.0
Rest of Asia	9.4	9.8%	13.6	9.7%	2.9	2.1	0.4	0.5
Other	0.9	0.9%	2.8	2.0%	0.0	0.0	0.0	0.0
Other	**96.2**	**100.0%**	140.0	**100.0%**	**121.7**	128.0	**66.2**	64.1

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.

in EUR million		Electronics	Development	Welding	Solar	**Total**
External revenue (total)	2020	31.7	22.5	17.7	24.3	**96.2**
	2019	43.7	24.5	27.7	44.1	**140.0**
Time point of revenue recognition						
Equipment and systems (at a specific time)	2020	29.8	22.0	17.7	23.8	**93.3**
	2019	42.5	24.3	27.7	44.1	**138.6**
Service contracts (over time)	2020	1.9	0.5	0.0	0.5	**2.9**
	2019	1.2	0.2	0.0	0.1	**1.5**

Contract balances

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

in EUR million	**12/31/2020**	12/31/2019
Contract assets	0	0
Contract liabilities (by term)	4.9	10.0
Breakdown by maturity:		
Current	4.7	9.9
Non-current	0.2	0.1
Breakdown by type:		
Revenue recognized over time from service contracts	1.9	2.4
Services rendered at a specific point in time (advance payments received)	3.0	7.6

Contract assets arise from claims for consideration on services rendered. There were no contract assets in the 2020 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 9.9 million included in contract liabilities as of 31 December 2019 was recognized as revenue in the 2020 financial year (previous year: EUR 12.6 million). In the 2020 reporting period, there was no recognized revenue from performance obligations that were settled or partially settled in prior periods.

During the 2020 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 decrease of EUR 5,096 thousand in contract liabilities compared with the previous year is mainly due to lower 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.

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 215 thousand (previous year: EUR 87 thousand) and corresponds to contract liabilities with an identical duration. The revenue for these will be recognized between 2021 and 2023.

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 5,272 thousand (previous year: EUR 4,336 thousand). This comprised own work for technical equipment and machinery used by Group companies for production as well as prototype development projects capitalized during 2020, 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	**2020**	2019
Income from the reversal of provisions	1,263	644
Income from currency translation differences	668	816
Research and development grants	425	503
Income from the reversal of loss allowances	77	129
Reversal of deferred item income from grants	41	45
Income from insurance payments	19	31
Income from asset disposals	13	6
Other	1,191	1,848
Total	**3,697**	**4,022**

Income from the reversal of provisions consists mainly of the reversal of provisions for guarantees and warranties of EUR 508 thousand (previous year: EUR 307 thousand) and from the successful settlement of a legal dispute from previous years (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 41 thousand (previous year: EUR 45 thousand).

In response to the COVID-19 pandemic, 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 455 thousand in 2020. The Slovenian and Chinese subsidiaries also received a total of EUR 351 thousand as reimbursement in connection with social security contributions. In addition, there were further government grants in connection with the COVID-19 pandemic amounting to EUR 43 thousand in China and EUR 16 thousand in Slovenia. All the aforementioned grants are included under total miscellaneous other operating income of EUR 1,191 thousand.

4. COST OF MATERIALS

in EUR thousand	**2020**	2019
Cost of (system) parts and purchased goods	–28,097	–52,291
Cost of purchased services	–2,589	–1,417
Write-downs on inventories	–1,311	–501
Total	**–31,997**	**–54,209**

5. STAFF COSTS AND EMPLOYEES

in EUR thousand	**2020**	2019
Wages and salaries		
Expenses for wages	–33,907	–36,927
Other	–998	–1,255
	–34,905	–38,182
Social security costs and pension costs		
Employer's contribution to social security	–6,168	–6,086
Pension costs	–210	–275
Employer's liability insurance association	–185	–204
	–6,563	–6,565
Total	**–41,468**	–44,747

At its German locations, the LPKF Group made flexible use of short-time working. This reduced staff costs by EUR 1,475 thousand. There were ongoing pension payments of EUR 17 thousand (previous year: EUR 17 thousand) arising from pension obligations in the 2020 financial year (also see note 21).

The workforce is distributed as follows:

	As of reporting date		Annual average	
in EUR thousand	**12/31/2020**	12/31/2019	**2020**	**2019**
Production	162	171	164	167
Sales	132	124	131	126
Development	148	143	147	139
Service	98	100	99	101
Administration	149	144	147	142
Total	**689**	**682**	**688**	**675**

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 INFORMATION

in EUR thousand	**2020**	2019
Repairs, maintenance, operating materials	−1,953	−1,862
Third-party work, temporary work costs	−1,386	−2,361
Advertising and sales expenses	−1,623	−1,840
Consumables, development and purchased development services	−1,422	−1,281
Travel, meals/entertainment	−1,375	−3,307
Rent, ancillary rental costs, leases, land and building costs	−1,303	−1,172
Legal and consulting expenses	−1,263	−1,675
Exchange rate losses	−1,273	−911
Insurance, contributions, duties	−1,002	−962
Sales commissions	−914	−566
Investor relations	−557	−544
Telecommunications costs	−518	−529
Vehicle costs	−472	−714
Voluntary benefits, training and further education	−283	−455
Trade fair costs	−250	−479
Financial statement preparation, publication and auditing costs	−226	−257
Bank charges	−193	−259
Expenses for warranties	−160	−297
Supervisory Board remuneration incl. reimbursement of expenses	−147	−145
Office supplies	−138	−167
Addition to loss allowance on receivables and losses on receivables	−55	−446
Other	−636	−1,486
Total	**−17,149**	−21,715

Expenses for R&D / effect on income statement

in EUR thousand	**2020**	2019
Materials and other costs	3,019	3,564
Other costs (including staff costs and D&A)	7,986	9,010
Total expenses for R&D	**11,005**	12,574

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	**2020**	2019
Finance income		
Other interest and similar income	57	22
Finance costs		
Interest and similar expenses	−290	−518
	−233	**−496**

Other interest and similar income arose from overnight and time deposits totaling EUR 24 thousand (previous year: EUR 22 thousand) and from the fair value measurement of derivatives of EUR 33 thousand (previous year: EUR 0 thousand). Other interest expense of EUR 254 thousand (previous year: EUR 466 thousand) was incurred in connection with long-term loans and short-term money market loans. In addition, interest expenses of EUR 36 thousand (previous year: EUR 40 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	**2020**	2019
Corporate income tax and solidarity surcharge	−751	−2,284
Trade tax	−117	−584
	−868	−2,868
of which related to prior period	94	−13
Deferred taxes	−1,095	−2,733
	−1,963	−5,601

Other comprehensive income includes tax income from the remeasurement of defined benefit plans in the amount of EUR 12 thousand (previous year: EUR 13 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 33.6% for deferred taxes (previous year: 11.0% to 33.8%) and 11.0% to 33.6% for current taxes (previous year: 11.0% to 33.8%).

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	**2020**	2019
Consolidated profit / loss before income taxes	7,305	18,751
Anticipated tax expense 31.5% (previous year: 30.8%)	−2,301	−5,775
Effect of different tax rates	288	413
Effect from prevoiusly unrecognized deferred tax assets	111	−42
Effects of legal tax rate changes	−23	0
Tax-free income	82	23
Trade tax additions and deductions	3	−4
Tax effect of non-deductible operating expenses	−233	−257
Prior-period tax effects	94	13
Other differences	16	28
Effective tax expense 26.9% (previous year: 29.9%)	**−1,963**	**−5,601**

The tax rate applied for the reconciliation presented above corresponds to the corporate tax rate of 31.5% (previous year: 30.8%) 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 30 thousand (previous year: EUR 131 thousand) and from the opposite effects as a result of the use of previously unrecognized tax losses and temporary differences of EUR −81 thousand (previous year: EUR 89 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 01/01/2019	**74**	**43,097**	**11,479**	**54,650**
Additions	0	3,962	65	4,027
Disposals	0	−976	−217	−1,193
Reclassification	0	0	0	0
Currency differences	0	0	0	0
As of 12/31/2019	**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**
Accumulated depreciation				
As of 01/01/2019	**0**	**−29,322**	**−10,118**	**−39,440**
Additions	0	−2,896	−411	−3,307
Disposals	0	976	217	1,193
Reclassification	0	0	0	0
Currency differences	0	0	0	0
As of 12/31/2019	**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**
Carrying amount as of 12/31/2019	**74**	**14,841**	**1,015**	**15,930**
Carrying amount as of 12/31/2020	**74**	**16,533**	**733**	**17,340**

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 2020, 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	**2020**	2019
Electronics	6,499	5,792
Development	3,028	2,518
Welding	2,365	2,854
Solar	4,641	3,677
Total	**16,533**	**14,841**

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	Grundstücke und Gebäude	Technical equipment	Other equipment, operating and office equipment	PPE in con- struction	Right-of-use assets	**Total**
Acquisition and production costs						
As of 01/01/2019	**50,170**	**12,488**	**14,287**	**0**	**1,938**	**78,883**
Additions	164	593	474	539	924	2,694
Disposals	−160	−464	−571	0	−40	−1,235
Reclassification	0	23	−23	0	0	0
Currency differences	37	−7	4	0	0	34
As of 12/31/2019	**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**
Accumulated depreciation						
As of 01/01/2019	**−12,401**	**−9,019**	**−11,203**	**0**	**0**	**−32,623**
Additions	−1,358	−1,343	−976	0	−712	−4,389
Disposals	305	548	473	0	40	1,366
Reclassification	0	0	0	0	0	0
Currency differences	−1	−12	−1	0	0	−14
As of 12/31/2019	**−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**
Carrying amount as of 12/31/2019	36,756	2,807	2,464	539	2,150	**44,716**
Carrying amount as of 12/31/2020	37,073	2,455	3,732	481	2,245	**45,986**

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.

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:

	Jahre
Buildings	33 bzw. 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 4,846 thousand (previous year: EUR 6,660 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	**2020**	2019
Write-downs of right-of-use assets	−614	−712
of which for property leases	−270	−264
of which for movable asset leases	−344	−448
Additions to right-of-use assets	709	924
of which for property leases	182	427
of which for movable asset leases	527	497
Carrying amounts of right-of-use assets on 12/31	2,245	2,150
of which for property leases	1,251	1,339
of which for movable asset leases	995	811
Expenses for short-term leases	−3	0
Expenses for leasing low-value assets	−56	−83
Interest expense on lease liabilities	−36	−40
Total cash outflow for leases	−735	−816

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	**2020**	2019
Raw, auxiliary and operating materials	7,701	6,984
Unfinished products and services	4,965	5,236
Finished products and goods	7,101	6,794
Advance payments	78	139
Total	**19,845**	**19,153**

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 1,311 thousand (previous year: EUR 501 thousand).

14. TRADE RECEIVABLES

in EUR thousand	**2020**	2019
Nominal amount of receivables	13,339	11,955
+ / – Loss allowances for non-credit-impaired receivables	−12	−95
+ / – Loss allowances for credit-impaired receivables	−128	−534
Receivables after loss allowances, discounts and currency losses	**13,199**	11,326
of which receivables with a remaining term of more than one year	262	290
of which receivables with a remaining term of less than one year	12,937	11,035

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 2020 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 TEUR	**2020**	2019
Derivatives – without hedge accounting	33	0
Investment products	0	575
Total	**33**	575

Derivatives and – in the previous year – investment products are measured at fair value through profit or loss.

16. OTHER NON FINANCIAL ASSETS

in EUR thousand	**2020**	2019
Net assets for defined benefit plans	12	34
Other	20	21
Non-current other non-financial assets	32	55
Input tax receivables	1,632	809
Deferred income	395	412
Contract assets	27	24
Other	367	249
Current other non-financial assets	**2,421**	1,494

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	**2020**	2019
Cash and cash equivalents on the statement of financial position	20,074	31,343
Overdraft facilities used for cash management	0	−2
Cash and cash equivalents shown in the statement of cash flows	**20,074**	31,341

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	**2020**	2019
Tax loss carryforwards	5,233	4,982
Intangible assets	102	132
Property, plant and equipment	463	453
Trade receivables	18	43
Provisions	706	764
Elimination of intercompany profits and other deductible temporary differences	332	545
Other liabilities	113	121
Other	82	45
Offsetting with deferred tax liabilities	−4,422	−3,925
Total	**2,627**	3,160

DEFERRED TAX LIABILITIES

in EUR thousand	**2020**	2019
Capitalized development costs	5,017	4,428
Property, plant and equipment	379	407
Trade receivables	84	101
Other	43	17
Offsetting with deferred tax assets	−4,422	−3,925
Total	**1,101**	1,028

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 3,181 thousand (previous year: EUR 3,350 thousand) in deferred tax assets and EUR 1,284 thousand (previous year: EUR 958 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 251 thousand (previous year: EUR 0 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 3,274 thousand (previous year: EUR 3,821 thousand). Of these tax losses carried forward, EUR 1,255 thousand (previous year: EUR 967 thousand) will expire within the next five years and EUR 2,020 thousand (previous year: EUR 1,891 thousand) will expire within the next six to ten years.

No deferred tax liabilities were recognized on temporary differences of EUR 1,045 thousand (previous year: EUR 1,051 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.

Authorized capital
By the resolution adopted by the Annual General Meeting on 31 May 2018, the Management Board is authorized to increase the share capital once or repeatedly until 30 May 2023 with the approval of the Supervisory Board by up to a total of EUR 5,567,397.00 by issuing up to 5,567,397 new no-par value bearer shares in return for contributions in cash or in kind (Authorized Capital 2018). 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 partially utilized in August 2018 by way of a capital increase through issuing 2,226,958 new no-par value shares from Authorized Capital 2018 in exchange for contributions in cash and excluding shareholders' pre-emption rights; the share capital was increased by EUR 2,226,958.00. Authorized Capital 2018 is still EUR 3,340,439.00 and the capital limit on excluding shareholders' pre-emption rights is fully used up for all existing authorizations. This authorization was not utilized in the past financial year.

The company's share capital is contingently increased by up to EUR 5,567,397.00 through issuing up to 5,567,397 new no-par value bearer shares (Contingent Capital 2018 / I) in connection with the authorization resolved by the Annual General Meeting on 31 May 2018 to issue warrant bonds and / or convertible bonds up to 30 May 2023 with a total nominal value of up to EUR 80,000,000.00, 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.

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.

2019 employee participation program
From 10 to 12 December 2019, LPKF AG bought back on the capital market a total of 10,266 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 16.7151 per share. The total amount came to EUR 171,596.76. The shares have a two-year lock-up period.

LPKF AG created an incentive to participate in the employee participation program by fully subsidizing employee payments up to a maximum amount of EUR 360.00 per employee. The resulting expense of EUR 173 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	**2020**	2019
Present value of the defined benefit obligation at beginning of period	**812**	719
Current service cost	0	0
Interest expense	7	12
Pension payments	−17	−17
Actuarial gains (-) and losses (+)	51	98
Present value of the defined benefit obligation at end of period	**853**	812
Plan assets		
Reinsurance cover	−427	−414
Securities	−438	−432
Deficit (net liability (+)) / excess (net asset (−)) shown in the statement of financial position	**−12**	−34

Development of net liabilities / assets:

in EUR thousand	**2020**	2019
Net assets at beginning of period	**34**	10
Total amount in the income statement	0	0
Total of the revaluations recognized in OCI	−38	7
Benefit payments	0	0
Employer contributions	16	17
Net assets at end of period	**12**	34

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	**2020**	2019
At beginning of period	**846**	729
Interest income from plan assets	7	12
Cost of / income on plan assets without interest income	12	105
Payments from plan assets	−17	−17
Funded by the employer	16	17
At end of period	**865**	846

The plan assets are made up as follows:

	2020		2019	
in EUR thousand	Absolute	Percentage	Absolute	Percentage
Equity instruments	0	0%	0	0%
Debt securities	438	51%	432	51%
Other	427	49%	414	49%
Total	**865**	**100%**	846	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	**2020**	2019
Interest income from plan assets	7	12
Interest expense on the obligation	–7	–12
Total effect on earnings in the income statement	**0**	0

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

in %	**2020**	2019
Discount rate as of 12/31	0.50	0.90
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	0.50	0.90
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 2021 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:

12/31/2020 in EUR thousand	Up to 1 year	Between 1 and 5 years	Between 5 and 10 years	**Total**
Pension benefits	17	91	154	**262**

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

Baseline values	
Discount rate	0.50%
Pension trend	1.75%
DBO	EUR 853,054

Sensitivities	Revalued DBO	Percentage change in the DBO
Discount rate plus 0.5%	EUR 788,687	−7.55%
Discount rate minus 0.5%	EUR 925,294	8.47%
Pension trend plus 0.25%	EUR 880,869	3.26%
Pension trend minus 0.25%	EUR 826,462	−3.12%

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 44 thousand are expected in the next five years.

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

in EUR thousand	**2020**	2019
Present value of the defined benefit obligation at beginning of period	**345**	267
Current service cost	23	18
Interest expense	3	6
Benefit payments	−6	−15
Employees left	−7	0
Benefit changes	0	0
Actuarial gains (−) and losses (+)	−1	69
Present value of the defined benefit obligation at end of period	**357**	345

The following amounts were recognized in the income statement:

in EUR thousand	**2020**	2019
Current service cost	23	18
Interest expense on the obligation	3	6
Total amount in the income statement	**26**	24

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

Baseline values	
Discount rate	1.09%
Salary trend	2.00%
DBO	EUR 357,817

Sensitivities	Revalued DBO	Percentage change in the DBO
Discount rate minus 0.5%	385,344 EUR	7.69%
Discount rate plus 0.5%	332,976 EUR	−6.94%
Salary trend minus 0.5%	333,126 EUR	−6.90%
Salary trend plus 0.5%	384,880 EUR	7.56%

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 12.

in EUR thousand	Guarantees and warranties	Bonuses	LTI	Other	Total
As of 01/01/2020	**1,624**	**1,411**	**291**	**2,070**	**5,396**
Utilization	−935	−1,348	0	−1,440	−3,723
Reversals	−508	−61	−75	−619	−1,263
Additions	766	939	417	313	2,435
Currency differences	−3	−2	0	5	0
As of 12/31/2020	**944**	**939**	**633**	**329**	**2,845**
Long-term	0	0	339	0	339
Short-term	944	939	294	329	2,506

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 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 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. Im Geschäftsjahr 2019 wurde keine Tranche für Führungskräfte ausgegeben.

LTI for executives: 2020 tranche

In 2020, the LTI program for key executives was largely aligned with the new program for Management Board members. 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.

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. The program for members of the Management Board is explained in detail in the remuneration report, which is part of the management report.

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 2020:

	LTI (executives)			
	Tranche 2016	Tranche 2017	Tranche 2018	Tranche 2020
Expected volatility	75%	75%	75%	75%
Risk-free interest rate	0.00% p.a.	0.00% p.a.	0.00% p.a.	0.00% p.a.
Allotment value	EUR 50 thousand	EUR 60 thousand	EUR 40 thousand	EUR 201 thousand
Expected remaining maturity	7 months	7 months	1 year and 7 months	2 years
LPKF share price as of 30 Dec. 2020	EUR 29.45	EUR 29.45	EUR 29.45	EUR 29.45
Initial price of LPKF shares	EUR 6.18	EUR 9.58	EUR 7.02	EUR 19.18
Number of phantom stocks at the allotment date	8,100	6,212	5,660	10,950

	LTI (members of the Management Board)		
	Tranche 2018	Tranche 2019	Tranche 2020
Expected volatility	75%	75%	75%
Risk-free interest rate	0.00% p.a.	0.00% p.a.	0.00% p.a.
Expected remaining maturity	EUR 72 thousand	EUR 140 thousand	EUR 140 thousand
LPKF share price as of 30 Dec. 2020	EUR 29.45	EUR 29.45	EUR 29.45
Initial price of LPKF shares	EUR 9.01	EUR 6.75	EUR 19.18
Number of phantom stocks at the allotment date	7,955	20,741	7,299

The 2018 tranches for executives and members of the Management Board are based on different programs with different parameters.

On 10 March 2021, Dr. Goetz M. Bendele, CEO of LPKF Laser & Electronics AG, informed the Chairman of the Supervisory Board that he does not wish to extend his contract, which runs until 30 April 2021. Dr. Bendele will leave the company at the end of April 2021. As a result, in accordance with the plan's terms and conditions, this Management Board member no longer has the right to receive payments for the 2019 and 2020 tranches of the LTI program. The provision of EUR 75 thousand recognized as of 31 December 2019 for the 2019 tranche was reversed in profit or loss in 2020.

LTI provision as of reporting date is:

in EUR thousand	12/31/2020	12/31/2019
LTI (executives)	361	71
LTI (members of the Management Board)	272	220
Total	**633**	**291**

The expenses and income from share-based payments recognized in the 2020 financial year amount to

in EUR thousand	2020	2019
Other income	75	0
Personnel expenses	–417	–273
Total	**–342**	**–273**

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.

in EUR thousand		**Total amount**	**of which current**	**of which current**	**Secured amounts**
Liabilities to banks	2020	4,846	1,816	3,030	4,846
	2019	6,812	1,966	4,846	6,660
Liabilities from finance leases	2020	2,096	692	1,404	
	2019	2,086	0	2,086	
Other financial liabilities	2020	6,942	2,508	4,434	
	2019	8,898	1,966	6,932	

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 2020. The overdraft facilities are secured by assignment of receivables and security assignment of inventories. The carrying amount of the inventories pledged as collateral as of the reporting date is EUR 11,328.

24. OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities of EUR 4,428 thousand (previous year: EUR 4,915 thousand) mainly include accrued liabilities of EUR 970 thousand (previous year: EUR 715 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 838 thousand (previous year: EUR 1,424 thousand) and from paid absences such as vacation and reduction of overtime in the amount of EUR 1,231 thousand (previous year: EUR 961 thousand) are also reported under this item. In addition, liabilities to the Supervisory Board of EUR 142 thousand (previous year: EUR 119 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			
2020 in EUR thousand	01/01/2020	Cash changes	Acquisitions	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**

2019 in EUR thousand	01/01/2019	Cash changes	Non-cash changes Acquisitions	Currency-exchange-related changes	Fair value changes	**12/31/2019**
Non-current loans	17,444	−12,598	0	0	0	4,846
Current loans	2,603	−637	0	0	0	1,966
of which overdraft facilities	2	0	0	0	0	2
Lease liabilities	1,938	−816	964	0	0	2,086
Assets held as collateral for non-current loans	0	0	0	0	0	0
Total	21,985	−14,051	964	0	0	**8,898**

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	**2020**	2019
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)	5,342	13,149
Basic earnings per share (in EUR)	0.22	0.54

27. DIVIDEND PER SHARE

LPKF did not generate a positive free cash flow (sum of cash flow from operating activities and cash flow from investing activities) in the 2020 financial year due to the difficult economic conditions caused by the pandemic. Due to the overall profitable business performance, the solid financing and the positive outlook, the Management Board and the Supervisory Board will nevertheless propose to the Annual General Meeting on 20 May 2021 to distribute a dividend of EUR 0.10 per share (previous year: EUR 0.10 per share).

28. TRANSACTIONS WITH RELATED PARTIES

As of the reporting date, LPKF Laser & Electronics AG had EUR 142 thousand in liabilities to members of the Supervisory Board (previous year: EUR 119 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 – as well as investment products in the previous year – 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.

			IFRS 9 carrying amount				
2020 in EUR thousand	Measurement category as per IFRS 9	Carrying amount as of 12/31/2020	Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss	Fair value as of 12/31/2020	Fair value hierarchy level
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**	**0**	**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**	**0**	**0**	**14,260**	**–**

Aggregated by measurement category as of IFRS 9	in EUR thousand	Carrying amou
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
Total		**49,541**

2019 in EUR thousand	Measure-ment category as per IFRS 9	Carrying amount as of 12/31/2019	IFRS 9 carrying amount: Amortized cost	IFRS 9 carrying amount: Fair value through other compre-hensive income	IFRS 9 carrying amount: Fair value through profit or loss	Fair value as of 12/31/2019	Fair value hierarchy level
ASSETS							
Cash and cash equivalents	AC	31,343	31,343	–	–	31,343	–
Trade receivables	AC	11,325	11,325	–	–	11,325	–
Investment products	(FVtPL)	575	–	–	575	575	2
Total		**43,243**	**42,668**	**0**	**575**	**43,243**	**–**
EQUITY AND LIABILITIES							
Trade payables	FLAC	5,616	5,616	–	–	5,616	–
Liabilities to banks	FLAC	6,812	6,812	–	–	7,014	2
Other interest-free liabilities	FLAC	1,028	1,028	–	–	1,028	–
Lease liabilities	n / a	2,086	–	–	–	–	–
Total		**15,542**	**13,456**	**0**	**0**	**13,658**	**–**

Aggregated by measurement category as of IFRS 9	in EUR thousand	Carrying amou
Amortized cost	(AC)	42,668
Fair value through profit or loss	(FVtPL)	575
Financial liabilities at amortized cost	(FLAC)	13,456
Not to be classified	(n/a)	2,086
Total		**58,785**

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 2020 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 investment products in the previous year and 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		**2020**	2019
Amortized cost	(AC)	−686	−135
Fair value through profit or loss	(FVtPL)	50	−384
Financial liabilities at amortized cost	(FLAC)	−290	−518
		−926	−1,037

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 2020, 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 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 654 thousand, if the euro had risen by 10% against the US dollar, earnings before income taxes would have reduced by EUR 240 thousand. A 10% decline in the euro would have resulted in a positive effect on earnings (before income taxes) of EUR 196 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 25,709 thousand, an increase in interest rates by 25 basis points yields a gain of EUR 64 thousand, while a decrease in interest rates by 25 basis points yields a loss of EUR 7 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.

The LPKF Group's financing policy counters any liquidity risks with a profitable business performance, a reduction in working capital, moderate debt, a diversified maturity profile and adequate liquidity reserves. LPKF limits liquidity risk by actively managing liquidity. The essential core of liquidity management is planning working capital and cash. In addition, as of 31 December 2020, there are commitments for credit facilities with the core banks of the LPKF Group totaling EUR 25.0 million, which had not been utilized as of the reporting date and may be utilized if additional liquidity is required.

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.

in EUR thousand		**Carrying amount as of 12/31**	Total amount	Up to 1 year	Between 1 and 5 years	More than 5 years
	2020	7,629	7,629	7,629	0	0
Trade payables	2019	5,616	5,616	5,612	4	0
Financial obligations and loans	2020	4,846	4,978	1,898	3,080	0
	2019	6,812	7,059	2,080	4,978	0
	2020	1,664	1,664	1,664		0
Other interest-free liabilities	2019	1,028	1,028	1,028	0	0
	2020	2,096	2,378	692	1,686	0
Lease liabilities	2019	2,086	2,505	743	1,762	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 419 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 8,612 thousand in trade receivables is securitized through credit default insurance. 49% of the trade receivables are securitized and 51% are not. The maximum default risk for trade receivables is therefore 49% 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			
Days past due	12/31/2020	Credit-impaired	12/31/2019	Credit-impaired
Current	11,269	No	9,407	No
1–30 days past due	1,057	No	1,104	No
31–60 days past due	305	No	498	No
61–90 days past due	401	No	213	No
More than 90 days past due	307	Yes	733	Yes
Total	**13,339**		**11,955**	

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	**2020**	2019
As of 01/01	−629	−337
+ / − Stage 2 loss allowances	83	25
+ / − Stage 3 loss allowances	406	−317
− Depreciation, amortization and write-downs	0	0
As of 12/31	−140	−629

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	12/31/2020	12/31/2019
Debt securities	92,912	90,837
Fremdkapital	28,743	37,175

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 812 thousand (previous year: EUR 4,113 thousand). For annually recurring maintenance contracts, mainly for software applications, there are contracts amounting to EUR 1,241 thousand (previous year: EUR 1,264 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

Dr. Goetz M. Bendele	Strategy, Sales, Human Resources, Marketing
Christian Witt	Finance, Investor Relations, Compliance and Legal Affairs

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 953 thousand in the 2020 financial year (2019: EUR 477 thousand). EUR 473 thousand of this was attributed to fixed remuneration components, including incidental benefits that were fully paid out in the 2020 reporting year. A total of EUR 480 thousand (2019: EUR 0 thousand) is attributable to the variable remuneration components that accrued to the members of the Management Board for tax purposes in the 2020 financial year.

Expenses relating to setting of provisions for share-based payments as defined in IAS 24.17 (e) of EUR 127 thousand (previous year: EUR 220 thousand) were also recognized for members of the Management Board and EUR 75 thousand was reversed. An amount of EUR 10 thousand (previous year: EUR 440 thousand) was set aside for the 2020 bonus. The fair value of the share-based remuneration at the allotment date was EUR 352 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 651 thousand (previous year: EUR 617 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 2020.

The interest income from plan assets of EUR 7 thousand (previous year: EUR 12 thousand) and the interest expense on the obligation of EUR 7 thousand (previous year: EUR 12 thousand) offset each other, so there is no effect on the income statement.

34. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION

Jean-Michel Richard (Member from 25 November 2020 and Chairman from 1 December 2020)	Founder and independent senior advisor at Fisadis Consulting Ltd, Rushall, UK
Dr. Dirk Rothweiler (Deputy Chairman from 6 June 2019)	Independent management consultant, Weimar, Germany
Prof. Dr.-Ing. Ludger Overmeyer	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)
Dr. Markus Peters (Member and Chairman up to 13 November 2020)	Former Head of Finance and Investment of German Technology AG, Hanover, Germany (up to 30 June 2020) Former member of the Board of Directors of LPKF Distribution Inc., Portland, US (up to 23 November 2020)

Each member of the Supervisory Board receives fixed basic remuneration for each full financial year of membership on the Supervisory Board, which is specified by resolution of the Annual General Meeting and is payable after the end of the financial year. The Chairman of the Supervisory Board receives double and the Deputy Chairman receives one-and-a-half times the amount of the fixed basic remuneration. By resolution of the Annual General Meeting on 2 June 2016, the fixed basic remuneration of each member of the Supervisory Board was set at EUR 32 thousand effective from 1 January 2017.

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	**2020**	2019
Audits of financial statements	139	155
of which prior-period	19	0
Other assurance services	0	0
Other services	16	26
Total	**155**	181

36. EVENTS AFTER THE REPORTING PERIOD

On 10 March 2021, Dr. Goetz M. Bendele, CEO of LPKF Laser & Electronics AG, informed the Chairman of the Supervisory Board that he does not wish to extend his contract, which runs until 30 April 2021. Dr. Bendele will leave the company at the end of April 2021.

Beyond this, no events occurred after the end of the 2020 financial year that are of particular significance for the Group's net assets, financial position and results of operations.

Garbsen, 16 March 2021

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

DR. GOETZ M. BENDELE

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, 16 March 2021

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

DR. GOETZ M. BENDELE

CHRISTIAN WITT

INDEPENDENT AUDITOR’S REPORT

TO LPKF L ASER & ELECTRONICS AKTIENGESELLSCHAFT, GARBSEN

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED 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 of 31 December 2020 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 2020 to 31 December 2020 and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report on the company and the Group (hereinafter “combined management report”) of LPKF Laser & Electronics Aktiengesellschaft for the financial year from 1 January 2020 to 31 December 2020. In accordance with German legal requirements, we have not audited the content of those components of the combined 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 of 31 December 2020 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020, and

- the accompanying combined management report as a whole provides an appropriate view of the Group’s position. In all material respects, this combined 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 combined management report does not cover the content of those components of the combined management report specified in the “Other information” section.

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 combined management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the combined 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). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the combined 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) (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 combined 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 2020 to 31 December 2020. 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 16.5 million as of 31 December 2020, representing 13.6% 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, technical feasibility, the discount rates used and the allocation of costs by origin. 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 verified the valuation on the basis of the attributable costs. To this end, we discussed the expected cash flows with the persons responsible for planning.

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.

OTHER INFORMATION

Management and/or the 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 combined corporate governance declaration, which is included in section 7 of the combined management report, and

- the combined separate non-financial report expected to be available to us after the date of this audit opinion, which is referred to in the combined management report.

The other information also includes the remaining parts of the annual report expected to be available to us after the date of this audit opinion.

The other information does not include the consolidated financial statements, the combined 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 other above-mentioned 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

Management is responsible for the preparation of consolidated financial statements that 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 and for ensuring 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 controls 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, 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, 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, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED 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) 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 combined 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 controls.

- 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 the 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 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 IN ACCORDANCE WITH SECTION 317 (3B) HGB ON THE ELECTRONIC REPRODUCTION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT PREPARED FOR DISCLOSURE PURPOSES

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproductions of the consolidated financial statements and of the combined management report (hereinafter the "ESEF documents") contained in the attached file "LPKF_Konzernabschluss_2020.zip" (SHA256-Hashwert: 6220d9ee73887ae933aa73d1e480173c7b7bec22c31f16d1b78f03eb73cf2264) and prepared for disclosure purposes comply 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 only extends 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 reproductions nor any other information contained in the above-mentioned file.

In our opinion, the reproductions of the consolidated financial statements and the combined management report contained in the above-mentioned attached file and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in these reproductions nor on any other information contained in the above-mentioned file beyond this reasonable 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 2020 to 31 December 2020 contained in the "Report on the audit of the consolidated financial statements and of the combined management report" above.

We conducted our assurance work on the reproductions of the consolidated financial statements and the combined management report contained in the above-mentioned attached file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Disclosure Purposes (ED IDW AsS 410). Accordingly, our responsibilities are further described below. Our audit firm has applied 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 reproductions of the consolidated financial statements and the combined 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 the internal controls they consider 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 company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited combined management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of 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 judgment and maintain professional skepticism 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 controls relevant to the assurance of 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 containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, as amended as of the reporting date, on the technical specification for this file.

- Evaluate whether the ESEF documents enable an XHTML reproduction 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) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor at the Annual General Meeting on 4 June 2020. We were engaged by the Supervisory Board on 21 December 2020. We have been the auditor of LPKF Laser & Electronics Aktiengesellschaft without interruption since the 2019 financial year.

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).

In addition to the audit of the financial statements, we have provided to the Group entities the following services that were not disclosed in the consolidated financial statements or in the combined management report:

In addition to the audit of the consolidated financial statements and the annual financial statements, we have conducted various audits of the annual financial statements of subsidiaries. We have reviewed the combined separate non-financial report for the previous year and provided other certification services.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Björn Kniese.

Hanover, 19 March 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

gez. Kniese Wirtschaftsprüfer (German Public Auditor)	gez. Geisler Wirtschaftsprüfer (German Public Auditor)

INCOME STATEMENT
FROM 1 JANUARY TO 31 DECEMBER 2020

in EUR thousand	**2020**	2019
Revenue	46,185	60,032
Change in inventories of finished and unfinished products	−905	−197
Other own work capitalized	67	141
Other operating income	2,267	4,343
	47,614	64,319
Cost of materials		
Costs for raw, auxiliary and operating materials and for purchased goods	−17,796	−25,359
Staff costs		
Wages and salaries	−14,753	−15,989
Social security costs and pension costs (of which pension costs: EUR 103 thousand; previous year: EUR 107 thousand)	−2,878	−2,626
Depreciation and amortization of non-current assets and property, plant and equipment	−2,268	−2,810
Other operating expenses	−12,447	−16,337
	−50,142	−63,121
Income from investments (of which from affiliated companies: EUR 4,888 thousand; previous year: EUR 4,670 thousand)	4,888	4,670
Other interest and similar income (of which from affiliated companies: EUR 155 thousand; previous year: EUR 91 thousand)	158	101
Income from profit transfers	4,486	10,533
Costs of loss absorption	−2,629	0
Depreciation of financial assets	−446	−50
Interest and similar expenses	−168	−351
Taxes on income and earnings	97	−3,366
Earnings after tax	**3,858**	12,735
Other taxes	−56	−42
Net profit	**3,802**	12,693
Accumulated profits / losses brought forward from the previous year	16,403	6,159
Retained profit	**20,205**	18,852

BALANCE SHEET
AS OF 31 DECEMBER 2020

ASSETS

in EUR thousand	**12/31/2020**	12/31/2019
NON-CURRENT ASSETS		
Intangible assets that have been acquired, concessions and similar rights	259	486
Property, plant and equipment		
Land, similar rights and buildings	17,323	16,189
Technical equipment	1,197	1,597
Other equipment, operating and office equipment	3,217	1,952
Advance payments made on assets under construction	481	539
	22,218	20,277
Financial assets		
Shares in affiliated companies	15,136	15,582
	37,613	36,345
CURRENT ASSETS		
Inventories		
Raw, auxiliary and operating materials	5,159	4,355
Unfinished products	1,257	1,067
Finished products and goods	2,874	2,383
Advance payments	13	18
	9,303	7,823
Receivables and other assets		
Trade receivables (of which with remaining maturities of more than one year: EUR 262 thousand; previous year: EUR 290 thousand)	3,630	3,326
Receivables from affiliated companies	22,515	15,721
Other assets	1,253	447
	27,398	19,494
Cash on hand, bank balances and checks	13,354	27,179
	55,917	54,496
Deferred income	**247**	235
Deferred taxes	**5,901**	5,632
Capitalized differences from asset offsetting	**214**	229
	94,031	96,937

EQUITY AND LIABILITIES

in EUR thousand	**12/31/2020**	12/31/2019
EQUITY		
Subscribed capital	24,497	24,497
Capital reserves	16,160	16,160
Retained earnings		
Statutory reserve	41	41
Other retained earnings	11,200	11,200
Retained profit	20,205	18,852
	72,102	70,750
PROVISIONS		
Tax provisions	0	399
Other provisions	2,246	3,136
	2,246	3,535
LIABILITIES		
Liabilities to banks	1,495	3,173
Advances received	1,299	626
Trade payables	4,624	3,170
Liabilities to affiliated companies	9,788	12,977
Other liabilities	1,208	626
(of which taxes: EUR 195 thousand; previous year: EUR 210 thousand)		
(of which in conjunction with social security: EUR 21 thousand; previous year: EUR 14 thousand)		
	18,414	20,572
Accruals and deferred income	**825**	1,678
Deferred taxes	**443**	402
	94,031	96,937

GLOSSARY
OF SPECIALIST TERMS

CAPITAL EMPLOYED
Capital employed calculated as fixed assets and working capital.

CDTE (CADMIUMTELLURID)
A highly efficient semiconductor, used in the manufacture of thin glass solar modules, an alternative to CIGS solar cells.

CIGS
(ALSO KNOWN AS CIGSSE OR CIS)
CIGS is a thin-film technology for solar modules and is an abbreviation for the following elements used: copper, indium, gallium, sulfur and selenium.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

EBIT MARGIN
Ratio of earnings before interest and taxes to revenue.

FTE (FULL-TIME-EQUIVALENT)
FTE represents the value that a full-time employee produces in an equivalent period of time.

LDS PROCESS
(LASER DIRECT STRUCTURING)
A laser-based manufacturing process for three-dimensional plastic circuit carriers (MIDs) that can also perform mechanical functions.

LEVERAGE RATIO
Debt ratio (net debt/EBITDA)

LIDE (LASER INDUCED DEEP ETCHING)
Process for precision machining on glass. LIDE enables the production of extremely precise holes and structures at high speed in glass and includes the TGV process.

LTP PROCESS
(LASER TRANSFER PRINTING)
A process for digital printing of functional pastes as an alternative to screen printing.

MEMS
(MICRO-ELECTROMECHANICAL SYSTEMS)
MEMS are tiny components that combine logic elements and micromechanical structures in a single chip. They can process mechanical and electrical information. They can be sensors, for example.

NET INDEBTEDNESS
Long-term and current liabilities to banks, less cash and cash equivalents.

PCB
Printed circuit board

RAPID PROTOTYPING
A process for the chemical manufacture of near-production-quality printed circuit board prototypes in laboratories.

ROCE
(RETURN ON CAPITAL EMPLOYED)
The return on capital employed is calculated as EBIT divided by capital employed.

STENCIL LASER
A laser system used for cutting fine, high-precision openings in stainless steel stencils. Stencils are used to print solder paste precisely onto printed circuit boards.

TGV PROCESS (THROUGH GLASS VIA)
A laser process for putting ultra-fine holes into glass (see LIDE).

THIN-FILM SOLAR MODULES
Thin-film solar modules are created by coating glass panels or films with extremely thin layers. Each layer is divided into strips by the laser, so that a series connection of cells is realized in the finished module.

WACC
In the semiconductor industry, photovoltaics industry and the world of micromechanics, a wafer is a circular or square disc, about 1 mm thick, which is the substrate on which electronic or micromechanical components or photoelectric layers are manufactured using different technical processes.

VALUE ADDED
Value added is calculated as follows: (ROCE-WACC) *capital employed

FINANCIAL CALENDAR

03 / 24 / 2021
Annual Financial Report 2020
Press conference on financial statements

04 / 29 / 2021
3-Month Financial Report 2021

05 / 20 / 2021
Annual General Meeting (virtual event)

07 / 29 / 2021
Half-year Financial Report 2021

10 / 28 / 2021
9-Month Financial Report 2021

CONTACT & PUBLISHING INFORMATION

Publisher
LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Germany
Telephone: +49 5131 7095-0
Telefax: +49 5131 7095-9111
investorrelations@lpkf.com
www.lpkf.com

Concept & design
IR-ONE AG & Co. KG, Hamburg
www.ir-one.de

Text
LPKF Laser & Electronics AG

Photos
Daniel Möller, Hannover
www.fotodanielmoeller.de

Maren Richter, Munich
www.marenrichter.com

Jonathan Schucht, Celle

Disclaimer

LPKF Laser & Electronics

Osteriede 7
30827 Garbsen
Germany
Telephone: +49 5131 7095-0
Telefax: +49 5131 7095-9111
investorrelations@lpkf.com
www.lpkf.com