ANNUAL REPORT 2022

WE ENABLE INNOVATION

LPKF
Laser & Electronics

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COMPANY

Key Group Figures and Profile of the LPKF Group

GROUP KEY FIGURES

LPKF LASER & ELECTRONICS SE

CONSOLIDATED REVENUE AS OF 31 DECEMBER 2022

in EUR million	2018	2019	2020	2021	**2022**
Revenue	120.0	140.0	96.2	93.6	123.7
Revenue by region					
Germany	12.8	9.7	8.6	11.2	9.9
Rest of Europe	31.9	29.2	12.2	19.9	17.7
North America	24.7	37.5	19.0	17.0	42.3
Asia	49.1	60.8	55.5	43.5	51.2
Other	1.5	2.8	0.9	2.0	2.6
Revenue by segment					
Development	24.3	24.5	22.5	22.1	28.2
Electronics	34.6	43.7	31.7	32.0	31.5
Welding	22.2	27.7	17.7	27.4	25.6
Solar	38.9	44.1	24.3	12.1	38.4

CONSOLIDATED FINANCIAL KEY FIGURES AS OF 31 DECEMBER 2022

in EUR million	2018	2019	2020	2021	**2022**
EBIT	6.8	19.2	7.5	0,1	6.8
EBIT-Margin (in %)	5.7	13.7	7.8	0,1	5.5
Consolidated net profit after non-controlling interest	8.0	13.1	5.3	-0,1	1,7
Diluted EPS (in EUR)	0.33	0.54	0.22	0.00	0.07
Dividend per share* (in EUR)	0.0	0.1	0.10	0.00	0.00
ROCE (in %)	7.0	25.5	9.0	0.1	7.4
Equity ratio (in %)	60.4	71.0	76.4	69,7	68.3
Investment in property, plant and equipment and intangible net assets	5.7	5.8	10.2	8,6	8,2
Free cash flow	5.8	42.2	-5.5	-0,7	0,3
Orders on hand	58.4	32.3	38.3	62,6	63,2
Incoming orders	139.8	114.0	102.2	117,8	124,3
Employees** (Number)	655	682	689	746	740

* 2022: Annual General Meeting recommendation

** not including trainees and marginal employees

PROFILE OF THE LPKF-GROUP

We are experts and pioneers in the fields of laser technology, precision mechanics and software. As innovation leaders, we open up new growth markets by enabling technological breakthroughs for our customers.

PIONEER AND SOLUTION PROVIDER FOR 47 YEARS

Our laser systems are vital in the design and manufacture of printed circuit boards, microchips, automotive parts, solar panels and many other 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.

We also offer solutions for the analysis of biological materials in the nanoliter dimension for pharmaceutical research. The LPKF Glass Foundry additionally supplies customers from various industries with high-precision glass components.

MEGATRENDS IN THE TARGET MARKETS OFFER GOOD GROWTH OPPORTUNITIES

The megatrends of miniaturization, carbon neutrality, connectivity and demographic change require technological transformations. Our energy-efficient and intelligent solutions make valuable contributions here. We help our customers become more resource efficient, reduce hazardous materials and waste, and save energy.

EXPERIENCE AND CREATIVITY AS A SUCCESS FACTOR

Based on many years of experience, our employees have a deep understanding of our customers' needs. Process expertise developed in-house as well as expertise in engineering, software, physics and chemistry also significantly contribute to the company's success. However, the decisive factor is our employees' willingness to think outside the box again and again and to develop completely new, disruptive solutions for our customers.

LPKF Laser & Electronics SE is headquartered in Garbsen near Hanover, Germany. We have a broad presence, with locations in Europe, Asia and North America and a total of 740 employees. Our global service network ensures our machines are ready for our customers around the clock.

The shares of LPKF Laser & Electronics SE are listed in the Prime Standard segment of Deutsche Börse.

SEGMENTS

DEVELOPMENT

Systems for printed circuit board development and research, Systems for biotechnology

ELECTRONICS

Systems for electronics production and the manufacture of glass components

WELDING

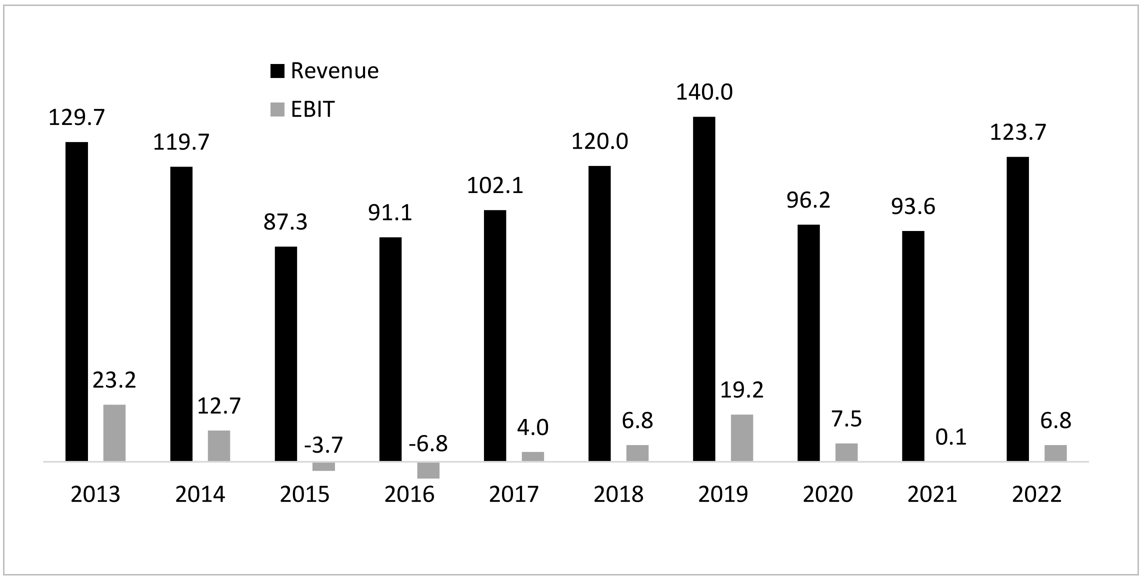
Systems for plastic welding

SOLAR

Systems for the production of solar cells and for laser transfer printing

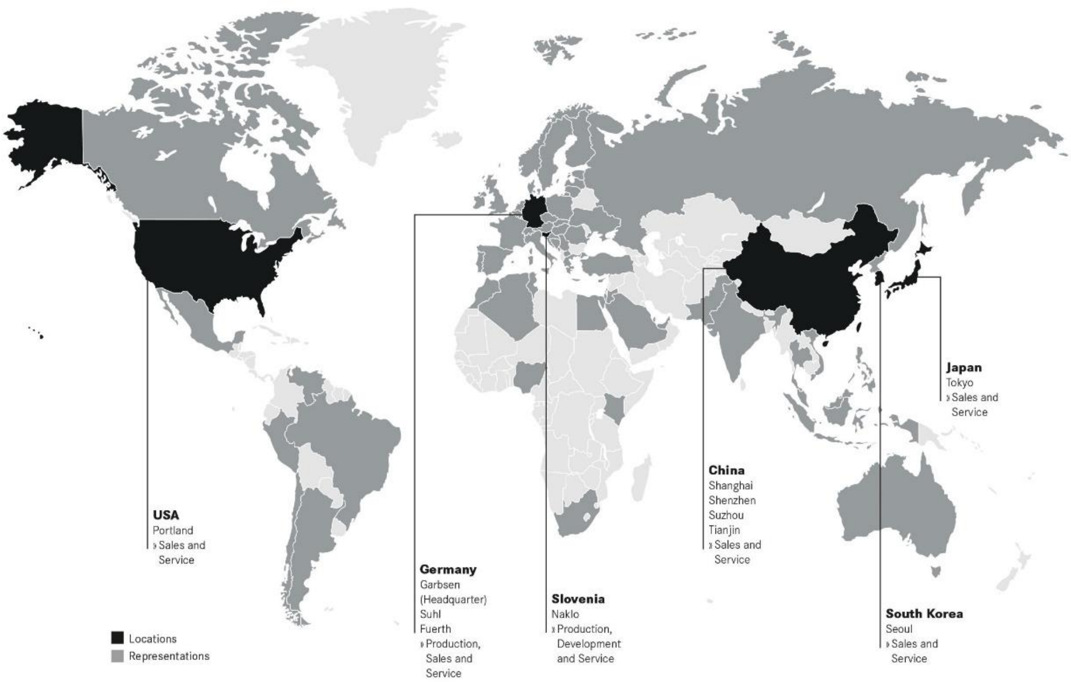
REVENUE AND EBIT

in EUR million



LPKF WORLDWIDE

LOCATIONS & REPRESENTATIONS

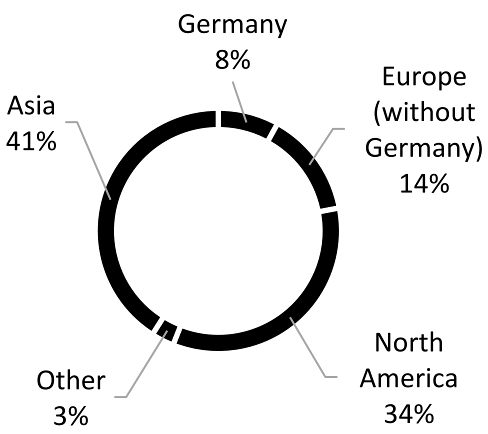


LPKF Laser & Electronics SE is headquartered in Garbsen near Hannover, Germany. We are represented in more than 70 countries, have 9 branches in Europe, Asia and North America and with a total of 740 employees we are broadly positioned worldwide.

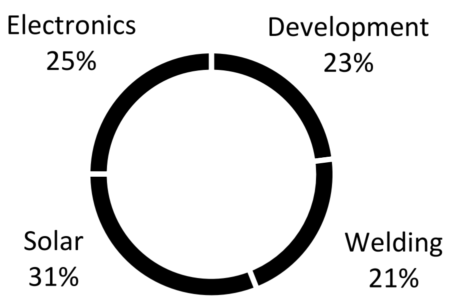
SEGMENT INFORMATION

1 January – 31 December 2022

REVENUE BY REGION



REVENUE BY SEGMENTS



LETTER TO OUR SHAREHOLDERS

Garbsen, 23 March 2023

LADIES AND GENTLEMEN,

After two difficult financial years, 2022 was again a year of growth for LPKF. We increased Group revenue by 32%, significantly improved the return on sales and thus achieved our forecast well, despite serious global challenges. At the same time, we continued to invest in our new technologies and growth initiatives.

Our growth was largely driven by the established businesses but also by new market areas. 2022 shows that we are making good progress in introducing our strategic growth initiatives into new volume markets. Global megatrends such as miniaturization, connectivity, CO2 reduction and demographic change are driving our business. The key enablers of all these trends are high-precision, clean and energy-efficient production methods. LPKF plays an active role in this as a technology and market leader.

LOOKING BACK TO THE YEAR 2022

Group revenue rose by 32.2% to EUR 123.7 million. Increased raw material and logistics costs as well as material bottlenecks could be successfully countered by active cost management, continuous process optimization as well as price increases. Earnings before interest and taxes (EBIT) rose from EUR 0.1 million to EUR 6.8 million, which corresponds to an EBIT margin of 5.5%. Despite the challanging general conditions, we have continued to invest more than 10% of revenue in the development of new technologies in 2022. Overall, we have reached the upper half of our forecast for the 2022 financial year in terms of both revenue and earnings. In our latest guidance, Group revenue was expected to be between EUR 117 million and EUR 127 million and the EBIT margin between 2 - 7%.

Business development in the individual segments varied significantly. While we were able to achieve record results in some business areas, others were not satisfactory in terms of revenue and earnings development.

The Solar segment delivered a solid performance in 2022. We delivered several larger orders to various customers, part of which had been postponed from 2021 to the first quarter of 2022. Overall, revenue from solar systems rose to EUR 38.4 million, more than tripling. At EUR 3.6 million, EBIT did not yet reach expectations (previous year: EUR -3.3 million) because the segment's profitability was burdened by effects from the introduction of a new product generation. Currently, the solar business is benefiting strongly from the global efforts to reduce CO2 emissions and the energy crisis, both leading to a shift towards renewable energies. This is also reflected in the current high order intake and backlog. LPKF is well positioned in the market for thin-film solar technology. We have further broadened our customer base in 2022 and have already won our first major orders for the next technology generation.

The Development segment is looking back on a record year 2022 in terms of both revenue and earnings. Revenue grew by 27.3% to EUR 28.2 million and despite high investments in the ARRALYZE technology EBIT rose from EUR 1.2 million in the previous year to EUR 3.9 million. After two difficult years, a trend towards greater autonomy in PCB development and an attractive product portfolio ensured high demand. This trend is continuing in the current financial year.

In the Electronics segment, we did not achieve our 2022 targets in the core business. At EUR 31.5 million, sales are slightly below the previous year's figure. At EUR -2.1 million, EBIT is also below the previous year (EUR -0.8 million). Especially in the Stencil and Depanneling product areas, the first half of 2022 was characterized by a significant reluctance to invest in the electronics market. Thanks to the introduction of new, highly innovative products such as the Tensor systems, a turnaround in incoming orders was achieved in the second half of the year. In addition, we introduced targeted structural measures to reduce costs in the course of 2022 and focused our portfolio even more on scalable product areas.

The Welding segment suffered particularly from difficulties in procuring critical components in 2022. Despite high demand from growth markets and full order books, revenue still fell by 6.6% to EUR 25.6 million, and EBIT consequently dropped from EUR 3.0 million in the previous year to EUR 1.4 million. We were able to set a course for new growth markets in this segment in 2022; the significantly increased order backlog is largely fed from growth markets such as medical technology and e-mobility.

The increased order intake in the Group shows that our products and solutions are attractive for our customers. At EUR 124.3 million, order intake was 5.4% above previous year and the order backlog reached EUR 63.1 million, 0.8% up from an already high level in 2021.

The exceptionally strong business at the end of 2022 resulted in an increased working capital of EUR 26.0 million at year end (previous year: EUR 19.3 million). Higher customer receivables were at least partially offset by advance payments received and improvements in all other working capital items. Free cash flow reached EUR 0.3 million at the end of the year due to the increased net working capital. We closed the year with a net cash position of EUR 11.7 million as of 31.12.2022 and an equity ratio of 68%.

LPKF shares fell significantly in the 2022 financial year. The share closed at a price of EUR 9.67, clearly below EUR 19.54 in 2021. This development meets neither our own ambitions as management nor the expectations of our shareholders. We are convinced that we can generate more value for our shareholders in the future through further growth in our core business areas and the consistent pursuit of our strategic business initiatives.

We plan to use our current financial resources specifically for the development and commercialization of future technologies. For this reason, with the support of the Supervisory Board, we will propose to the Annual General Meeting on 17 May 2023 that no dividend be paid for the 2022 financial year. We are convinced that this use of our earnings is best suited to create value for our shareholders.

STRATEGIC ORIENTATION

In the past financial year, we defined a clear strategic agenda for the LPKF Group. We consistently focus our core business on growth markets and the product roadmap on technology-driven customer benefits. This will enable us to achieve revenue growth in the upper single-digit percentage range in our core business in the medium term. In parallel, we will continue to develop disruptive technologies and proactively drive them forward. Through the markets addressed by the new strategic business initiatives in the semiconductor, display and biotechnology sectors, we aim for annual revenue contributions in the low three-digit million range.

At the same time, we want to drive scalability and the use of Group-wide synergies and increase profitability in the Group to an attractive double-digit EBIT margin in the medium term.

PROGRESS IN THE AREA OF GROWTH INITIATIVES

In the Electronics segment, we successfully continued the market introduction of the LIDE technology (Laser Induced Deep Etching) for precision glass structuring. Our first LIDE customers have started serial production of semiconductor components. A development project with one of the world's largest display companies is on track. Although LIDE is still in an early phase of market penetration, we can already see that renowned technology leaders are increasingly opting for this disruptive production process.

Within LPKF we have already used the advantages of LIDE technology profitably and quickly to enhance the quality of our own products. One example is the Tensor technology, which significantly increases the production throughput of our depaneling systems and offers customers a real competitive advantage. For this reason, order intake has picked up significantly in the second half of 2022. The Tensor technology will be rolled out further in the current business year.

In January 2023, we signed a groundbreaking contract with a leading semiconductor company in the field of advanced packaging, an attractive growth market that we have a strong focus on - this also triggers and strengthens sustainable further developments for us as a company. LPKF was selected as a supplier due to the strong competence built up in its LIDE sector.

One of our most promising new developments is the ARRALYZE technology in the Development segment. Here we address the fast-growing life science market. With our CellShepherd, we offer a complete solution for scalable single-cell screening for high-growth applications such as cancer therapies and personalized medicine. In the first half of 2023, we are delivering systems to Beta customers in academia. From the second half of the year, the first ARRALYZE systems will be available for purchase. We manufacture the high-precision glass arrays specifically for ARRALYZE using our LIDE technology.

ESG AS AN OPPORTUNITY FOR LPKF

We bear responsibility towards our employees, the environment and future generations. The increasing demands on sustainability and the growing importance of ESG issues for society, customers, employees, and other stakeholders constitute great opportunities for LPKF. ESG is an integral part of our strategy and already firmly anchored in many key processes such as product development, supplier selection and qualification or facility management.

We offer solutions that enable our customers to save energy and raw materials through modern, more precise production processes. In our operations, we act in a resource-conserving and environmentally conscious manner in all areas and have further developed our ESG activities in 2022. We report on this in detail in our non-financial Group report, which we will publish on 27 April 2023.

Our focus on sustainability and our continuous efforts and initiatives are already reflected in the improvement of our high ESG ratings and will have a positive impact on our company perspective and value in the future.

LOOKING AHEAD

Following a solid business performance in 2022, we believe LPKF is well positioned for further growth in the current financial year and beyond, despite significant external uncertainties. The company is financially strong and has a broad, growing portfolio of innovative technologies which we target at attractive growth markets.

In the medium term, we aim aim at delivering an attractive average growth rate in the upper single-digit percentage range for the core business, a low three-digit million-euro revenue for the new business areas, and an attractive double digit EBIT margin for the Group.

In the still uncertain environment, we expect Group revenue of EUR 125 - 140 million and an EBIT margin of between 3 - 7% for the 2023 financial year.

For the first quarter of 2023, we expect sales between EUR 20 – 22 million and EBIT in the range of EUR -7 to -5 million. Significant deliveries from the high order backlog will not impact revenue until the second half of 2023.

Our highly motivated employees shape the unique team spirit in our company. In a challenging financial year, they have shown great commitment to our customers, our technologies, and our economic success. With the "LPKF Moves You" project, they also demonstrated social commitment on their own initiative and supported various charitable projects at our sites. We would like to sincerely thank all our employees for their commitment and dedication.

We thank our supervisory board members for their support and valuable advice. Our thanks also go to the works councils at all locations for their good cooperation in the past business year.

We would like to thank you, our shareholders, for your trust in a difficult stock market year for LPKF's shares. We hope that you will continue to accompany LPKF in the future.

Now we are looking ahead - to the tasks, challenges and opportunities that lie ahead in 2023 and the years to come. At the centre of our activities is our growth agenda with a focus on sustainable, profitable growth. We are counting on our innovative strength and pioneering spirit and on our strong team, with many dedicated colleagues worldwide.

Continue to accompany us on this path!

With kind regards,

Dr. Klaus Fiedler

Chief Executive Officer

Christian Witt

Chief Financial Officer

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

We are pleased to note that LPKF has returned to growth after a challenging two years during which the COVID-19 pandemic and subsequent supply chain, logistic and travel restrictions severely slowed down its growth momentum. General economic uncertainties fueled by Russia´s invasion of Ukraine and rising inflation continue to weigh on the rate of growth LPKF can drive in the short term. Despite this, the company met the targeted operating result and is positioned to capitalize on its investments in high-precision, innovative and disruptive technologies and applications. LPKF customers are seeing the clear benefits from these developments and are increasingly partnering with LPKF as a technology and market leader in laser manufacturing solutions.

2021 was the year of significant change for LPKF with the appointments of Dr Klaus Fiedler as CEO and Julia Kranenberg as member of the Supervisory Board and chairwoman of the newly created Remuneration & ESG Committee. In addition to the Remuneration & ESG Committee, two further committees were set up to address Audit & Risk and Nomination. We saw the benefits of these changes in 2022.

These committees have enabled the Supervisory Board to further focus their attention on key matters such as Governance, quality of the audit work, Enterprise Risk Management, gender diversity, composition and competence profile of the Supervisory Board to best support the needs of the Company and succession planning for the management board. As working groups, they have been able to work through these issues in far greater detail and make sound recommendations to the Supervisory Board and the Management Board.

At these Committee meetings and Supervisory Board meetings, we have addressed, in depth, the potential roadblocks to further accelerate LPKF growth and deliver long term, sustainable and profitable growth which the company explained in detail during its capital market day held in Garbsen on 28 September 2022. These discussions were focused on key initiatives to unlock supply chain constraints, the continuous investments in disruptive technologies such as LIDE and ARRALYZE in high growth markets and to define a clear product roadmap addressing the needs of technology driven customers, the optimization of internal resources especially in the manufacturing area and the scalability of the organization. Furthermore, a significant amount of time was dedicated to the design of a new remuneration plan that enables LPKF to retain and attract key talents in a competitive job market. This was a priority to address shareholders concerns at last year’s AGM regarding the published remuneration report.

The Supervisory Board values the high level of interaction it has with the Management Board, the transparency that comes with it and the nimbleness at which it is able to make key decisions, particularly in challenging times.

The Supervisory Board and I would like to thank the Management Board for their achievements in 2022 in light of continuous challenges. We also want to pay tribute to all of

LPKF´s employees for their commitment and contributions in times of uncertainty. The interests of our employees were constructively represented by the work council, which continues to pay due attention to the overall situation of the company. We are thankful to the work council for its valuable contribution.

Finally, we would like to thank our shareholders for their continuous support and the trust you have placed in all of us.

MONITORING AND COUNSELING

The Supervisory Board, with full scrutiny, 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 a total of 15 meetings in the financial year 2022, with 8 meetings convened as ordinary meetings with participation of the Management Board. 7 meetings were held as closed sessions without the participation of the Management Board to discuss and develop a revised Management Board remuneration system and to discuss the mid range plan and budget. The closed sessions were typically held on the same days as the ordinary Supervisory Board meetings. 6 of the ordinary meetings of the Supervisory Board were held in person and two online via video conference. Out of the closed Supervisory Board meetings, four meetings were held in person and three online via video conference.

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

ATTENDANCE OF THE SUPERVISORY BOARD MEMBERS AT THE MEETINGS IN 2022

Name	Sessions	Meeting attendance	in %
		PLENUM	
Jean-Michel Richard (Chair)	15	15	100
Dr. Dirk Michael Rothweiler (Deputy Chairman)	15	15	100
Prof. Dr.-Ing. Ludger Overmeyer	15	15	100
Julia Kranenberg (from 14 June 2021)	15	15	100
Average participation rate			**100**

The Supervisory Board has formed three committees: an Audit & Risk Committee, chaired by Jean-Michel Richard, a Remuneration & ESG Committee, chaired by Julia Kranenberg, and a Nomination Committee, chaired by Dr Dirk Rothweiler. Attendance to these Committee meetings was as follows:

AUDIT & RISK COMMITTEE	Sessions	Meeting attendance	in %
Jean-Michel Richard (Chair)	5	5	100
Dr. Dirk Michael Rothweiler	5	5	100
Prof. Dr.-Ing. Ludger Overmeyer	5	5	100

ESG & REMUNERATION COMMITTEE	Sessions	Meeting attendance	in %
Jean-Michel Richard	2	2	100
Dr. Dirk Michael Rothweiler	2	2	100
Julia Kranenberg (Chair)	2	2	100

NOMINATION COMMITTEE	Sessions	Meeting attendance	in %
Jean-Michel Richard	2	2	100
Dr. Dirk Michael Rothweiler (Chair)	2	2	100
Julia Kranenberg	2	2	100

The Supervisory Board regularly monitored the activities of the Management Board during the financial year and advised it in various areas of corporate management, including sustainability issues. The Management Board informed the Supervisory Board in a timely manner about issues of strategy, planning, business development, the financial situation, 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, with the support of the relevant Committees, make their own suggestions. For this purpose, the Supervisory Board had numerous discussions with the Management Board in addition to the official Supervisory Board meetings. In addition, the Supervisory Board, in particular the Chairman of the Supervisory Board, regularly exchanged information with the members of the Management Board, in particular the Chief Executive Officer. 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 and the recommendations of the relevant Committees’ Chairperson where appropriate. Furthermore, the Supervisory Board regularly monitors and checks the legality, regularity and expediency of the Management Board’s actions. Where necessary, the Supervisory Board was given access to the relevant information and business records.

TOPICS ADDRESSED BY THE SUPERVISORY BOARD/ CONSULTATIONS

The focal points of the consultations in the past financial year were the current business development, the ongoing challenges posed by the COVID-19 pandemic, especially with regard to our China business and the design of a new remuneration system following last year's AGM voting results. On top of that, 2022 was marked by an energy crisis, the Russian war against the Ukraine, inflation and ongoing bottlenecks in the supply chain and logistics. Furthermore, the Supervisory Board intensively consulted with the Management Board to further invest in the development of innovative technologies and solutions.

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

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

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

In 2022 the Supervisory Board supported the conversion of Laser & Electronics AG into a European Company (Societas Europaea, SE). The change of legal form was resolved by the Annual General Meeting on May 19, 2022 and completed by entry in the Commercial Register on December 12, 2022.

PERSONNEL MATTERS

In 2022 there were no personnel changes in the Supervisory Board. In the Annual General Meeting on May 19, 2022, Dr. Dirk Michael Rothweiler was re-elected as member of the Supervisory board and in the context of the conversion into a European Company (Societas Europaea, SE) all previous members of Laser & Electronics AG were appointed as members of the first Supervisory Board of LPKF SE. In the subsequent meeting of the Supervisory Board, Jean-Michel Richard and Dr. Dirk Michael Rothweiler were re-elected as Chairman and Deputy Chairman, respectively.

Furthermore, Klaus Fiedler successfully completed his first year as LPKF's new Chief Executive Officer. The Supervisory Board partnered and supported him wherever possible. During this year, the Supervisory Board and the new CEO built a solid and trustful working relationship. Christian Witt successfully continued his work as Chief Financial Officer.

WORK IN THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board Committees are structured as follows:

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

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

The Audit & Risk Committee held 5 regular meetings. 3 were held in person, 2 in a virtual format via video conference. In the presence of the independent auditors, the CEO, the Chief Financial Officer, the Head of Accounting and the Head of Corporate Audit, the Audit & Risk Committee dealt with the financial statements and the combined management report for the Company and the LPKF Group. As part of the preparation and implementation of the audit, the Audit & Risk Committee regularly exchanged views with the independent auditors without the Management Board in attendance. In addition, it met regularly in closed sessions without the Management Board and the independent auditors in attendance. Outside its meetings, the Chairman of the Audit & Risk Committee regularly exchanged views with the independent auditors regarding the progress of the audit and reported to the Audit Committee thereon. The Audit & Risk Committee recommended that the Supervisory Board propose to the Annual General Meeting that KPMG AG Wirtschaftsprüfungsgesellschaft, Hannover, (KPMG) be elected independent auditors for the financial year 2022. It awarded the audit contract for the fiscal year 2022 to the independent auditors, who had been elected by the Annual General Meeting, defined the audit's focus areas and determined the auditors' fee. The Audit & Risk Committee defined the audit plan and the Audit & Risk Committee's focus areas. It monitored the selection, independence, qualification, rotation and efficiency of the independent auditors as well as the services. In views of rising audit cost, the Audit & Risk Committee decided that the audit work for fiscal year 2023 should be tendered. As a result, it prepared and organized a tender procedure for the selection of a new audit engagement. The Audit Committee has recommended to the Supervisory Board to propose to the Annual General Meeting to elect either Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft or Ebner Stolz GmbH & Co. KG

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft as auditor and group auditor for the fiscal year 2023. In doing so, the Audit Committee communicated its preference for Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft and gave reasons for its preference. A resolution proposal for the election of auditors will be submitted to shareholders approval at the May 2023 AGM.

The Nominating Committee held two formal meetings, one in person, and one in a virtual format via video conference. The two formal meetings were attended by all the members of the Nomination Committee. The formal meetings were held on the same days as the ordinary Supervisory Board meetings and the closed sessions of the Supervisory Board. This allowed the Supervisory Board to be briefed on the work of the Nomination Committee which led to the Supervisory Board passing resolutions based on proposals prepared by the Nomination Committee. In particular, the Nomination Committee:

a) critically reviewed the targets for women quota for the Supervisory Board, the Management Board and the two management levels following the Management Board, and extensively discussed options for next steps,

b) thoroughly reviewed the Supervisory Board resolution on the Composition and Competence Profile of the Supervisory Board and proposed amendments to account for the recent expansion of the Supervisory Board, the recent implementation of committees, recent and expected changes in applicable regulation, as well as further aspects which are deemed in the best interest of the company,

c) critically reviewed the Joint Succession Planning for the Management Board and made recommendations to further improve the process with a focus on the annual review of the Diversity Concept for the Management Board including women quota, a more structured involvement of the Management Board, and the development of internal candidates, and

d) reviewed the Principles of Personnel Planning beyond the Management Board in detail and initiated a continuous dialogue with the Management Board on professionalising underlying processes and methodology.

Outside of formal committee meetings, the Nomination Committee met informally in order to prepare formal meetings and for the Chairman of the Nomination Committee to regularly inform the Supervisory Board and the Management Board about the status and next steps of related ongoing activities. In addition to the above-described activities the Nomination Committee:

e) regularly reviewed applicable regulation with support of the company’s legal counsel, and

f) focused on the Qualification Matrix of the Supervisory Board.

The Chairman of the Nomination Committee also reached out to the Management Board regularly, particularly the CEO, for continued exchange of information and coordination throughout the fiscal year.

The Remuneration & ESG Committee met two times in 2022. One meeting was held in person and one virtually via video conference. The Remuneration & ESG Committee prepared, in particular, Supervisory Board decisions regarding the definition of performance criteria and the targets for variable compensation, the determination and review of the appropriateness of Managing Board compensation and the approval of the remuneration report. A lot of effort was put in addressing the concerns raised at last year's AGM regarding the remuneration report and to redesign the remuneration system for the Management Board. The Committee engaged the services of an external advisor, specialized in remuneration systems, to support this key initiative. This led to extensive consultations beyond the two formal meetings held as a full committee. A new remuneration plan has now been drafted and shall be submitted for shareholders' approval at the May 2022 AGM. Furthermore, attention was given to the development of further initiatives to support the ESG agenda of LPKF. These include further reductions in CO2 emissions, employee engagements with the local communities in which LPKF operates and increased transparency on Governance disclosures which have been addressed in the 2022 remuneration report.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

The Supervisory Board continued to focus intensively on the implementation of Corporate Governance standards in 2022. LPKF Laser & Electronics SE's Corporate Governance is presented in detail in the declaration on Corporate Management. On 16 February 2023, the Management Board and the Supervisory Board issued the current annual declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG). The current declaration of compliance as well as previous declarations are publicly available on the internet at https://www.lpkf.com/en/investor-relations/corporate-governance.

No conflicts of interest arose in the year under review.

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

SUSTAINABILITY

The issue of sustainability is an important part of the Group's strategy. In 2021, LPKF had launched a large-scale project called "Beaming Sustainability" to systematically record and improve numerous ESG targets. In 2022 this project was successfully transferred to the operational business. The development of KPIs improved the measurability of LPKF's progress in all ESG matters. The Remuneration & ESG Committee and the Supervisory Board are constructively supporting these activities and are pleased to see progress in various areas presented in the sustainability report. The LPKF Laser & Electronics SE sustainability report for the financial year 2021 was pre-reviewed by the Remuneration & ESG Committee and discussed and approved by the Supervisory Board in its meeting on 27 April 2022. The sustainability report for the financial year 2022 will be available at https://www.lpkf.com/en/company/lpkf-group/sustainability by the end of April 2023.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The Management Board prepared the annual financial statements for the 2022 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 2022 and, in doing so, determined the key audit matters in its meeting on 8 December 2022. KPMG is auditor since the 2019 financial statements. The audit reports were signed by Björn Kniese, KPMG partner assigned to LPKF since the 2020 annual financial statements and Thomas Meyer, assigned to LPKF since 2021.

Following the audit of the annual financial statements and the consolidated financial statements, the auditor issued an unqualified audit opinion on the financial statements, including the combined management report and group management report.

The group auditors attended the Audit & Risk Committee’s meeting on 16 March 2023 and the Supervisory Board meeting on 17 March 2023, where they reported on the audit of the 2022 annual and consolidated financial statements and focused in particular on key audit matters. At these meetings, they explained the net assets, financial position, results of operations of the company and the Group and the internal control framework. They were available to answer questions from the members of the Audit & Risk Committee and the Supervisory Board. In addition, after examining the early risk detection system, KPMG confirmed that the Management Board had taken the measures required of it under the German Stock Corporation Act (AktG) to identify any risks that might jeopardize the company’s existence.

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

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

Following the findings of the Audit & Risk Committee’s examination on 16 March 2023 and based on its own examination, the Supervisory Board came to the conclusion that the reports in particular met the legal requirements of §§ 317, 323 HGB. During the meeting that took place on 17 March 2023, the Supervisory Board - taking into account the Audit & Risk Committee‘s report - concurred with the results of the audit by the auditor and approved the annual financial statements of LPKF SE and the consolidated financial statements for the 2022 financial year prepared by the Management Board. The annual financial statements of LPKF Laser & Electronics SE have thus been adopted.

In the same meeting, the Supervisory Board also resolved on the remuneration report for the 2022 financial year, pre-reviewed at the Remuneration & ESG Committee meeting held on 17 March 2023 and audited by the auditor.

The Audit & Risk committee and the Supervisory Board also examined and discussed the Management Board’s proposal for the appropriation of the balance sheet profit. On the basis of its own review the Supervisory Board concurred with the Management Board’s proposal for the appropriation of the balance sheet profit. From the perspective of the Management Board and the Supervisory Board, investments in LPKF's innovative technologies are essential in the current situation to enable sustainable and profitable growth in the coming years. For this reason, the Management Board and the Supervisory Board will propose to the Annual General Meeting on May 17, 2023 that no dividend be paid for the 2022 financial year. The financial resources from the unappropriated profit are to be used specifically for the development and commercialization of future technologies.

Garbsen, March 2023

On behalf of the Supervisory Board

Jean-Michel Richard

Chairman

CORPORATE GOVERNANCE

LONG-TERM VALUE CREATION AND EFFICIENT COOPERATION

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

DECLARATION ON CORPORATE MANAGEMENT

Declaration of compliance pursuant to Section 161 of the German Stock Corporation Act dated 16 February 2023

The Management Board and the Supervisory Board declare that since the last regular declaration of compliance dated 23 February 2022, LPKF Laser & Electronics SE (hereinafter referred to as "LPKF") complies with the recommendations of the German Corporate Governance Code (hereinafter referred to as "Code") in the version dated 16 December 2019 (old) respectively since its validity in the version dated 28 April 2022 (new) and will continue to comply with them in the future in the version dated 28 April 2022 with the following exceptions:

1. **Recommendation on the chairmanship of the Audit Committee (Code Section D.4, sentence 2 (old), Code Section D.3, sentence 5 (new))**

The Supervisory Board has established an Audit and Risk Committee, which complies with all but one of the Code's recommendations on the Audit Committee. The only deviation is from the recommendation, according to which the chair of the Supervisory Board should not chair the Audit Committee.

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

2. Recommendations on the remuneration of the Management Board (Code Sections G.1 to G.16)

The remuneration system for the Management Board last approved by the Annual General Meeting on 20 May 2021 and the Management Board contracts concluded on the basis thereof, complied with the recommendations of the Code in Sections G.1 to G.16 with the following exceptions:

- Contrary to Section G.1, the remuneration system did not specify the relative proportions of fixed remuneration or short-term variable and long-term variable remuneration components in the target total remuneration. For long-term variable remuneration, only a basic amount of 50% of the fixed annual salary (excluding incidental benefits) has been defined in the remuneration system. A relative proportion for short-term variable remuneration was not specified in the remuneration system, but was specified in the employment contracts of the current Management Board members. Accordingly, the target amount for short-term variable remuneration is also 50% of the fixed annual salary (excluding incidental benefits). According to the employment contracts, short-term variable remuneration and long-term variable remuneration – measured against the target direct remuneration – were thus equally weighted.

- Contrary to Section G.6, the variable remuneration resulting from the achievement of long-term targets did not exceed the proportion resulting from short-term targets, and contrary to Section G.10, sentence 1, the variable remuneration amounts were not primarily invested in shares or granted on a correspondingly share-based basis. Under the terms of the Management Board employment contracts, the short-term variable remuneration and the share-based long-term variable remuneration to be invested in shares were each equally weighted at 50% – measured against the target direct remuneration. For reasons of incentive, the Supervisory Board considered equal weighting of the short-term and long-term variable remuneration components to be appropriate.

- The recommendation contained in Section G.11 to take appropriate account of extraordinary developments and, in justified cases, to be able to withhold or reclaim variable remuneration, was taken into account by the possibility of reduction in accordance with Section 87 (2) of the German Stock Corporation Act (AktG) and, in financial terms, in the case of long-term remuneration, by the obligation to invest tranches of the long-term bonus received in full in company shares after deduction of tax and to hold them for at least three years. The previous remuneration system thus also achieved a stronger link between variable long-term remuneration and the performance of the company. The financial value of the variable long-term remuneration for the Management Board was directly linked to the value of the company represented by the share price. Any further possibility of reclaiming the remuneration granted in this way was not considered feasible, as the Management Board would have had to sell the acquired shares again to be able to fulfill a corresponding claim for repayment. Because of this special characteristic of the long-term bonus program, the Supervisory Board had decided not to include an additional claw-back option in the narrower sense in order to avoid a double disadvantage.

The Supervisory Board is currently developing a new remuneration system for the members of the Management Board, which shall largely take into account the recommendations of the Code in sections G.1 to G.16., and intends to submit this new system for approval at the 2023 Annual General Meeting. Should there be any particular deviations from the compensation-related recommendations of the Code in the future, the Management Board and Supervisory Board will explain and state the reasons for such deviations.

3. **Recommendation on separate remuneration for members of Supervisory Board committees (Code Section G.17)**

   The current provision of the Articles of Association on the remuneration of Supervisory Board members does take into account the greater time commitment of the chair and vice-chair of the Supervisory Board and the chairs of the committees. However, contrary to Section G.17 of the Code, simply being a member of the committees has not yet been taken into account separately in the remuneration, as it has not yet been possible to adequately assess the time expenditure involved. The Management Board and Supervisory Board intend to propose to the 2023 Annual General Meeting an adjustment to Supervisory Board compensation that fully complies with the recommendation in section G.17 of the Code.

Garbsen, 16 February 2023

On behalf of the Supervisory Board

Jean-Michel Richard

On behalf of the Management Board

Dr. Klaus Fiedler

REMUNERATION REPORT AND REMUNERATION SYSTEMS

The remuneration report for the financial year 2022, the auditor's report on the audit of the remuneration report, the applicable remuneration systems for the members of the Management Board and Supervisory Board, and the most recent resolutions of the Annual General Meeting on the remuneration systems of the Management Board and Supervisory Board and the remuneration of the Supervisory Board are available on LPKF Laser & Electronics SE’s website at www.lpkf.com/en/investor-relations/corporate-governance.

The Supervisory Board decided to adjust the remuneration system for the members of the Management Board. This new Management Board remuneration system will be submitted to the 2023 Annual General Meeting for approval. In addition, an adjustment to the remuneration and compensation system for the members of the Supervisory Board is to be proposed to the 2023 Annual General Meeting. These compensation systems are also available on the aforementioned website. In response to feedback from investors, the Supervisory Board has also expanded the compensation report and made it more transparent.

INFORMATION ON RELEVANT CORPORATE GOVERNANCE PRACTICES

RISK MANAGEMENT

The Management Board of LPKF SE has set up a Group wide reporting and control system to record, assess, monitor and manage risks. The internal control system and the risk management system also cover sustainability-related objectives including processes and systems for collecting and processing sustainability related data and comprise a compliance management system. The system is continuously evolving and adapted to changing conditions and periodically reviewed by the auditors. The Management Board regularly informs the Supervisory Board and more specifically its Audit and Risk Committee about existing risks and their development. Details on risk management in the LPKF Group are presented in the risk report as part of the Group management report. This contains the report on the entire internal control and risk management system including a statement on the appropriateness and effectiveness of these systems.

COMPLIANCE – FUNDAMENTALS OF ENTREPRENEURIAL ACTION AND MANAGEMENT

Sustainable economic, environmental and social action that complies with applicable law is an essential element of LPKF’s corporate culture. This includes trust, respect and integrity in dealing with each other. It 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 SE 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 (see www.lpkf.com/en/company/compliance-management) and on general compliance topics. In this way, potential breaches in compliance can be prevented for the benefit of the entire Group. The Compliance Office holds regular meetings in which current topics are discussed, if necessary also with the specialist officers. Reliable reporting channels for internal and external stakeholders help to ensure that possible irregularities can be reported confidentially, also anonymously if desired. In order to uncover any breaches in compliance, LPKF provides internal and external whistleblower communication channels for contacting the company, which are listed on the homepage (www.lpkf.com/en/company/compliance-management). Both the Compliance Officer and an independent lawyer can be reached through these channels in total confidence and confidentiality if this is required. Other contact points for employees can be found in the Compliance Code, on the intranet and on notice boards in the company. Group auditing, which is carried out by a reputable and internationally recognized auditing company as an external service provider, also plays an important role in ensuring compliance. The corresponding audits are also used with regard to the further development of the internal control system.

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

LPKF SE is a publicly listed European Company (Societas Europaea, SE) and has a dual management system with a Management Board and a Supervisory Board.

The Management Board and the Supervisory Board of LPKF SE work closely together in managing and monitoring the company.

MANAGEMENT BOARD

The Management Board of LPKF SE consists of two members with one acting as Chief Executive Officer (CEO). The specific composition of the Management Board in the 2022 financial year as well as the disclosures pursuant to Section 285 No. 10 HGB can be found in the combined management and group management report in this Annual Report. As the management body, it is the responsibility of its members 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 systematically identifies and assesses the risks and opportunities associated with social and environmental factors, as well as the ecological and social impacts of the activities of LPKF SE. In addition to long-term economic objectives, the corporate strategy also gives appropriate consideration to ecological and social objectives. Corporate planning includes corresponding financial and sustainability-related objectives.

The Management Board performs its management duties as a collegial body. Notwithstanding the overall responsibility, the individual Management Board members manage the departments assigned to them on their own responsibility within the framework of the Management Board resolutions. The allocation of responsibilities between the Management Board members is set out in the business distribution plan. Information on areas of responsibility as well as curricula vitae of the Management Board members are available on the company’s website at www.lpkf.com/en/company/management. The Management Board meets regularly for joint meetings.

SUPERVISORY BOARD

The Supervisory Board consists of four members elected by the Annual General Meeting by way of individual election. The specific composition of the Supervisory Board in the 2022 financial year as well as the disclosures pursuant to Section 285 No. 10 HGB can be found in the combined management and group management report in this Annual Report. CVs of the Supervisory Board members are available on the company's website at www.lpkf.com/en/company/management.

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

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

As a matter of principle, on an annual basis, the Supervisory Board reviews how effectively the Supervisory Board and its committees perform their duties. A survey is prepared with detailed questions and sent to all members of the Supervisory Board. The survey contains questions on the organizational, personnel and content-related performance of the body as well as on the structure and processes of cooperation in the body and on the provision of information, in particular by the Management Board. The last self-assessment of the Supervisory Board's work took place by means of a survey in October 2022. The results of the review were presented and discussed in the Supervisory Board and confirmed professional, constructive cooperation within the Supervisory Board and with the Management Board. The results also confirmed the efficient organization and conduct of meetings and appropriate provision of information. No fundamental need for change emerged. The work of the committees, that were only formed in October 2021, will be evaluated in the current financial year.

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

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 in line with the objectives for the composition of the Supervisory Board set out below. 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.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board has formed an Audit and Risk Committee, a Remuneration & ESG Committee and a Nomination Committee.

The Audit and Risk Committee consists of three Supervisory Board members, currently Jean-Michel Richard (Chairman), Dr. Dirk Rothweiler and Prof. Dr.-Ing. Ludger Overmeyer.

The members of the Audit Committee are, as a group, familiar with the sector in which the Company operates.

Due to his professional background and his practical experience as Chairman of the Audit Committee of other international enterprises and, inter alia, former CFO of Dialog Semiconductor Plc, Jean-Michel Richard has extensive expertise in the area of accounting, including specific knowledge and experience in applying accounting principles and internal control and risk management systems, and in the area of auditing of financial statements, with accounting and auditing also including sustainability reporting and its audit and assurance.

Dr. Dirk Rothweiler has special expertise in the area of accounting due to his professional background and his practical experience, most recently as former CEO of First Sensor AG and as Executive Vice President Jenoptik Optical Systems.

Meetings of the Audit and Risk Committee take place at least once every calendar quarter.

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

The Audit and Risk Committee prepares the Supervisory Board's proposal to the Annual General Meeting on the election of the auditor and the Supervisory Board's decision on the determination of key audit areas, the award of the audit contract to the auditor and the fee agreement. To this end, it also deals with the prescribed independence of the auditor. The Audit and Risk Committee decides on whether to approve the provision of permissible non-audit services by the auditor and regularly assesses the quality of the audit. It also prepares the selection and commissioning of any external audit of any non-financial (Group) statement or separate non-financial (Group) report by the Supervisory Board. The Audit and Risk Committee discusses with the auditor the audit risk assessment, the audit strategy and audit planning, and the audit results. The Chairman of the Audit and Risk Committee regularly discusses the progress of the audit with the auditor and reports thereon to the committee. The Audit and Risk Committee consults with the external auditors on a regular basis without the Management Board.

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

The Remuneration & ESG Committee consists of three Supervisory Board members, currently Julia Kranenberg (chairwoman), Jean-Michel Richard and Dr. Dirk Rothweiler. Meetings of the Remuneration and ESG Committee are held at least twice per calendar year. The Remuneration & ESG Committee deals with environmental, social, governance, sustainability, health and safety, and social responsibility topics (together the "ESG Topics"). It advises the Supervisory Board and the Management Board on ESG Topics, monitors and mentors the measures taken by the Management Board to implement them. It supports the Audit and Risk Committee at its request in the preparation for the Supervisory Board's review of reporting and disclosure on ESG Topics, in particular as part of the non-financial (Group) statement or the separate non-financial (Group) report.

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

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

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

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

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

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

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

In 2018 the Management Board had set targets for the proportion of women in the two management levels below the Management Board. They amounted to 17% in the first management level and 23% in the second management level below the Management Board. The deadline for achieving these targets was 30 June 2022. On this date the proportion of women in the first management level reached 25% and thus exceeded the set target. The proportion of women in the second management level reached 10 % and was thus below the set target. The second management level below the Management Board is a relatively small comparison group of managers. No suitable female candidates could be identified for the very few, mainly technical positions that became vacant during the reference period.

The Management Board has defined new targets for the future proportion of women in the two management levels below the Management Board to be reached by 30 June 2027. They amount to 30% for the first and 20% for the second management level, based on projected employee figures in the management levels by 30 June 2027.

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

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

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

- The members of the Management Board shall, as a whole, possess the knowledge, skills and professional experience necessary for the proper performance of their duties.
- The members of the Management Board must be familiar with the relevant industrial environment. At least individual members of the Management Board should also have knowledge in the Laser Technology Business Field and in the area of capital markets and financing. At least the member of the Management Board responsible for finance must have expertise in the fields of accounting or auditing of the Management Board should have experience in managing a medium-sized company.
- Diversity shall also be considered in the search for qualified personnel for the board. The extent to which different, mutually complementary professional profiles,

professional and life experiences as well as an appropriate representation of both genders benefit the work of the board should also be appreciated.

- As a rule, only those who have not yet reached the age of 65 shall be members of the Management Board. The age of the Management Board members shall therefore also be taken into account in the appointment.
- For the proportion of women on the Management Board, the Supervisory Board has set the target described above and the above deadline for achieving it.

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

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

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

The Supervisory Board, with the support of the Nomination Committee, has set objectives regarding its composition and has prepared a competence profile including diversity that is taken into account when proposing new candidates for the Supervisory Board.

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

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

a) Consideration of the international activity of the company

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

b) Independence and avoidance of potential conflicts of interest

The Supervisory Board shall include an appropriate number of independent members on the shareholder side within the meaning of Recommendation C.6 of the German Corporate Governance Code of 28 April 2022 (GCGC 2022). A member of the Supervisory Board shall be considered independent within the meaning of this recommendation if he or she is independent of the company and its Management Board and independent of a (possible) controlling shareholder.

More than half of the shareholder representatives shall be independent of the company and the Management Board. According to the definition of recommendation C.7 GCGC 2022, a Supervisory Board member is independent of the company and its Management Board if he or she has no personal or business relationship with the company or its Management Board that could constitute a material and not merely temporary conflict of interest. In assessing independence, the Supervisory Board takes into account the indicators listed in recommendation C.7 GCGC 2022.

At least one shareholder representative shall be independent of a (possible) controlling shareholder. According to recommendation C.9 GCGC 2022, a Supervisory Board member is independent of the controlling shareholder if he or she or a close family member is neither a controlling shareholder nor a member of the controlling shareholder's executive body nor has a personal or business relationship with the controlling shareholder that may give rise to a material and not merely temporary conflict of interest.

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

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

c) Setting an age limit

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

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

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

e) Consideration of diversity

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

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

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

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

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

The implementation status regarding the profile of skills and expertise for the entire Supervisory Board and other objectives for the composition of the Supervisory Board is set out in following qualification matrix:

Qualification matrix of the Supervisory Board of LPKF Laser & Electronics SE, 2023

		Jean-Michel Richard (Chairman)	Dr. Dirk Rothweiler (Deputy Chairman)	Julia Kranenberg	Prof. Ludger Overmeyer
Affiliation	Member since	2020	2017	2021	2019
	Appointed until	2023	2023	2023	2023
Personal requirements	Independece				
	of the Company and the Management Board*	✓	✓	✓	✓
	of any controlling shareholder**	✓	✓	✓	✓
	No overboarding***	✓	✓	✓	✓
	International experience	✓	✓	✓	✓
Diversity	Year of birth	1963	1963	1971	1964
	Gender	m	m	w	m
	Nationality	Swiss	German	German	German
Knowledge					
Business areas	Laser technology		✓		✓
	Electronics market / semiconductor market	✓	✓		✓
General	Environment, Social, Governance (ESG)	✓	✓	✓	
	Legal, Corporate Governance & Compliance	✓		✓	
	Business Administration, Financing & Investment	✓	✓		
	Human Resources / Compensation		✓	✓	
Financial Experts	Accounting expert****	✓	✓		
	Audit expertise****	✓			
Committees					
	Audit & Risk Committee	✓	✓		✓
	Nomination Committee	✓	✓	✓	
	Compensation & ESG Committee	✓	✓	✓	

*within the meaning of C. 7 GCGC
**within the meaning of C. 9 GCGC
***within the meaning of C. 4 and C. 5 GCGC
****within the meaning of Section 100 (5) AktG, D. 3 GCGC

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of LPKF SE 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 SE who are bound by instructions, or another proxy of their choice. Shareholders can follow the Annual General Meeting or parts thereof via the internet. The Management Board may provide for shareholders to cast their votes in writing or by way of electronic communication (postal vote) and, in case of General Meetings with physical attendance in general, 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 SE's website in German and English.

Due to the special circumstances of the COVID-19 pandemic, the 19 May 2022 AGM was held as a virtual meeting without the physical presence of shareholders or their proxies.

TRANSPARENCY

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

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

SHARE TRANSACTIONS OF THE MEMBERS OF THE GOVERNING BODIES

Information on directors' dealings is published by LPKF SE on the internet (www.lpkf.com/en/investor-relations/publications/mandatory-publications) and reported to the relevant supervisory authorities.

ACCOUNTING AND AUDITING

LPKF SE 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 SE are prepared in accordance with the German Commercial Code (HGB). The annual and consolidated financial statements are prepared by the Management Board, reviewed by the Audit and Risk Committee and the Supervisory Board and audited by externally appointed auditors. The interim reports and the half-year financial report are discussed by the Supervisory Board, its Audit and Risk Committee and with the Management Board prior to publication. The consolidated financial statements and the annual financial statements of LPKF SE were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, the auditors for the 2022 financial statements elected by the 2022 Annual General Meeting. KPMG is auditor since the 2019 financial statements. The audit reports were signed by Björn Kniese, KPMG partner assigned to LPKF since the 2020 annual financial statements and Thomas Meyer, assigned to LPKF since 2021. The audits were conducted in accordance with German auditing regulations and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). They also covered risk management and compliance with corporate governance reporting requirements pursuant to section 161 of the German Stock Corporation Act (AktG).

It was also contractually agreed with the auditors that they would inform the Supervisory Board immediately of any possible grounds for disqualification or partiality as well as of any significant findings and occurrences during the audit. There was no reason to do so during the audits for the 2022 financial year.

Garbsen, 17 March 2023

JEAN-MICHEL RICHARD
the Supervisory Board

KLAUS FIEDLER
the Management Board

COMBINED MANAGEMENT REPORT

for the LPKF Group and LPKF Laser & Electronics SE

BASIC INFORMATION ON THE GROUP

GROUP STRUCTURE AND BUSINESS MODEL

At the Annual General Meeting on May 19, 2022, the shareholders resolved to convert LPKF Laser & Electronics SE into the legal form of a European company (Societas Europaea, SE). The conversion became effective upon entry into the commercial register on December 12, 2022. Since this change took place prior to the preparation of this combined Group management report and management report, the Company is referred to throughout this report by its current name, LPKF Laser & Electronics SE.

LPKF Laser & Electronics SE (LPKF) is a global technology company with an export share of 90% and customers in over 70 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, biotechnology, research institutions and universities.

LPKF was established in 1976 and has more than 45 years of experience as a developer and supplier of innovative capital goods for industrial companies and research institutions.

Research and development are 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 several areas.

LPKF Laser & Electronics SE is headquartered in Garbsen near Hanover, Germany. The company has a broad global presence, with a workforce of 740 people based at locations in Europe, Asia and North America. LPKF’s shares are listed in the Prime Standard of the German Stock Exchange.

LEGAL STRUCTURE OF THE GROUP

As of 31 December 2022, LPKF had 9 subsidiaries, which, together with the parent company, form the group of consolidated companies.

LPKF Laser & Electronics (Hong Kong) Ltd. was closed to streamline and simplify the Group's structures. The operating business had already been transferred to other Group companies in previous years. The company was finally deleted from the local register with the announcement on March 25, 2022. In January 2022, LPKF (Shanghai) Trading Co., Ltd. was founded with a registered office in Shanghai, China. In October, the company was renamed LPKF Shanghai Co.,Ltd. It will replace the previous company LPKF (Tianjin) Co. Ltd. in the medium term.

LPKF Laser & Electronics SE
Garbsen/Germany
(Production/Sales/Service)

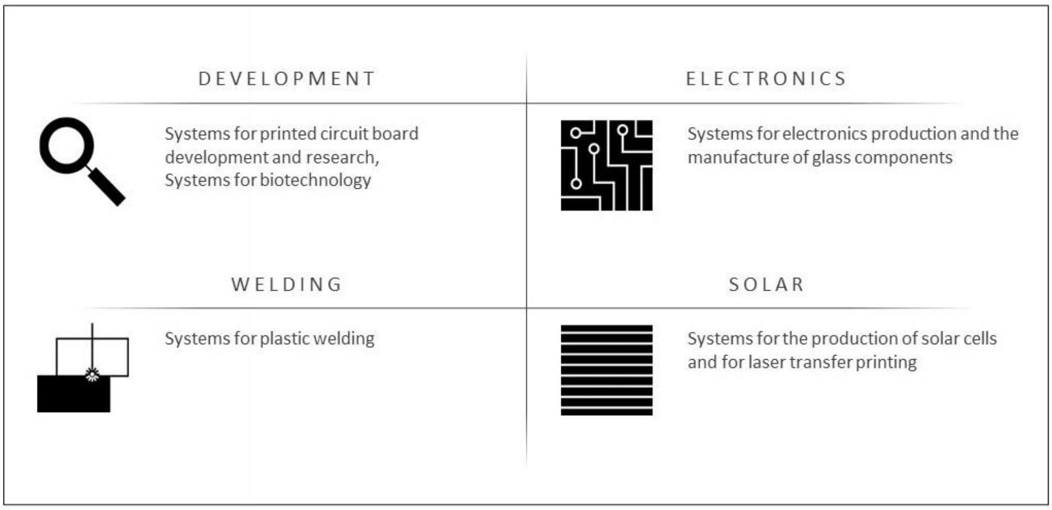
Production subsidiaries	Sales and Service companies
LPKF WeldingQuipment GmbH Fürth/Germany (100 %)	LPKF Distribution Inc. Tualatin (Portland)/USA (100%)
LPKF SolarQuipment GmbH Suhl/Germany (100%)	LPKF Shanghai Co., Ltd. Shanghai/China (100%)
LPKF Laser & Electronics d.o.o. Naklo/Slovenia (100%)	LPKF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

Operating segments

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

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

In the 2022 financial year, LPKF operated in the following segments:



Development

In the **Development** segment, LPKF supplies practically all the electronic equipment that developers require to rapidly manufacture and assemble printed circuit board prototypes in house and largely without the use of chemicals. In addition to the development departments of industrial companies, the company primarily supplies public organizations such as research institutes, universities and schools. Since 2021, LPKF has been developing systems and solutions for biomedical research under the name ARRALYZE. The ARRALYZE product range covers systems, consumables, and software applications. The first systems from the ARRALYZE division will be available for purchase from the second half of 2023. The solutions provided by ARRALYZE will address customers from the research, biotechnology and pharmaceutical sectors.

Electronics

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

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

Welding

The **Welding** segment comprises laser systems, thermal process monitoring and software for welding plastics. The business unit develops and sells standardized standalone and integration systems, but also offers tailored solutions for customers. These systems are used mainly in the automotive supply industry, medical technology and in the production of consumer electronics.

Solar

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

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

Production and procurement

Production takes place exclusively at the German locations and in Slovenia. Rapid prototyping equipment and other equipment for the Development segment, as well as some of the laser sources used within the Group, are produced by the subsidiary LPKF Laser & Electronics d.o.o.

in Naklo (Slovenia). Systems for the Electronics segment are manufactured in Garbsen, Germany. Welding segment production takes place in Fürth, Germany. Solar and LTP systems are produced in Suhl, Germany. At LPKF, production generally comprises the assembly of machinery and equipment.

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

Sales

Global cross-segment sales in important regions such as China, Japan, North America and South Korea are handled by subsidiaries. Overall, the Group is represented by subsidiaries and more than 45 distributors in over 70 countries, which acquire and serve customers all over the world.

PRODUCTION COMPANIES

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

MANAGEMENT AND CONTROL

Organization of management and control

The Management Board represents the company and is responsible for running it. The members of LPKF SE’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 24 (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 SE in the 2022 financial year:

- Dr. Klaus Fiedler (CEO)
- Christian Witt (CFO)

In the 2022 financial year, the Supervisory Board consisted of the following members:

- Jean-Michel Richard (Chairman)
- Dr. Dirk Rothweiler (Deputy Chairman)
- Prof. Dr.-Ing. Ludger Overmeyer
- Julia Kranenberg

Relevant legal factors

The company and each of its segments are subject to the legal requirements for a domestic listed European stock corporation (Societas Europaea). Beyond this, no special legal provisions apply.

STRATEGY

Strategic framework

Megatrends

The following megatrends play a decisive role in LPKF's sustainable growth:

- Miniaturization: as more and more electronic components have to fit into the same amount of space or less, things are getting tight. Precision tools for production are becoming indispensable, and methods for high-precision plastic welding are increasingly being used. Innovative solutions for semiconductor housings are being actively sought.
- Carbon neutrality: Renewable energies are the key factor on the road to carbon neutrality. The growing importance of solar energy in power generation requires precise and efficient manufacturing equipment. Electromobility is driving demand for battery module manufacturing tools. Overall, the importance of energy efficiency in manufacturing processes and end products is increasing.

- Connectivity: Continuous innovations in mobile devices demand innovative manufacturing solutions for displays and designs. Growth and increasing complexity in high-frequency technology increase the need for rapid prototyping.
- Aging population: Demographic change is leading to higher demand for medical technology and accessories worldwide. Drug development and personalized medicine require efficient solutions for single cell analysis.

Vision

LPKF is an expert and pioneer in the fields of laser technology, materials technology, precision mechanics and software. As an innovation leader, the company taps into new growth markets by enabling its customers to achieve technological breakthroughs.

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

1. Pioneer: LPKF is spearheading the transformation from traditional production and development 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 and development. This includes solutions with disruptive advantages for the customers.
3. Production provider: LPKF manufactures serial components based on its innovative process technology.

Success factors

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

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

Core competencies

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

Corporate responsibility

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

Independence of individual markets as a result of broad positioning

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

Mission statement

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

LPKF is a technology group. By focusing on its core competencies, the company aims to shape technological progress and achieve top market positions through a sound understanding of customer needs. A sense of professional partnership and fair treatment characterizes relationships with customers, suppliers and representatives as well as the working relationships among employees within the LPKF Group. As an international group, LPKF strives for understanding of other cultures and philosophies.

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

LPKF makes an active contribution to reducing waste by using largely laser-based production methods. LPKF aims to design its products and internal processes to be as environmentally friendly as possible. Health and well-being are the foundations for a successful business. LPKF places significant emphasis on promoting the health of its employees and on occupational safety at the company. Its ambition to be a technology leader means that LPKF always strives to optimize its products and product development processes. It goes without saying that this requires a corporate culture that is open and encourages learning and constructive criticism. LPKF's responsibility extends to its customers, employees, business partners, shareholders and society. 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, CO2 neutrality, connectivity and the aging population are each leading to strong demand for precise, high-performance and clean manufacturing methods. This makes lasers as a tool a key technology for many growth markets. 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 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. It makes LPKF more independent of cyclical fluctuations in the individual sectors. This approach requires the integration of all business processes with potential synergies.

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

Strategic alignment of the segments

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

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

The LIDE technology (Laser Induced Deep Etching) developed by LPKF is a basic technology for a wide range of applications in microsystems technology. It enables customers to process Combined Management Report Basic Information on the Group 43 thin glass quickly, precisely, and without damage such as micro-cracks. This makes the LIDE process an enabling technology for many areas of microsystems technology, such as the manufacture of foldable displays, highly integrated processor modules, MEMS and semiconductor components. LPKF also offers LIDE technology as a production service (foundry) in addition to selling equipment. The company thus offers all potential LIDE customers an easy, barrier-free entry into the technology. In all important key markets for this segment, LPKF has a presence with its own subsidiaries and partners.

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

The Solar segment includes all activities in connection with the high-precision laser machining of large surfaces. This is where LPKF develops, manufactures and markets systems for structuring thin-film solar modules. The precision and processing speed of the solar systems set LPKF apart as a specialist on the solar market. LPKF has continuously broadened the customer base for its solar systems and systematically pushed ahead with the development of new markets outside the solar industry. With its LTP technology LPKF is targeting the market for digital printing on large format glass. 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.

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. For the calculation of the error rate, the current warranty costs at rolling turnover are compared to a baseline value consisting of the warranty costs at turnover at a defined point in time.

Further information on non-financial targets and key figures can be found in the non-financial consolidated report to be published at the end of April 2023 www.lpkf.com/en/company/sustainability).

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

		2022 target	**2022**	2021	2020	2019	2018
Revenue	in EUR million	110 - 130	123.7	93.6	96.2	140.0	120.0
EBIT	in EUR million	2,2 - 9,1	6.8	0.1	7.5	19.2	6.8
EBIT margin	in %	2 - 7	5.5	0.1	7.8	13.7	5.7
ROCE	in %	Same as EBIT and capital employed	7.4	0.1	9.0	25.5	7.0
Net working capital	in EUR million	< 19.3	26.0	19.3	20.5	17.1	37.9
Net working capital ratio	in %	< 17,5	21.0	20.6	21.3	12.2	31.6
Free cash flow	in EUR million	> -0.7	0.3	-0.7	-5.5	42.2	5.8
Error rate		< 50	27	48	34	48	70

Target/actual comparison of planning and implementation

On March 23, 2022, the company issued its first quantitative forecast for the full year 2022. According to this, consolidated revenue should be between EUR 110 million and EUR 130 million and the EBIT margin between 2 - 7 %.

On October 27, 2022, LPKF specified its full-year forecast to revenue of between EUR 117 million and EUR 127 million.

With revenue of EUR 123.7 million and an EBIT margin of 5.5%, the Group is within the range of its most recent forecast. At 7.4%, ROCE is in line with the earnings trend.

In order to ensure delivery capability, higher inventories were deliberately accepted in the course of the year, which had a negative impact on operating cash flow and the targeted working capital ratio. At EUR 26.0 million, or 21.0% of sales, the Group exceeded the stated target range.

Free cash flow developed favorably and was at EUR 0.3 million higher than in the previous year (EUR -0.7 million).

The quality cost target was achieved, and the error rate improved significantly compared to the previous year.

NON-FINANCIAL STATEMENT

LPKF SE's separate non-financial consolidated report will be published on the company's website under Company /Sustainability (https://www.lpkf.com/en/company/sustainability) within the legally stipulated period by no later than 30 April 2023.

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 the 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 2022 financial year, several existing products were upgraded to a new technological level, entirely new products were completed and technology developments were initiated, which in turn are expected to lead to new competitive products in the short to medium term.

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 2022, expenses of EUR 16.5 million (previous year: EUR 13.3 million) were incurred in this area, corresponding to 13.4% (previous year: 14.2%) of sales.

LPKF capitalized EUR 5.5 million development expenses as intangible assets in the reporting year (previous year: EUR 5.3 million), which equates to a capitalization ratio of 25% (previous year: 28%). Amortization of capitalized development expenses amounted to EUR 4.3 million in 2022 (previous year: EUR 3.5 million).

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

in EUR million	**2022**	2021	2020	2019	2018
R&D expenses *	16.5	13.3	11.0	12.5	11.7
As % of revenue	13.4	14.2	11.4	8.9	9.7
R&D employees	211	207	177	143	141

* Current R&D expenses include amortization of capitalized development expenses of EUR 4.3 million (previous year: EUR 3.5 million)

R&D results

In the past year, the Electronics segment systematically expanded its range of automation solutions to better serve applications in the mass production of electronic components. The

StencilLaser G60120 was developed to produce stencils up to 1.2 m in length for solder paste printing. The version of the CuttingMaster named CM2240 was equipped with Tensor technology, which enables significantly higher cutting qualities and speeds.

In the Vitrion area, various applications of technical thin glass were investigated, including shadow masks made of glass for vapor deposition and printing stencils for printing solar cells with conductive pastes. Several research activities on the use of glass for quantum technologies were started.

In the Development segment, the new MultiPress S4 product and a new software environment for the ProtoLaser H4 were completed in 2022. Several new technologies and products are under development: among others, a focus is on various processes for additive technologies for the production of functional layers in printed circuit board prototypes.

In 2022, the Solar division has focused on the development of a new generation of the Allegro series for larger formats and a halving of the cycle time compared to the previous generation. In addition, the first systems for the pioneering perovskite technology are about to be delivered to customers. A market expansion of thin-film PV to the general thin-film area, meaning the processing of thin films on large areas, is being prepared. Preliminary testing has been started for this purpose in 2022.

In the area of "Laser Transfer Printing", the transfer of developed black ceramic inks for architectural glass applications to production was initiated. New technology developments were initiated: Process developments for printing very large layer thicknesses, also for architectural glass, and different colored inks (as opposed to previously exclusively black inks, which absorb laser radiation well) were started. In addition, developments were initiated for three test stands, focusing on printhead electronics, optics and lasers, and coating technology.

In the Welding segment, the reworking of a high-volume system for quasi-simultaneous welding on a standalone basis was completed. In addition, the reworking of another important line for fully automated production was started. Several novel tooling concepts were developed to enable improved processing of components in the increasingly important medical technology segment. A new measuring device capable of measuring the laser transmission of radially symmetrical components was completed. In the process control area, further systems were sold to customers and work was done on optimizing the evaluation algorithm.

The ARRALYZE area completed its own bio laboratory in 2022 and operated the first machine for printing, analyzing and sampling cells. The developments were presented at the important SLAS 2022 exhibition in Boston with very good feedback from potential customers. In addition, scientific studies in cooperation with a research group from Stockholm were published in the renowned journal "Lab on Chip". An extensive beta testing project was started with two partners. Here, the field of application is the investigation of immune cells at the single cell level and the identification of markers for early cancer detection.

REPORT ON ECONOMIC POSITION

COURSE OF BUSINESS

Macroeconomic environment

The global economy weakened in 2022. The causes are high inflation - especially in the USA and the major European economies - the war of aggression against Ukraine and an economic slump in China due to COVID-19 outbreaks and associated lockdowns.

According to expectations of the Institute for the World Economy (IfW), global gross domestic product (GDP) will have grown by 3.2% last year, slightly more than forecast in fall 2022. A slight stabilization in supply chains contributed to this. In 2021, the global economy grew by 6.1%.

According to IfW 2022, economic growth in the advanced economies was weaker than in the global economy as a whole at 2.6%. While the increase in the euro zone was above the overall level at 3.5% according to Eurostat calculations, it was significantly lower for the USA at 2.1% and Japan at 1.4%.

According to the Federal Statistical Office, Germany's economy grew by only 1.9% last year. The main reasons for the comparatively poorer performance were persistent supply bottlenecks and the consequences of the war of aggression on Ukraine with the resulting energy crisis and inflation.

According to the IfW, economic output in the emerging markets was robust, rising by 3.6%. The main drivers were China and India, with growth of 3.0% and 6.5% respectively in 2022. In China, growth was thus below the average for the global economy for the first time in 40 years.

In 2022, the euro zone recorded the highest growth for the first time, ahead of China and the USA.

Sector-specific environment

In addition to the macroeconomic environment, the development of LPKF Laser & Electronics SE's business is influenced by developments in individual sectors. These include the electronics industry with its focus on consumer electronics, the automotive industry, the solar industry and the plastics sector. Their developments in the past year are outlined below.

In the electronics industry, global smartphone sales decreased by 2.1% to 1.40 billion smartphones in 2022, according to Gartner. Because of the pandemic, more people worked at home and changed their smartphones less frequently.

According to calculations by the German Association of the Automotive Industry (VDA), the global automotive markets developed at roughly the same level in 2022 as in the previous year. Accordingly, 71.2 million passenger cars were sold worldwide. While sales in Europe, the USA and Japan declined, China developed into the most important sales region for passenger cars with an increase of around 10%.

As an essential component of renewable energies, the importance of the solar industry continues to grow. Despite increased product costs, the International Energy Agency (IEA) expects a significant expansion in installed capacity. In 2022, global capacity was around 1,000 gigawatts. German manufacturers of photovoltaic machinery and equipment recorded a significant increase in sales over the course of 2022, according to the German Engineering Federation (VDMA).

According to the VDMA, development in the German plastics sector was subdued in 2022, with only a slight increase in sales expected. According to IHS Markit, demand for new lightweight materials for automotive construction and new applications in medical and electronics engineering will contribute to a further increase in global plastics consumption.

Despite the Ukraine war and supply chain problems, the VDMA expects production in the German mechanical and plant engineering sector to increase by 1% in 2022.

Effects on the LPKF Group and the LPKF SE

The global economy performed better than initially expected in 2022. It was notable that for the first time, the euro zone recorded higher economic growth than China and the USA, which were adversely affected by the zero-covid strategy.

The sectors of importance to the LPKF Group showed a mixed picture in 2022. While the solar industry experienced an upswing, sales of smartphones, for example, declined significantly in the electronics industry.

Overall, despite the challenges described, the company recorded solid business development in 2022 and achieved its own full-year forecast.

At the same time, increased raw material and logistics prices as well as material bottlenecks weighed on profitability. Thanks to successfully implemented price increases, active cost management and the continuous optimization of processes, the negative impact on earnings was cushioned.

The strategy of targeting different growth markets based on core competencies had a stabilizing effect against the backdrop of cyclical markets in fiscal 2022. This is demonstrated by the differing development of the segments in fiscal 2022.

With the significant growth in revenue (plus 32 %) and the profitable business development (EBIT: EUR 6.8 million), LPKF has returned to a solid, profitable growth path. In the Management Board's view, LPKF has sufficient cash reserves consisting of liquid funds and available credit lines. The declining exchange rate of the euro in relation to other major currencies such as the U.S. dollar was rather beneficial to LPKF SE's export activities in 2022.

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

Result of operations

Development of revenue

In the 2022 financial year, the LPKF Group generated revenue of EUR 123.7 million, up 32.2% on the previous year (EUR 93.6 million).

The **Solar segment** delivered laser systems for structuring solar modules as part of a major order in 2022. Turnover of EUR 38.4 million was achieved, EUR 26.3 million more than in the previous year.

The **Electronics segment** achieved sales of EUR 31.5 million, a slight decrease compared to the previous year (EUR 32.0 million).

The **Welding segment** closed the year with a decline in sales to EUR 25.6 million compared to the previous year (EUR 27.4 million).

The **Development segment**, with sales of EUR 28.2 million, was significantly above the previous year's sales of EUR 22.1 million.

The following table shows the revenue by region:

in %	**2022**	Prior year
Asia	41.4	46.5
North America	34.2	18.2
Europe excl. Germany	14.3	21.3
Germany	8.0	12.0
Other	2.1	2.1
Total	**100.0**	100.0

The Group's export ratio rose slightly compared to the previous year (88.0%) and now stands at 92.0%. As in the previous year, the regional distribution is only informative to a limited extent, as some of the machines for globally active customers are installed at their production sites, which are often set up in other regions. This year the share of sales to North America increased significantly.

Segment performance

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

	External revenue		EBIT	
in EUR million	**2022**	2021	**2022**	2021
Electronics	31.5	32.0	-2.1	-0.8
Development	28.2	22.1	3.9	1.2
Welding	25.6	27.4	1.4	3.0
Solar	38.4	12.1	3.6	-3.3
Total	**123.7**	93.6	**6.8**	0.1

Development of orders

At EUR 124.3 million, incoming orders during the reporting period were 5.4% higher than in the previous year. Orders on hand of EUR 63.2 million at the end of the year were EUR 0.6 million higher than in the previous year.

Development of main income statement items

Own work capitalized included EUR 5.5 million in development work for products and software. At EUR 4.2 million, other income was higher than in the previous year (EUR 3.3 million). The higher value results on the one hand from higher income from exchange rate differences (+ EUR 0.5 million), as well as more grants for research and development activities (+ EUR 0.8 million). In 2021, other income included the reimbursement amounts requested from the Federal Employment Agency for social security contributions in connection with short-time work at the German locations in the amount of EUR 0.1 million.

The cost of materials ratio - calculated from the cost of materials and changes in inventories in relation to turnover - is 35.0 % and thus above the previous year's value of 31.6 %.

At EUR 49.5 million, personnel expenses were up on the previous year's figure of EUR 44.3 million. The increase is explained by a special payment to the workforce linked to the Group's earnings, higher allocations to provisions for bonuses, regular salary adjustments, and an increase in current non-financial liabilities from compensated absences such as vacation and overtime reductions. In 2022, there was no relief from short-time working as in the previous year. The personnel expense ratio as a ratio of personnel expenses to sales improved from 47.4% in the previous year to 40.0% in the current year due to increased sales.

Depreciation and amortization increased to EUR 8.3 million in 2022 (previous year: EUR 7.5 million). Of this, amortization of capitalized development expenses accounted for EUR 4.3 million.

At EUR 26.3 million, other expenses were 24.3 % higher than in the previous year. This development is mainly due to the increase in expenses for travel and entertainment (+ 1.3 million EUR), higher expenses for research and development activities (+ 0.7 million EUR), higher exchange rate losses (+ 0.4 million EUR), as well as higher expenses for repair, maintenance and operating supplies, trade fair costs, training costs and warranty expenses (all + 0.4 million EUR).

EBIT (earnings before interest and taxes) increased from EUR 0.1 million in the previous year to EUR 6.8 million. The EBIT margin is 5.5 % after a margin of 0.1 % in 2021.

Multi-period overview of results of operations

		2022	2021	2020	2019	2018
Revenue	in EUR million	123.7	93.6	96.2	140.0	120.0
EBIT	in EUR million	6.8	0.1	7.5	19.2	6.8
Material cost ratio	in %	35.0	31.6	33.1	38.9	39.7
Staff cost ratio	in %	40.0	47.4	43.1	32.0	36.9
Tax ratio	in %	74.1	32.9	26.9	29.9	-33.2
EBIT/employee	in EUR thousand	9.2	0.1	10.9	28.3	10.2

Financial position

Principles and goals of financial management

External funding sources available to LPKF SE include the issue of shares and the raising of short- and longterm loans. As part of its internal financing, the Group mainly draws financial resources from the use of its own surpluses, and also from the retention of generated depreciation and amortization values.

In the LPKF Group, hedging of currency and, if necessary, other risks is carried out by the parent company LPKF SE. Derivatives are used exclusively for hedging transactions when required. The European companies optimize their liquidity via a cash pool, while the non-European companies are integrated here via operational liquidity management. Financing is handled centrally for the LPKF Group.

Statement of cash flows

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

in EUR million	**2022**	Prior year
Cash flow from operating activities	8.5	7.9
Cash flow from investing activities	-8.2	-8.6
Cash flow from financing activities	-3.1	-5.2
Change in cash and cash equivalents	-2.8	-5.9
Change in cash and cash equivalents due to changes in foreign exchange rates	0.4	1.0
Cash and cash equivalents on 1 Jan.	15.2	20.1
Cash and cash equivalents on 31 Dec.	12.8	15.2
Composition of cash and cash equivalents:		
Cash on hand, bank balances	12.8	15.2
Overdrafts	0.0	0.0
Cash and cash equivalents on 31 Dec.	**12.8**	15.2

The group's cash and cash equivalents fell from EUR 15.2 million at the end of the previous year to EUR 12.8 million. This is mainly due to continued high investment activity and the repayment of liabilities to banks.

At EUR 8.5 million, cash flow from operating activities was above the previous year's level of EUR 7.9 million. At the reporting date, there were higher trade receivables than in the previous year due to successful year-end business, which had a greater impact on the operating cash flow than in 2021.

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

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

Multi-period overview of the financial position

The LPKF Group has credit lines with core banks. No loans were drawn down from this line on the reporting date.

Due to the high equity ratio, the Group's net cash position and the free credit lines, the Board of Managing Directors considers the LPKF Group's earnings position, net assets and financial position to be very solid. The Group can realise investment activities to a large extent from its own funds.

in EUR million	**2022**	2021	2020	2019	2018
Free cash flow	0,3	-0,7	-5,5	42,2	5,8
Net cash position = Net credit (+) / net debt (-) to banks	11,7	12,1	15,2	-24,5	-16,3

Net assets

Analysis of net assets and capital structure

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

	12/31/2022		12/31/2021	
	in EUR million	in %	in EUR million	in %
Non-current assets	67.1	48.5	69.0	52.2
Current assets	71.3	51.5	63.2	47.8
Assets	**138.4**	**100.0**	132.2	100.0
Equity	94.5	68.3	92.2	69.7
Non-current liabilities	4.3	3.1	4.2	3.2
Current liabilities	39.6	28.6	35.8	27.1
Equity and liabilities	**138.4**	**100.0**	132.2	100.0

Compared to 31 December 2021, non-current assets decreased by EUR 1.9 million to EUR 67.1 million. The change resulted from an increase in capitalized development costs (+ 1.3 million euros) and a decrease in property, plant and equipment (-1.2 million euros) and non-current receivables (-0.7 million euros). Deferred tax assets fell by EUR 1.9 million.

The increase in current assets from EUR 63.2 million in the previous year to EUR 71.3 million as at 31 December 2022 is mainly due to the increase in trade receivables by EUR 10.9 million. The increase in trade receivables is due to the reporting date and results from a December with strong sales. In contrast, cash and cash equivalents fell by EUR 2.4 million to EUR 12.8 million and inventories by EUR 0.9 million to EUR 27.7 million. Other assets rose by EUR 1.3 million to EUR 2.8 million compared to the previous year.

Non-current liabilities decreased by EUR -0.1 million, mainly due to the scheduled repayment of loans (EUR - 1.0 million) and lower non-current leasing liabilities (EUR -0.4 million). Deferred tax liabilities, on the other hand, rose by EUR 1.8 million. Current liabilities rose by EUR 3.8 million to EUR 39.6 million. This is mainly due to an increase in advance payments received of EUR 2.2 million and higher short-term provisions (+ EUR 1.2 million).

Net working capital increased from EUR 19.3 million in the previous year to EUR 26.0 million. This is mainly due to the increase in receivables. Slightly lower inventories and higher advance payments received cannot compensate for this increase. However, due to the higher sales, the net working capital ratio increased only slightly from 20.6% to 21.0%.

The equity ratio fell from 69.7 % in 2021 to 68.3 % as of 31 December 2022.

Beyond that, the balance sheet structure has not changed significantly.

Multi-period overview of net assets

in EUR million		2022	2021	2020	2019	2018
ROCE	in %	7.4	0.1	9.0	25.5	7.0
Net working capital	in EUR million	26.0	19.3	20.5	17.1	37.9
Net working capital ratio	in %	21.0	20.6	21.3	12.2	31.6
Days sales outstanding	days	67	57	55	44	78

Days sales outstanding are calculated on the basis of the average receivables balances of the last four quarterly reporting dates divided by annual sales.

Capital expenditure

In the 2022 financial year, the Group continued to invest specifically in future growth. In addition to investments in LIDE production at the Garbsen site and in IT/software, an additional EUR 5.5 million (previous year: EUR 5.3 million) in development work was capitalized. Furthermore, replacement investments were made in property, plant and equipment. In total, investments in intangible assets and property, plant and equipment amounted to EUR 8.3 million (previous year: EUR 8.6 million).

	Development services	Other assets	**Total**	Development services	other assets	Total
in EUR million			**2022**			2021
Electronics	1.8	0.7	2.5	2.3	1.9	4.2
Development	2.3	1.6	3.9	1.4	0.9	2.3
Welding	1.0	0.4	1.4	0.4	0.3	0.7
Solar	0.4	0.1	0.5	1.2	0.2	1.4
Total	5.5	2.8	**8.3**	5.3	3.3	8.6

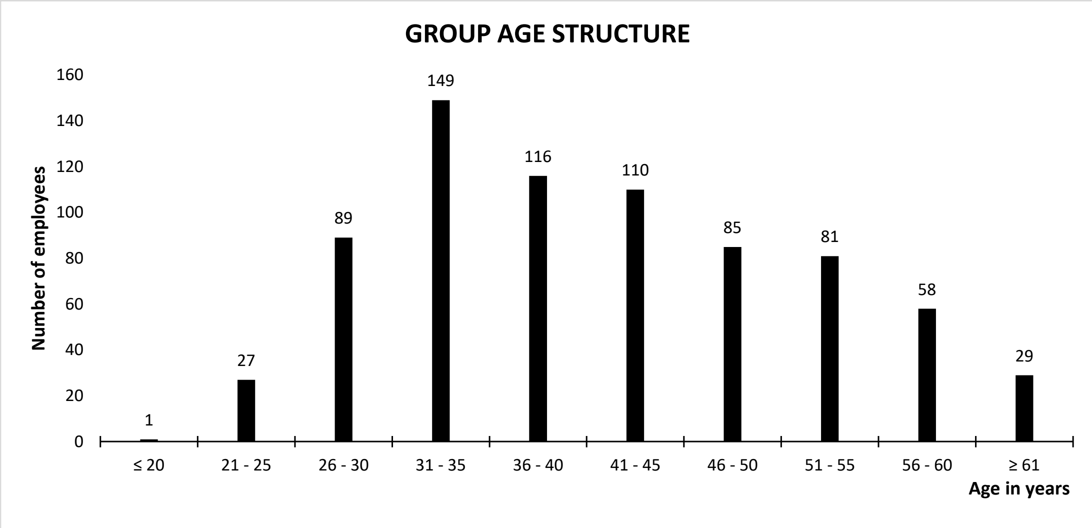
Employees

For a technology group like LPKF, highly qualified and motivated employees are a key to success. LPKF therefore pursues the goal of attracting motivated and well-trained employees and retaining them in the Group for the long term. Within the framework of human resources development, activities were continued in order to be well prepared for the requirements of the future. In addition, a Group-wide potential carrier system was introduced in the 2022 business year to identify and develop talents for filling management and key positions. LPKF trains electronics technicians for devices and systems, electronics technicians for automation technology, IT specialists for system integration, IT specialists for application development, industrial clerks, mechatronics technicians, microtechnologists and technical product designers to recruit qualified junior staff. On the balance sheet date, the Group employed 32 apprentices (2021: 34).

Sick leave and fluctuation rates are important indicators of employee motivation and loyalty to the company. The sickness rate in the LPKF Group increased year-on-year from 4.8% to 6.1%, following a general sharp rise in sickness rates in Germany in 2022. The staff turnover rate in the Group also rose sharply in 2022, from 5.0% in the previous year to 9.8%.

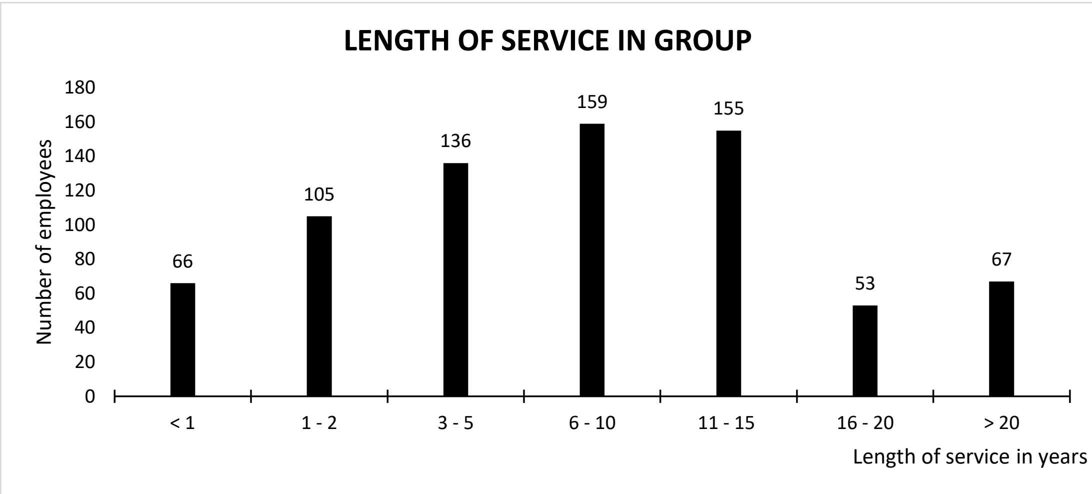
The average age of the workforce for the LPKF Group was 41.3 years (previous year: 41.1).

Age structure analysis 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.

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



An analysis of the length of service of LPKF Group employees shows an average of 8.9 years (previous year: 8.5 years). LPKF has a healthy mix of experienced and new employees.

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

The annual financial statements of LPKF SE are prepared in accordance with the provisions of the German Commercial Code (HGB) and are published in the register of companies. The single entity is managed based on the same principles as the Group, on the basis of the IFRSs. By contrast, the disclosures in the net assets, financial position and results of operations are based on the HGB figures stated in the financial statements. On account of the single entity's large share of the value creation in the Group, LPKF refers to the statements in the "Corporate management" section and in the report on expected developments, which can also be extrapolated for the parent company.

Results of operations of LPKF SE

In the 2022 financial year, LPKF AG generated revenue of EUR 48.3 million (previous year: EUR 47.8 million). The Electronics segment generated revenue of EUR 26.8 million in 2022 (previous year: EUR 27.8 million); the Development segment achieved EUR 20.0 million (previous year: EUR 18.2 million). The percentage of revenue generated internationally was 86% (previous year: 85%).

Other operating income rose from EUR 2.5 million in the previous year to EUR 4.6 million and, in addition to income from affiliated companies, mainly includes income from funding for research and development projects of EUR 2.0 million (previous year: EUR 0.7 million).

The cost of materials ratio decreased from 44.2% in the previous year to 40.3%.

Personnel expenses increased and amounted to EUR 22.0 million in the current business year (previous year: EUR 19.7 million). The number of employees increased slightly. While LPKF SE had an average of 298 employees in 2021, it had an average of 302 employees in 2022. In 2021, personnel expenses were reduced by EUR 0.1 million through the flexible use of short-time work. No short-time work was used in 2022. The personnel expense ratio increased from 41.1 % in the previous year to 45.6 %.

Depreciation of fixed assets did not change compared to the previous year and amounted to EUR 2.1 million (previous year: EUR 2.1 million). Other operating expenses rose to EUR 17.2 million after EUR 14.7 million in the previous year. Expenses for research and development (+ 0.6 million EUR), legal and consulting costs (+ 0.5 million EUR) as well as travel and entertainment expenses (+ 0.4 million EUR) increased significantly.

Due to the increased expenses, LPKF SE 2022 generated a negative EBIT of EUR 7.6 million (previous year: EUR -6.6 million). The financial result includes distributions of EUR 9.7 million (previous year: EUR 0 million) by LPKF (Tianjin) Co. Ltd., Tianjin / China, and EUR 2.0 million (previous year: EUR 2.1 million) by LPKF Distribution Inc. As a result of profit and loss transfer agreements with LPKF SolarQuipment GmbH and LPKF WeldingQuipment GmbH, LPKF SE assumed a positive contribution to earnings of EUR 6.4 million (previous year: EUR 4.6 million). Of this, a positive earnings contribution of EUR 3.6 million (previous year: EUR 2.3 million) is attributable to SolarQuipment GmbH and EUR 2.8 million (previous year: EUR 2.3 million) to WeldingQuipment GmbH.

After tax, the net profit for the year was EUR 4.4 million (previous year: EUR 1.4 million).

LPKF SE income statement

in EUR million	**2022**	2021
Revenue	48.3	47.8
Changes in inventory	-0.5	0.4
Other own work capitalized	0.6	0.5
Other operating income	4.6	2.5
Cost of materials	-19.3	-21.3
Personnel expenses	-22.0	-19.7
Depreciation, amortization and write-downs	-2.1	-2.1
Other operating expenses	-17.2	-14.7
Operating result	**-7.6**	-6.6
Financial result	**18.3**	7.5
Income taxes	-6.2	0.5
Earnings after taxes	**4.5**	1.4
Other taxes	-0.1	0.0
Net profit/ loss	**4.4**	1.4
Accumulated losses brought forward from the previous year	19.2	17.7
Net retained profits	**23.6**	19.1

Net assets and financial position of LPKF SE

On 31 December 2022, LPKF SE's balance sheet total was EUR 93.1 million, up EUR 3.8 million on the previous year (EUR 89.3 million). EUR 3.0 million was invested in property, plant and equipment, intangible assets and investments in 2022, primarily in LIDE production at the Garbsen site and in IT/software (previous year: EUR 2.7 million).

Inventories increased by EUR 0.2 million to EUR 10.0 million. Receivables from affiliated companies amounted to EUR 27.8 million on the reporting date (previous year: EUR 20.2 million). They essentially comprise financial receivables, which are mainly due to profit transfers and loans extended to subsidiaries. Trade receivables rose from EUR 5.3 million to EUR 5.9 million compared to the previous year's reporting date after a month of strong sales in December.

Cash and cash equivalents increased slightly from EUR 7.4 million to EUR 7.7 million on the reporting date. Equity amounted to EUR 75.5 million as of 31.12.2022, EUR 4.4 million above the previous year's level. The equity ratio increased to 81.1 % (previous year: 79.6 %). Debt was further reduced through the scheduled repayment of a total of EUR 0.5 million of the two loans secured by land charges existing on the balance sheet date. Liabilities to banks amounted to EUR 0.5 million on the balance sheet date after EUR 1.0 million in the previous year. Other liabilities mainly include liabilities to affiliated companies resulting from trade relationships as well as financing. After EUR 15.2 million in the previous year, the total amount of liabilities was EUR 14.4 million.

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

	12/31/2022		12/31/2021	
	in EUR million	in %	in EUR million	in %
Long-term assets	38.9	41.8	38.2	42.8
Short-term assets	54.2	58.2	51.1	57.2
Assets	**93.1**	**100.0**	89.3	100.0
Equity	75.5	81.1	71.0	79.5
Current liabilities	17.6	18.9	18.3	20.5
Equity and liabilities	**93.1**	**100.0**	89.3	100.0

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

Investments by LPKF SE

In the 2022 financial year, in addition to investments in LIDE production at the Garbsen site and in IT/software, mainly replacement investments were made in property, plant and equipment. In total, investments in fixed assets amounted to EUR 3.0 million. Research and development expenses at LPKF SE amounted to EUR 8.9 million in 2022 (previous year: EUR 8.0 million).

Employees

LPKF SE had 295 employees on the reporting date, 15 fewer than in the previous year.

Dividend

LPKF SE's dividend policy is to distribute 30 - 50 % of the free cash flow as a dividend, although the current situation of the company, economic developments and possible investments, acquisitions or the sale of assets may lead to deviations from this principle.

In the 2022 financial year, LPKF generated only a small positive free cash flow due to the continuing imponderable economic conditions. In the view of the Board of Managing Directors and the Supervisory Board, further investments in LPKF's innovative technologies are essential in the current situation to enable sustainable and profitable growth in the coming years. For this reason, the Board of Managing Directors will propose to the Annual General Meeting on 17 May 2023 that no dividend be paid for the 2022 financial year. The financial resources from the balance sheet profit are to be used specifically for the development and commercialization of future technologies. For 2021, the company had also not distributed a dividend.

Risk Report

The development of LPKF SE's business is essentially subject to the same risks as the LPKF Group. These risks are explained in the risk report (chapter 5) of the combined management report.

OVERALL ASSESSMENT OF THE GROUP'S ECONOMIC SITUATION

LPKF continues to expect adverse effects from cost inflation, material and logistics bottlenecks in 2023. However, the company does not expect any significant acceleration of inflationary effects compared to the current situation. LPKF expects the impact of the Covid 19 pandemic to decrease significantly. However, this expectation is subject to uncertainty, particularly for China.

LPKF is watching the impact of the Russian war of aggression on Ukraine with concern. Since the start of the Russian war of aggression on Ukraine in February 2022, the EU as well as the US have imposed sanctions on Russia that restrict mutual trade. The war has also led to market dislocations and significant price increases for energy and raw materials. The logistics sector is also strongly affected by the impact of the conflict. LPKF currently has no employees in Russia or Ukraine. LPKF has suspended all business activities in Russia since the beginning of the war.

Overall, the Group's business in Russia, Belarus and Ukraine, which accounts for 0.5% of consolidated revenue in 2021, is not critically important with regard to the Group as a whole. LPKF is primarily exposed to the indirect effects of the Ukraine conflict, with some European submarkets already showing weaker development in 2022 due to budgetary restrictions. LPKF currently assumes that the impact on profitability can be compensated for with appropriate countermeasures such as price increases.

LPKF does not own any assets in Russia, Belarus and Ukraine. The default risks associated with trade receivables in Russia are limited due to the early termination of business activities. At the present time, the direct and indirect effects of the conflict between Russia and Ukraine on the Group do not lead to changes in the main assumptions and estimates relevant to accounting or affect the consolidated financial statements beyond the reduced volume of business. In particular, no indications of impairment of non-current assets have been identified as of December 31, 2022.

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

Currency-differentiated liquidity planning enables the Group to initiate measures at an early stage with regard to the required liquidity resources. In addition to the main influences on cash flows, risks that could have an impact on the future liquidity situation are also taken into account. Since the LPKF Group has only moderate debt, it also has adequate liquidity reserves of EUR 25.0 million available through credit lines. In addition, two unsecured guarantee lines of EUR 10.0 million each with international insurance companies are also available in the 2022 financial year.

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

The Managing Board continues to believe that the Group has sufficient resources to continue its business operations for at least another twelve months and that the going concern assumption is appropriate as a basis for accounting.

REPORT ON EXPECTED DEVELOPMENTS

MANAGEMENT'S ASSESSMENT OF THE GROUP'S EXPECTED DEVELOPMENT

Economic environment

Global economic development will weaken in the current year. In the case of private consumption, the savings accumulated during the pandemic will be reduced, and in industry the high order backlogs will be worked off. Lower order intake in some areas is having a negative impact, and finally, increased financing costs are slowing investment and consumption. For the current year, the Institute for the World Economy (IfW) forecasts an increase in the global economy of only 2.2%, followed by a slightly better figure of 3.2% in 2024. The International Monetary Fund (IMF) also expects the global economy to weaken, but anticipates a slightly better development of 2.9% for the current year.

For the advanced economies, the IfW expects economic output to increase by only 0.3% in the current year and 1.3% in 2024. The largest economy, the USA, is even expected to decline by 0.4% in 2023 and only return to slight growth of 0.5% in 2024. The IfW forecasts a slightly better development for the euro zone. The economy is expected to grow slightly by 0.6% in 2023 and by 1.5% in 2024.

In the current year, the economy in Germany is expected to develop moderately. The IfW forecasts zero growth for 2023, the IMF a slight increase of 0.1% to 0.5%.

By contrast, the emerging markets are expected to achieve significantly higher economic growth. The IfW expects growth of 3.9% in 2023 and 4.6% in 2024. Due to the departure from the zero-covid strategy, the IMF sees China possibly driving the global economy this year. For 2023, the IfW expects a significant increase of 4.6% and for 2024 of 5.2%.

After the better-than-expected development of the global economy in 2022, a significantly weaker one is predicted for the current year. For the advanced economies in particular, economic experts expect a significant slowdown. China, on the other hand, is expected to contribute to growth again.

In addition to the general economic environment, the LPKF Group's business success is also influenced by developments in the electronics industry with a focus on consumer electronics, the automotive industry, the solar industry and the plastics sector. In addition to medical technology, biotechnology will also gain in importance in the current financial year.

In the electronics industry, smartphone sales will continue to decline, according to a study by Gartner. The research firm predicts a decrease of 4% to 1.34 billion units in 2023. The increase in home offices combined with the use of computers led to an increase in the holding period of smartphones from an average of 6 to 9 months.

According to the IEA's expectations, global electricity generation from photovoltaics will triple to a capacity of 2,850 terawatt hours by 2027. This means that the expansion of renewable energies is receiving a further boost from the global energy crisis. New technologies and products will play an important role here.

a study by IHS Markit, annual consumption of plastics is expected to double worldwide by 2030. Contributing to this is the demand for new lightweight materials in automotive construction and new applications in medical and electronics engineering.

Within biotechnology, the market for cell therapy in particular is expected to grow rapidly, according to research firms. By Precedence Research, the global market for single cell analysis will grow at a CAGR of 18.22% during the forecast period from 2022 to 2030.

According to surveys by PwC Germany, the German mechanical and plant engineering sector expects sales to decline by 2.9% in the current year. By the end of 2022, order intake had already declined.

Group performance

Despite raised forecasts, 2023 will be a challenging year for the advanced economies in particular. Declining order backlogs, increased financing and energy costs in Europe, and slowing private consumption will lead to weak and possibly fragile growth in the advanced economies.

LPKF is also exposed to indirect effects of the Ukraine conflict, with some European segment markets already showing weaker development in 2022 due to budgetary restrictions.

Despite the uncertain economic outlook, LPKF sees growth opportunities for the Group in the current financial year. These include, in particular, business segments that benefit from increasing digitalization in business and industry, and technologies that help customers to produce in a more resource-conserving, energy-saving and efficient manner.

The strategic focus of LPKF Laser & Electronics SE is on the development of innovative technologies that have the potential to sustainably change products, components, and manufacturing in the electronics and semiconductor industries and beyond.

In view of the Management Board the strategic and operational measures successfully implemented in recent years, the company is financially stable and sustainably profitable despite the effects of the Covid-19 and Ukraine crises. LPKF is in a position to expand its business activities by focusing even more strongly on customer needs and operational improvements. Investments in the development of new technologies and applications are being fully implemented despite the difficult economic conditions faced in the meantime. The significantly increased diversification of the LPKF Group in recent years has considerably reduced its dependence on individual market segments and customers.

The Management Board continues to see great potential to sustainably increase the company's turnover and earnings. This potential stems from the technologies mastered by LPKF, the ability to integrate these technologies into high-performance solutions, and the exceptional expertise of the workforce, as well as the resulting value contribution for customers.

The Management Board anticipates the following developments for the future:

Megatrends such as miniaturization, connectivity, CO2 neutrality and demographic change will result in high-precision manufacturing and analysis methods becoming more prevalent.

- Customer demand for efficient solutions to manufacture high-precision components and products remains high. The number of applications continues to increase. New product developments and distribution channels are proving their worth.
- LIDE technology is being used for volume production, e.g. in the semiconductor industry, and is well on the way to establishing itself as a key technology in the display and other industries.
- Green energy will continue to gain importance, especially against the backdrop of the current energy crisis, and increase demand for efficient solar modules.
- Arralyze gives LPKF access to the growth market of biotechnology, which is developing very dynamically due to the aging population and the trend towards individual therapies.

The Management Board will continue to drive the company's growth in the current financial year with targeted measures:

- LPKF continues to invest in technology development to expand its leading position in laser micromaterial processing. In doing so, the company focuses on the specific parameters that are decisive for the economic success of its customers, giving its clients a concrete competitive advantage. LPKF also develops disruptive applications for new growth markets along its core competencies.
- The scalability of solutions for customers is being strengthened systematically; non-scalable solutions will not be pursued further in the long term.

- LPKF will specifically drive forward technologies that help customers save resources and produce more energy-efficiently.
- The LIDE technology and related applications in the field of advanced packaging will be further expanded and its establishment in various fields of application will be pushed forward.
- The company will strengthen its sales activities and further expand its market penetration in the individual segments.
- After-sales service will be further expanded as an additional growth platform.
- The organization, processes and systems will become scalable and aligned for future growth.
- The Management Board will also pursue possible growth through M&A activities, but only where the resulting increase in value is clearly visible.

LPKF will remain agile and flexible as a company in order to be able to react quickly to any changes in the economic environment. Overall, LPKF expects further profitable growth in the medium term even in a volatile economic environment. Financially, the company is and will remain well positioned and has the necessary funds for investments and further growth.

Development of significant indicators and outlook

Financial year 2022

Sales in the 2022 financial year reached EUR 123.7 million, up 32.2% on the previous year. At EUR 6.8 million, EBIT was up on the previous year's figure of EUR 0.1 million. The EBIT margin increased from 0.1% to 5.5%.

ROCE reached 7.4% (previous year: 0.1%) and was thus below target.

Capital tied up in working capital increased in the past year and reached a reporting date value of EUR 26.0 million (previous year: EUR 19.3 million). Due to the logistics and material bottlenecks, the company increased inventories in order to ensure delivery capability but was able to compensate for this sufficiently through advance payments received from customers. The net working capital ratio rose from 20.6% in the previous year to 21.0%.

At EUR 124.3 million, incoming orders in the reporting period were 5.4% higher than the previous year's level of EUR 117.9 million. At EUR 63.2 million, the order backlog at the end of the year was EUR 0.6 million higher than in the previous year.

Forecast for financial year 2023

In an environment remaining uncertain, LPKF expects consolidated revenue of EUR 125 - 140 million and an EBIT margin of between 3% - 7% in the 2023 financial year.

The Management Board expects a slight reduction in net working capital, and the error rate should remain stable compared to 2022. ROCE will essentially follow the earnings development, free cash flow is expected to show a medium increase.

With regard to the performance indicators, it is assumed that LPKF SE will essentially develop in the same ratio as described in the Group's forecast.

Ambition for the years ahead

The forecast for 2024 originally published in February 2020 (more than EUR 360 million in sales and an EBIT margin of at least 25%) was withdrawn by the Management Board mid of 2022. The following ambition for the subsequent years does not represent a forecast.

In the medium term, the company continues to expect sustainable growth in all segments. LPKF expects mid to high single-digit growth rates for its core business. The markets addressed by the new strategic business initiatives in the semiconductor, display and biotechnology sectors are targeted to generate annual revenue contributions in the low three-digit million range. In addition, LPKF aims to achieve an attractive double-digit EBIT margin in the Group through scaling effects.

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, trends and applications, evaluating market analyses and regularly reviewing the product portfolio.

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

Opportunities also arise from improved market penetration, the ongoing dialog with existing customers and the evaluation of new possibilities of collaboration, the service and further operating improvements. These opportunities are systematically collected, analyzed and addressed by a customer relationship management tool.

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 substantial 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 research and development to fuel innovations. The company thus aims to always be prepared to meet future customer needs, anticipate trends and actively create new market demand through its own innovative processes. LPKF ensures its ability to innovate for the future by closely networking its development departments with product managers, sales and service as well as investing approximately 10% of revenue per annum in research and development. The continuous development of the product portfolio can lead to changes in the product mix. These changes present risks as well as opportunities.

New technology breakthroughs/expansion into new markets

In addition to its established markets, LPKF also focuses on adjacent growth areas and 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 anorganic growth that could come from acquiring patents, companies or personnel with strategically relevant expertise.

Impact of megatrends

Dynamic megatrends such as miniaturization, connectivity, CO2 reduction and demographic change are driving business. The key factor in all these trends is that high-precision, clean and energy-efficient production methods are needed to enable innovation and progress. When customers choose to replace established processes, above-average growth is possible.

Miniaturization: As more and more electronic components have to fit in the same amount of space or less, things are getting tight. Precision tools for manufacturing are becoming indispensable, and methods for high-precision plastic welding are increasingly used. Innovative solutions for semiconductor housings are being actively sought.

CO2 neutrality: Renewable energies are the key factor on the road to CO2 neutrality. The growing importance of solar energy in power generation requires precise and efficient manufacturing equipment. Electromobility is driving demand for battery module manufacturing tools. Overall, the importance of energy efficiency in manufacturing processes and end products is increasing.

Connectivity: Continuous innovations in mobile devices demand innovative manufacturing solutions for displays and designs. Growth and increasing complexity in high-frequency technology increase the need for rapid prototyping.

Aging population: Demographic change is leading to higher demand for medical technology and accessories worldwide. Drug development and personalized medicine require efficient solutions for single cell analysis.

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. Partial projects in the area of inventory optimization were temporarily interrupted due to the tight procurement situation and continued towards the end of 2022. With the ongoing SIMPLIFY project, the company aims to achieve a higher level of operational efficiency and thus increase scalability and reduce costs in the long term. These measures make a significant contribution to maintaining and enhancing the company's competitiveness and profitability.

Business organization

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

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 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.

Risk management system*

Opportunity and Risk management is pursued actively at LPKF. Different reporting tools are implemented for this purpose.

Risk management at LPKF involves the formulation and implementation of measures suitable for identifying existing risks, hedging them, reducing the probability of their occurring, mitigating them, or consciously accepting them to a reasonable extent. Risks in this sense are positive as well as negative deviations from corporate planning, which have a material character. Repeated opportunity and risk management ensures anticipatory and recurring identification and control of opportunities and risks. The opportunity and risk management system is interlinked with the ICS and compliance management.

* The disclosures in this paragraph (overall statement on the effectiveness of the risk management and internal control system) were made in accordance with the new requirements of the German Corporate Governance Code 2022. They are to be classified as "unrelated to the management report" as they go beyond the statutory requirements and are therefore not part of the substantive audit by the auditor.

The main features of the compliance management system are published at www.lpkf.com/de/unternehmen/compliance-management. Information on the integration of ESG objectives and risks into the ICS and risk management system can be found in the separate non-financial Group report to be published at the end of April 2023 (www.lpkf.de/lpkf-konzern/nachhaltigkeit).

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

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

Based on this, the Board of Management has no indication that the internal control system or the risk management system in their respective entirety were not adequate or effective as of December 31, 2022.

In the 2022 financial year as in previous years, existing and potential opportunities and risks were reassessed, and the reporting system was reviewed to ascertain its efficiency in managing risks. This is particularly the case in view of the increased requirements resulting from the IDW PS 340 auditing standard. A database-supported reporting system has been installed.

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

Description of internal control and risk management system relevant to the accounting process

The internal control system with regard to the accounting process pursues the objective of securing the correctness and effectiveness of accounting and financial reporting. It is designed on the basis of the internationally recognized framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Internal Control - Integrated Framework), is continuously developed further and is an integral part of the accounting and financial reporting processes in the organizational units and companies.

The control system includes policies, procedures, and preventive and detective controls. The effectiveness of the internal control system with regard to the accounting process is systematically assessed. It is initiated by a risk analysis and a control definition with the aim of identifying significant control weaknesses for the accounting and financial reporting processes in the main companies, organizational units and corporate functions. The necessary controls are defined in accordance with central requirements and documented at the organizational unit level. To assess the effectiveness of the controls, tests are performed regularly on the basis of random samples. These form the basis for a self-assessment of whether the controls are appropriately designed and effective. The results of this self-assessment are documented and reported by a central unit and identified control weaknesses are addressed. Non-accounting-related controls are also documented at central level. The assessed organizational units regularly confirm the effectiveness of the internal control system with regard to the accounting process.

The Management Board, Audit Committee and Supervisory Board are regularly informed about potential material control weaknesses and the effectiveness of the controls in place. Internal Auditing checks whether the legal framework and internal Group guidelines for the Group's control and risk management system are being complied with. If necessary, measures are initiated in cooperation with the respective management.

The auditor reviews the risk early warning system integrated into the risk management system to determine whether it is fundamentally suitable for identifying any risks at an early stage that might jeopardize the continued existence of the company. In addition, the auditor reports to the Audit Committee and the Supervisory Board as part of the audit of the financial statements on any significant weaknesses identified in the accounting-related internal control and risk management system.

SPECIFIC RISKS

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

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

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

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

The initial risks of “recession due to COVID-19” and “COVID-related supply shortage” were separated from the explicit connection to COVID-19 in the reporting year. The two risks were considered on the basis of various macroeconomic factors. The "recession" and "supply shortage" risks are being monitored more closely than the risk management system requires. The company is reviewing its potential impact on all business segments.

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. Nevertheless, LPKF is also affected by supply shortages and, in some cases, by higher prices. The risk is monitored very closely and led only to minor loss of revenue in the fulfillment of customer orders in 2022.

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

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

The company does not see any risks that jeopardize its continued existence at present, and no such risks for the future can currently be identified.

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

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

Market acceptance

Cause

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

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

Measures

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

Effects on economic situation

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

Personnel risks

Cause

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

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

Measures

An attractive working environment and development opportunities within the LPKF Group are offered to employees to retain top performers at the company. Particular emphasis is placed on individual flexibility, remuneration that reflects performance and a good working environment. Executives have an important role to play in maintaining employee satisfaction and retaining staff. Leadership issues have been the focal point of many discussions and meetings, including at management events. Against the backdrop of events in the reporting year, LPKF nevertheless offered its employees and prospective job candidates a safe working environment and highlighted development prospects for the company. In the reporting period, LPKF also responded with large-scale mobile working arrangements and management leadership training for this situation. LPKF conducted an employee share program for the third time in succession during the reporting year. The high participation rate of 40.45% reflected the strong employee loyalty. HR marketing was continued and intensified over the reporting period under the unique circumstances, particularly on social media, to enhance LPKF’s profile on the labor market as an attractive employer among small and medium-sized high-tech mechanical engineering firms.

Effects on economic situation

A steadily increasing shortage of skilled workers, especially in the German labor market, presents LPKF with the challenge of recruiting qualified personnel. Although LPKF has been able to fill the majority of vacancies thanks to an attractive working environment, university contacts and a growing level of awareness in the laser industry, a longer time horizon is often required than before.

There is also a cross-segment risk of losing personnel with key qualifications and important know-how through headhunting. The probability of occurrence is currently assessed as less likely. The financial impact can be described as moderate (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.

Longer delivery times and, in some cases, delivery shortages in the supply chain may also have to be accepted. This can lead to delays in delivery and, in the worst case, to contractual penalties. The war in Ukraine and regional lockdowns due to the COVID pandemic have continued to lead to a persistently tight supply situation and rising inflation worldwide.

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

Measures

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

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

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

Effects on economic situation

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

Other risks

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

Exchange rate fluctuations

Cause

LPKF is exposed to foreign currency risks on account of its strong export focus and its international customer base. The exchange rates between foreign currencies and the euro can undergo major fluctuations. For LPKF, the main fluctuations are those with regard to the

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

Measures

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

Effects on economic situation

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

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

IT risks

Cause

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

Measures

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

Effects on economic situation

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

MANAGEMENT’S ASSESSMENT OF THE GROUP’S RISK SITUATION

The war in Ukraine and the consequences due to sanctions - a potential gas shortage and the scarcity of resources - will in all likelihood influence the overall economic situation. Based on these issues, inflationary pressure remains a risk, estimated by the ifo Institute at 6.4% in 2023 and which could normalize to 2-3% in 2024. Financial institutions are countering this with increases in key interest rates to an expected 4% by mid 2023, with easing set to occur in the second half of 2023 according to the ifo forecast. A possible dynamic change in the course of the pandemic cannot be ruled out either, which is why this risk factor is also still considered in the assessment.

Against the backdrop of the political and economic environment, the ability to plan and predict LPKF's business development is significantly limited in most of its divisions. The supply chains must be viewed critically in terms of delivery reliability and stability. The financial situation is stable due to the solid financial and earnings position and continues to allow LPKF to carry out all planned investments. The various individual risks only have a limited influence on the overall risk situation of the Group.

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

Pursuant to Section 317 (4) HGB in conjunction with Section 91 (2) AktG, the auditor of LPKF SE also examines whether the existing risk early warning system can fulfill its task with regard to potential risks to the company as a going concern.

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.

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 SE’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 2022, LPKF SE'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 in conjunction with Article 9 (1) c) (jj) and Article 5 of the SE Regulation. Both the exercising of voting rights and the transfer of shares are subject solely to legal limits.

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

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

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

The provisions on appointing and dismissing members of the Management Board and on amending the Articles of Incorporation comply with the respective requirements of the SE Regulation, the SE Implementation Act, the German Stock Corporation Act and the Articles of Incorporation. Complementing Articles 39 (2) and 46 of the SE Regulation and Sections 84 and 85 of the German Stock Corporation Act, Article 6 of the company's Articles of Incorporation governs the Management Board's composition as follows: The Management Board shall comprise one or more persons. The Supervisory Board shall determine the number of Management Board members. The members of the Management Board shall be appointed and dismissed by the Supervisory Board (Section 84 of the German Stock Corporation Act, Article 39 (2) subparagraph 1 of the SE Regulation). If the Management Board comprises more than one person, the Supervisory Board may appoint a chairperson. The Supervisory Board is entitled to appoint deputy members of the Management Board. They have the same rights as the regular members of the Management Board when representing the company vis-a-vis third parties. Members of the Management Board shall be appointed for a maximum of five years. Reappointments are permissible for a maximum of five years in each case.

Subject to other overriding legal provisions, amendments to the Articles of Incorporation require a majority of two thirds of the votes cast or, if at least half the share capital is represented, a simple majority of the votes cast (Article 59 (1) and (2) of the SE Regulation in conjunction with Section 51 of the SE Implementation Act and Section 24 (1) of the Articles of Incorporation). In cases where the law also requires resolutions to be passed by means of a majority of the share capital represented, a simple majority of the share capital represented in the passing of the resolution shall suffice, unless the law mandates a larger majority (Article 24 (1) of the Articles of Incorporation).

The Supervisory Board is authorized under Article 11 (2) of the Articles of Incorporation to make amendments that relate solely to their 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, 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, with the prior approval of the Supervisory Board, to disapply shareholders' put options when acquiring or their pre-emption rights when using their own shares in certain cases.

In November 2022, LPKF bought back a total of 19,220 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 scheduled Annual General Meeting on 20 May 2021, the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital once or repeatedly until 19 May 2024 by up to a total of EUR 4,899,309.00 by issuing up to 4,899,309 new no-par value bearer shares in return for contributions in cash or in kind (Authorized Capital 2021). Shareholders shall generally be granted a pre-emption right. However, the Management Board was authorized, in certain cases and within certain capital limits, to disapply shareholders' pre-emption rights. This authorization was not utilized in the past financial year.

In connection with the authorization resolved by the Annual General Meeting on 20 May 2021 to issue warrant bonds and/or convertible bonds up to 19 May 2024 with a total nominal value of up to EUR 200,000,000.00, with the option to disapply pre-emption rights in certain cases and within certain capital limits, the company's share capital is contingently increased by up to EUR 4,899,309.00 by issuing up to 4,899,309 new no-par value bearer shares (Contingent Capital 2021/I). 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 authorization resolution.

CHANGE-OF-CONTROL PROVISIONS

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

The employment contracts of the current Management Board members each include a change-of-control clause. Accordingly, in the event of a change of control, Management Board members have a one-time special right to terminate their employment contract with a notice period of six months, to end at the end of a month, and to step down from their post on the termination date.

In the event that the Company terminates the employment contract without due cause for the termination attributable to the Management Board, the Management Board member shall receive a compensation payment of up to two year’s fixed compensation (gross), but not exceeding the compensation for the remaining term of the contract after expiry of the notice period. This compensation shall be offset against the compensation in connection with the post-contractual non-competition clause.

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

REMUNERATION REPORT

Introduction

The remuneration report outlines the principles and the structure of remuneration for the Management Board and Supervisory Board of LPKF Laser & Electronics SE (“LPKF”) and reports on the remuneration granted and owed to current and former members of the Management Board and the Supervisory Board in the 2022 financial year. The report was prepared by the Management Board and the Supervisory Board in accordance with the requirements of Section 162 of the German Stock Corporation Act (Aktiengesetz – AktG).

A material audit of the remuneration report was conducted by KPMG AG Wirtschaftsprüfungsgesellschaft in accordance with the requirements of Section 162 (3) of the German Stock Corporation Act.

1. REVIEW OF THE 2022 FINANCIAL YEAR

1.1 APPROVAL OF THE 2021 REMUNERATION REPORT

In view of the changed regulatory requirements, the remuneration report was submitted to the Annual General Meeting for approval for the first time in 2022. The Annual General Meeting approved the 2021 remuneration report with 51.27% of the vote. The Supervisory Board subsequently addressed the feedback from shareholders and voting rights consultants who had looked through the remuneration report in the course of the vote. The main criticism related to the disclosure of the remuneration granted and owed in the 2021 financial year. There will be a change to the method used to disclose remuneration granted and owed in the 2022 remuneration report as a direct consequence of this feedback. In contrast to the 2021 remuneration report, which disclosed remuneration that was actually paid over the course of the year (e.g. the STI for the 2020 financial year was disclosed for the 2021 financial year), the 2022 remuneration report will disclose remuneration for which the service has already been performed (“granted”) or that is due but has not yet been fulfilled (“owed”) (e.g. the STI for the 2022 financial year will be disclosed for the 2022 financial year). This presentation method allows for a better assessment of the relationship between LPKF’s performance in the respective financial year and the resulting remuneration.

1.2 REVIEW OF THE MANAGEMENT BOARD REMUNERATION SYSTEM

In light of LPKF’s future growth ambitions, the approval rates for the remuneration system at the 2021 Annual General Meeting and the feedback on the 2021 remuneration report, the Supervisory Board carried out an extensive review of the Management Board remuneration system in 2022 in consultation with its Remuneration and ESG Committee. The Supervisory Board adjusted the remuneration system as a result of the review. The Supervisory Board also considered feedback from investors and appropriate recommendations from voting rights consultants in its review. The revised remuneration system will be submitted to the

2023 Annual General Meeting for approval and, subject to approval by the 2023 Annual General Meeting, it will become effective retroactively for the 2023 financial year. Information on the significant adjustments made to the remuneration system are presented at the end of the remuneration report in the section entitled “Outlook for the 2023 financial year.”

1.3 PERSONNEL CHANGES

In September 2021, the Supervisory Board appointed Klaus Fiedler as the new Chief Executive Officer of LPKF. Klaus Fiedler took up his post with effect from 1 January 2022. His appointment and his employment contract run until 31 December 2024. The Supervisory Board believes that Klaus Fiedler is the person best suited to drive forward and implement the LPKF growth strategy on the basis of his in-depth knowledge of materials processing and application.

2. REMUNERATION OF THE MANAGEMENT BOARD

2.1 PRINCIPLES OF MANAGEMENT BOARD REMUNERATION

The remuneration of the Management Board is geared toward the long-term and sustainable development of the company and is closely linked to the corporate strategy. As such, the performance criteria for the variable remuneration components are derived from the business strategy to create incentives for their implementation and for the achievement of corporate targets. Both financial and non-financial targets (including environmental, social and governance targets; “ESG”) are used to fully reflect the strategic objectives of LPKF.

2.1.1 PROCESS FOR DETERMINING MANAGEMENT BOARD REMUNERATION

The Supervisory Board determines the remuneration system for members of the Management Board in consultation with its Remuneration and ESG Committee. The remuneration system adopted by the Supervisory Board is submitted to the Annual General Meeting for approval. If significant changes have been made, and at least once every four years, the Supervisory Board resubmits the remuneration system to the Annual General Meeting for approval. The current remuneration system was approved by the 2021 Annual General Meeting and applies to all new and renewed employment contracts for members of the Management Board. The current remuneration system therefore applied to both members of the Management Board in the 2022 financial year.

2.1.2 APPROPRIATENESS OF THE MANAGEMENT BOARD'S REMUNERATION

The remuneration for Management Board members is determined by the Supervisory Board. In alignment with the German Stock Corporation Act, the Supervisory Board ensures that the remuneration is proportionate to the duties and performance of the individual Management Board member and commensurate with the company's economic situation. It also ensures that the remuneration does not exceed the level that is customary for the market unless there is a specific reason. With that in mind, the Supervisory Board regularly performs a horizontal comparison of remuneration. The horizontal comparison compares the remuneration of the LPKF Management Board with the Management Board remuneration of comparable companies (peer group). In the most recent horizontal comparison, European companies of a similar size, primarily from the semiconductor industry and the electronic equipment sector, were used as a peer group. The following companies were included in the most recent horizontal comparison:

Company, Location	Company, Location
Aixtron, Germany	Manz, Germany
Basler, Germany	Mühlbauer, Germany
centrotherm, Germany	Nynomic, Germany
Comet, Switzerland	Oxford Instruments, United Kingdom
Dr. Hönle, Germany	Pfeiffer Vacuum Technology, Germany
Elmos Semiconductor, Germany	PVA TePla, Germany
First Sensor, Germany	SÜSS MicroTec, Germany
Isra Vision, Germany	technotrans, Germany
Judges Scientific, United Kingdom	Viscom, Germany
Lumibird, France	X-FAB Silicon Foundries, Belgium

A vertical comparison in accordance with Section 87a (1) no. 9 of the German Stock Corporation Act was not carried out as no decisions on remuneration were made in the 2022 financial year.

2.1.3 TARGET REMUNERATION

The employment contract for each member of the Management Board sets out their target remuneration, which is paid for 100% achievement of the targets set for the performance-based remuneration components. The target remuneration amount is based on standard market rates and is largely dependent on the knowledge and experience relevant for the role of the respective Management Board member.

	Dr. Klaus Fiedler (CEO) (since 1 January 2022)				Christian Witt (CFO) (since 1 September 2018, Interim CEO 1 May to 31 December 2021)			
	2022		**2021**		**2022**		**2021**	
	in €k	in %	in €k	in %	in €k	in %	in €k	in %
Base salary[1)]	300	49%	-	-	296	49%	331	55%
Fringe benefits[2)]	7	1%	-	-	28	5%	25	4%
Total non-performance-based target remuneration	307	51%	-	-	324	52%	356	59%
Short-term variable remuneration (STI)	150	25%	-	-	143	23%	122	20%
Long-term variable remuneration (LTI)	150	25%	-	-	143	23%	122	20%
Total performance-based target remuneration	300	49%	-	-	286	47%	244	41%
Total target remuneration	607	100%	-	-	610	100%	600	100%

1) Christian Witt was granted additional fixed compensation for assuming the position of Chairman of the Management Board from May 2021 to January 2022.

2) The figures for fringe benefits reflect the fringe benefits actually incurred in the financial year.

2.2 OVERVIEW OF REMUNERATION FOR THE MANAGEMENT BOARD IN THE 2022 FINANCIAL YEAR

The remuneration system for members of the Management Board of LPKF is geared toward long-term and sustainable company development. The total remuneration comprises non-performance-based salary and non-cash benefits, in addition to pension commitments and performance-based (variable) components. The non-performance-based components include a fixed annual salary (basic salary) as well as incidental benefits and benefits in kind.

The performance-based components consist of annual variable remuneration (STI), which relates to the achievement of economic targets within a year, and long-term variable remuneration (LTI), which is invested entirely in LPKF shares, which must be held for a minimum period of three years.

Component		Parameter	Objective
Non-performance based	Base salary	Paid in equal monthly installments at the end of each month	• Reflects the role on the Management Board, experience, area of responsibility and market conditions • Ensures adequate income, to prevent inappropriate risks from being taken
	Fringe benefits	Benefits in kind, company car (alternatively, cash allowance or flat rate for a rental car), insurance premiums	• Grant of market customary fringe benefits in order to offer an attractive remuneration package

Performance-based	Short-term variable remuneration (STI)	Target amount: 50% of base salary
		Performance criteria:
		• 75% corporate targets
		  • 25% Revenue
		  • 25% ROCE
		  • 25% EBIT margin
		• 25% personal targets
		Cap: 200% of target amount
			• Incentivizing the (over)achievement of annual corporate targets
			• Implementation of important milestones of the corporate strategy and sustainability aspects through personal targets
			• Rewarding the individual contribution to success and sustainability

	Long-term variable remuneration (LTI)	Target amount: 50% of base salary Plan term: Four years • One-year basis for assessment • Three-year holding period for shares Performance criteria: • As for STI Cap: 300% of target amount	• Promoting the long-term growth of LPKF and incentivizing the creation of long-term shareholder value • Linking the interests of the Management Board members with those of the shareholders
Other key regulations	Maximum remuneration	EUR 1.1 million per Management Board member	• Limiting the total remuneration for a financial year
	Severance payment cap	Maximum severance payments of two years' remuneration; may not exceed remuneration for the contract term	• Prevents inappropriately high payments due to premature termination of the Management Board contract

2.3 APPLICATION OF REMUNERATION COMPONENTS IN THE 2022 FINANCIAL YEAR

The components of the remuneration system and their specific application in the 2022 financial year are explained in detail below.

2.3.1 NON-PERFORMANCE-BASED REMUNERATION COMPONENTS

2.3.1.1 BASIC SALARY

The members of the Management Board receive a basic salary, which is paid in equal monthly installments at the end of each month. It is reviewed at regular intervals by the Supervisory Board and adjusted where necessary.

As well as his basic salary as CFO of the company, Mr. Witt received additional remuneration for temporarily acting as interim CEO up to and including the first month in which the new CEO took up his post (i.e. until January 2022).

2.3.1.2 BENEFITS IN KIND AND OTHER ADDITIONAL REMUNERATION (INCIDENTAL BENEFITS)

In addition to basic salary, incidental benefits are granted to each member of the Management Board. These benefits include benefits in kind provided by the company, the use of a company car, contributions to health and care insurance and other types of insurance, and absorption of other costs as is customary for the market.

The company car is also intended for personal use. When choosing a suitable company car and the type of engine, environmental aspects are taken into account alongside the requirements of the business. Alternatively, Management Board members may also be offered a cash allowance or a flat rate for a rental car.

In the 2022 financial year, a directors' & officers' (D&O) insurance policy was also taken out for Management Board members with a deductible in accordance with the German Stock Corporation Act.

2.3.2 PERFORMANCE-BASED REMUNERATION COMPONENTS

Performance-based remuneration for the Management Board consists of performance-related remuneration that is paid annually (STI) and performance-related remuneration for which the amount of the payment is initially invested in shares in LPKF Laser & Electronics SE (LTI), which must be held for a period of at least three years. The target amount of the STI and the LTI each make up 50% of the performance-based remuneration.

2.3.2.1 SHORT-TERM VARIABLE REMUNERATION (STI)

How it works

The STI is designed as a target bonus and the target amount is set at 50% of the basic salary. The amount of STI depends on the achievement of corporate targets, which are based on the Group's financial results, and on the achievement of personal targets, which can be set each year.

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

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

The personal targets for the respective Management Board member are agreed each year. Up to four personal targets may be set, which, among other factors, also take into account social and environmental aspects (as ESG criteria).

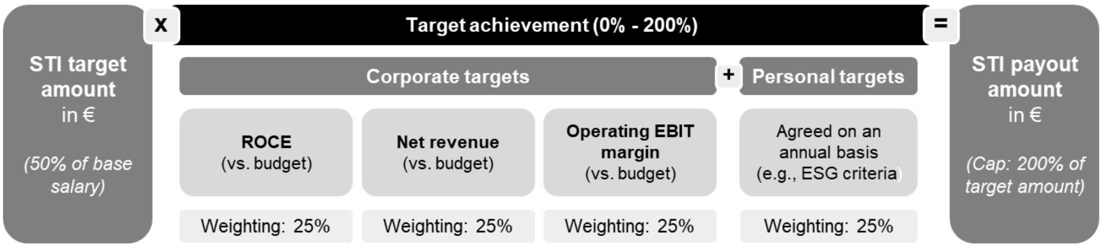
Both personal and corporate targets may be achieved within a range agreed each year between the Supervisory Board and the Management Board, which has a floor and a cap. With regard to the achievement of targets, the following percentages of the agreed target amount will be paid:

- Below the floor 0%
- Floor 25%

- Target 100%
- Cap 200%
- Above the cap 200% (maximum amount)

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

To calculate overall target achievement, the average of the respective target achievement for personal and corporate targets is determined in each case. The average figures calculated in this way are then multiplied by the respective weighting factor and added together to calculate overall target achievement.



Targets and extent to which targets were achieved for the 2022 financial year

At the beginning of the 2022 financial year, the Supervisory Board stipulated the following target figures and thresholds for the corporate targets and calculated the following target achievement levels based on actual figures:

Performance criteria	Actual	Lower threshold (25 % target achievement)	Target (100 % target achievement)	Upper threshold (200 % target achievement)	Target achievement
ROCE	Actual: 7.4%	2.4%	12.7%	18.8%	61%
Net revenue (k€)	Actual: 123.699	110,000	135,762	145,000	65%
Operating EBIT margin	Actual: 5.5%	2.0%	8.5%	10.9%	65%
				Corporate targets	**64%**

On the basis of target achievement for the individual performance criteria, the target achievement level for the corporate targets was set at 64% for the 2022 financial year.

The personal targets for the 2022 financial year set by the Supervisory Board were derived from the corporate strategy and include implementation and operationalization of the strategy.

The table below shows the personal targets for the members of the Management Board in the 2022 financial year:

Name	Personal targets	Assessment	Target achievement
Dr. Klaus Fiedler	• Meeting defined milestones in growth initiatives LIDE and ARRALYZE • Meeting defined milestones in Sales Funnel Management • Meeting defined milestones in ESG-program	• Target only partially achieved • Target achieved • Target clearly exceeded	105%
Christian Witt	• Implement ERP upgrade and new CRM & Service processes in time and in budget. • Meeting defined milestones in the enhancement of internal control environment • Meeting defined milestones in ESG-program	• Not achieved in 2022 • Target clearly exceeded • Target clearly exceeded	120%

On the basis of this assessment, the target achievement levels for the personal targets were set at 105% for Klaus Fiedler and 120% for Christian Witt.

Based on the individual target amounts and the target achievement levels for corporate and personal targets, this resulted in the following payments from the STI for the 2022 financial year:

STI 2022 payout

STI payout for 2022 financial year

		Target achievement			
	Target amount in €k	**Corporate targets** (Weighting: 75%)	**Personal targets** (Weighting: 25%)	**Overall**	**Payout amount** in €k
Dr. Klaus Fiedler	150	64%	105%	74%	111
Christian Witt	143	64%	120%	78%	111

The payment will be made in April 2023.

Payments from the short-term incentive (STI) for the 2021 financial year

Due to the interpretation of remuneration granted and owed that was used in the 2021 remuneration report, the payment from the 2021 STI was not presented in the 2021 remuneration report. The following amounts were paid to Management Board members in April 2022 as part of the 2021 STI:

STI 2021 payout

STI payout for 2021 financial year

		Target achievement			
	Target amount in €k	**Corporate targets**	**Personal targets**	**Overall**	**Payout amount** in €k
Britta Schulz (1 May 2021 to 31 December 2021)	40	Weighting: 37.5% 0%	Weighting: 62.5% 24%	15%	6
Christian Witt	122	Weighting: 75% 0%	Weighting: 25% 180%	45%	55

The corporate targets were the same as for the 2022 STI. The relevant target figures and thresholds as well as further details regarding the 2021 STI were disclosed in the 2021 remuneration report.

2.3.2.2 LONG-TERM VARIABLE REMUNERATION (LTI)

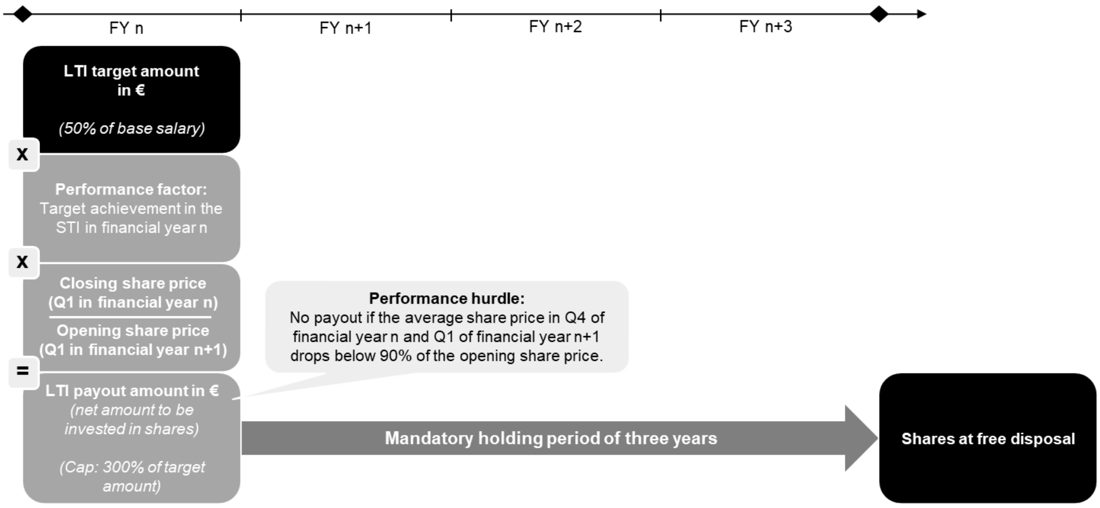
How it works

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

The LTI is granted in annual tranches with a target amount of 50% of the basic salary, and is linked to overall target achievement for the STI for the financial year concerned and to the performance of the share price for the following three years.

The target amount for the respective year of allocation is multiplied by a performance factor corresponding to the overall target achievement for the STI in the year of allocation (performance amount). The absolute share price performance serves as an additional performance target, which is implemented in the form of a second multiplier. This multiplier is calculated by dividing LPKF's average share price in the first quarter of the year following the year of allocation (closing share price) by the average share price in the first quarter of the year of allocation (opening share price).

The payment amount of the LTI is limited to no more than 300% of the target amount and is paid out in cash. The net amount received from the LTI must be invested in LPKF shares immediately afterwards. These shares must be held for at least three years after purchase.



A payment from the LTI is also subject to a share price exercise threshold. If the average LPKF share price in the fourth quarter of the year of allocation and in the first quarter of the following year drops below 90% of the opening share price, no LTI will be paid.

If a member of the Management Board leaves during the year, a proportionate share of their entitlement to LTI will be deducted. In a few exceptional cases, entitlement to remuneration that has already been granted will be forfeited in the event of extraordinary termination. This ensures that remuneration is appropriately aligned with long-term growth in the value of the company.

Allocations from the long-term incentive (LTI) in the 2022 financial year

The members of the Management Board were granted a new tranche of the LTI in the 2022 financial year ("2022 LTI").

LTI 2022

	Overview LTI 2022	
	LTI target amount in €k	**Opening share price**
Dr. Klaus Fiedler	150	16.05 €
Christian Witt	143	

Because it is not possible to conclusively assess all the performance criteria for the 2022 LTI until the closing share price and the share price exercise threshold have been determined at the end of the first quarter of 2023, the remuneration resulting from the 2022 LTI shall be considered remuneration granted and owed in the 2023 financial year within the meaning of Section 162 (1) of the German Stock Corporation Act. The resulting 2022 LTI payment will therefore be disclosed in detail in the 2023 remuneration report.

Long-term variable remuneration granted and due in the 2022 financial year

Due to the transition from the former LTI with a three-year performance period to the current LTI with a one-year performance period in the 2021 financial year, the payment from two LTI tranches, which were granted in different financial years, shall be considered remuneration granted and owed in the 2022 financial year.

2021 LTI

The LTI under the current remuneration system was allocated for the first time in the 2021 financial year (“2021 LTI”). As with the 2022 LTI, it was not possible to conclusively assess all the performance criteria for the 2021 LTI until after the first quarter of 2022 (due to the definition of the closing share price and the share price exercise threshold). The remuneration resulting from the 2021 LTI shall therefore be considered remuneration granted and owed in the 2022 financial year within the meaning of Section 162 (1) of the German Stock Corporation Act.

The share price exercise threshold for the 2021 LTI was not reached. Both the average share price in the fourth quarter of 2021 (EUR 19.07) and the average share price in the first quarter of 2022 (closing share price: EUR 16.05) were below 90% of the average share price in the first quarter of 2021 (opening share price: EUR 27.35), so there was no payment from the 2021 LTI.

LTI 2021

	Overview LTI 2021				
	LTI target amount in €k	**Overall STI target achievement 2021**	**Closing share price / Opening share price**	**Performance hurdle met?**	**LTI payout amount in €k**
Christian Witt	122	45%	59%	No	0

LTI 2019 - 2021

	Target achievement LTI 2019 - 2021				
	Lower threshold (0% target achievement)	**Target value** (100% target achievement)	**Upper threshold** (200% target achievement)	**Actually achieved**	**Target achievement**
Average value added 2019 - 2021(in €k)	0	9,657	19,657	3,047	40%

Based on the target achievement level and the absolute share price performance, the payment amount from the 2019–2021 LTI was calculated as follows:

LTI 2019 - 2021

Overview LTI 2019 - 2021

	LTI target amount in €k	**Avg. share price** in Q1 2019 in €	**Number** of provisional phantom stocks	**Target achieveme nt**	**Final number** of phantom stocks	**Avg. share price** in Q1 2022 in €	**Payout amount** in €k
Götz M. Bendele	75	6,75	11,111	40%	4,444	16,05	0
Christian Witt	65	6,75	9,630	40%	3,852	16,05	62

The employment contract of Götz M. Bendele ended before the plan term elapsed. This meant that he completely forfeit his entitlements from the 2019 LTI.

2.4 UPPER LIMITS ON REMUNERATION (“CAP”) AND MAXIMUM REMUNERATION

Remuneration for members of the Management Board is limited in two respects. Firstly, upper limits are specified for each of the performance-based components, which, in the current remuneration system, are 200% of the target amount for the STI and 300% of the target amount for the LTI.

At the same time, the Supervisory Board has stipulated an absolute maximum limit on total annual remuneration in accordance with Section 87a (1) sentence 2 no. 1 of the German Stock Corporation Act. This is EUR 1,100,000 gross for the individual Management Board member.

As can be seen from the table of remuneration granted and owed, the maximum remuneration of EUR 1,100,000 provided for in the remuneration system was complied with for all members of the Management Board for the 2022 financial year.

2.5 REMUNERATION-RELATED EVENTS

2.5.1 BENEFITS UPON DEPARTURE

When appointing Management Board members and with regard to the duration of Management Board employment contracts, the Supervisory Board complies with the provisions of Section 84 of the German Stock Corporation Act and with the recommendations of the German Corporate Governance Code. Management Board employment contracts are concluded for the period of the respective appointment. Initial appointments are generally for three years, while the maximum period for a reappointment is five years. Management Board employment contracts can include an ordinary option of termination on both sides.

The mutual right to terminate employment contracts without notice for cause always remains unaffected.

2.5.1.1 SEVERANCE PAYMENT

In the event that the company gives ordinary notice of termination of the employment contract and the Management Board member is not responsible for the reason for termination, the Management Board member shall receive compensation of up to two years' annual fixed remuneration (gross), but no more than the remuneration due for the remaining term of the contract after the end of the notice period. This severance payment will count toward compensation provided in connection with the post-contractual non-competition clause.

The employment contract of Dr. Klaus Fiedler, on the other hand, makes provision for a severance payment in the event of effective dismissal and effective resignation.

There were no severance payments in the 2022 financial year.

If the Management Board contract is terminated, the outstanding variable remuneration components not yet paid relating to the period before the end of the contract will generally be paid in accordance with the originally agreed targets and comparative parameters and in accordance with the due dates or holding periods stipulated in the contract. A pro rata share of the entitlement to STI will be deducted in these cases. LTI entitlements are dependent on the circumstances of the departure. A pro rata share of the entitlement to LTI will be deducted in a contractually defined “good leaver event,” and all rights and entitlements will be lost in a “bad leaver event.”

2.5.1.2 CHANGE OF CONTROL

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

2.5.1.3 RELEASE FROM DUTIES

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

2.5.1.4 POST-CONTRACTUAL NON-COMPETITION CLAUSE – COMPENSATION

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

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

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

No compensation on the basis of a non-competition clause was paid in the 2022 financial year.

2.5.1.5 PROVISIONS ON PENSIONS AND EARLY RETIREMENT

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

As such, there were no pension commitments for members of the Management Board who were in office in the 2022 financial year.

2.5.1.6 CONTINUED PAYMENT OF REMUNERATION IN THE EVENT OF DEATH

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

2.5.2 PAYMENTS FROM THIRD PARTIES

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

2.5.3 REMUNERATION FOR WORK ON SUPERVISORY BOARDS OR SIMILAR BODIES

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

2.6 REMUNERATION GRANTED AND OWED IN THE 2022 FINANCIAL YEAR

2.6.1 CURRENT MEMBERS OF THE MANAGEMENT BOARD

The following tables show the remuneration granted and owed to the current members of the Management Board, including the relative share of the remuneration components in accordance with Section 162 of the German Stock Corporation Act. Remuneration granted and owed in accordance with Section 162 (1) sentence 1 of the German Stock Corporation Act is stated in the financial year in which the underlying activity for the remuneration was fully completed (“granted”) or became due but has not yet been fulfilled (“owed”). This includes basic salary paid in the financial year, incidental benefits accrued in the financial year and STI earned in the financial year. The LTI, on the other hand, is not included in total remuneration until the year in which a payable amount is reached.

Accordingly, the remuneration presented for the 2022 financial year is comprised as follows:

- Basic salary paid in the 2022 financial year; incidental benefits received in the 2022 financial year; the STI set for the 2022 financial year, which will be paid in the 2023 financial year; 2021 LTI (subject to obligatory investment in shares with a three-year lock-up period) and 2019–2021 LTI, both based on performance criteria that elapsed at the end of the first quarter of 2022 and were paid in the 2022 financial year.

Remuneration awarded and due according to § 162 AktG - Current Management Board members

	Dr. Klaus Fiedler (CEO) (since 1 January 2022)				**Christian Witt (CFO)** (Management Board member since 1 September 2018, Interim CEO 1 May to 31 December 2021)			
	2022		**2021**		**2022**		**2021**	
	in €k	**in %**	**in €k**	**in %**	**in €k**	**in %**	**in €k**	**in %**
Base salary	300	72%	-	-	296	60%	331	76%
Fringe benefits	7	2%	-	-	28	6%	25	6%
Total non-performance-based remuneration	307	73%	-	-	324	65%	356	81%
Short-term variable remuneration (STI)	0	0%	0	0%	0	0%	0	0%
STI 2021	-	-	-	-	-	-	55	68%
STI 2022	111	27%	-	-	111	64%	-	-
Long-term variable remuneration (LTI)								
LTI 2018 - 2020	-	-	-	-	-	-	26	32%
LTI 2019 - 2021	-	-	-	-	62	36%	-	-
LTI 2021	-	-	-	-	0	0%	-	-
Total performance-based remuneration	111	27%	-	-	173	35%	81	19%
Total remuneration awarded and due according to Section 162 AktG	418	100%	-	-	497	100%	437	100%

The remuneration individually granted and owed fully corresponds to the remuneration system presented.

2.6.2 FORMER MEMBERS OF THE MANAGEMENT BOARD

The following tables also show the remuneration granted and owed to former members of the Management Board in accordance with Section 162 of the German Stock Corporation Act.

Remuneration awarded and due according to § 162 AktG - Former Management Board members

	Dr. Götz M. Bendele (CEO 1 May 2018 to 30 April 2021)				**Britta Schulz** (Interim member of the Management Board 1 May 2021 to 31 December 2021)			
	2022		**2021**		**2022**		**2021**	
	in €k	**in %**	**in €k**	**in %**	**in €k**	**in %**	**in €k**	**in %**
Base salary	-	-	80	56%	-	-	188	89%
Fringe benefits	-	-	3	2%	-	-	11	5%
Total non-performance-based remuneration	-	-	83	58%	-	-	199	94%
Short-term variable remuneration (STI)	0	0%	0	0%	0	0%	0	0%
STI 2021	-	-	0	0%	-	-	6	46%
STI 2022	-	-	-	-	-	-	-	-
Long-term variable remuneration (LTI)								
LTI 2017 - 2020	-	-	-	-	-	-	7	54%
LTI 2018 - 2020	-	-	61	1	-	-	0	0%
LTI 2019 - 2021	0	-	-	-	-	-	-	-
LTI 2021	0	-	-	-	-	-	-	-
Total performance-based remuneration	0	-	61	42%	0	0%	13	6%
Total remuneration awarded and due according to Section 162 AktG	0	0%	144	100%	0	0%	212	100%

*) As a result of the change in the method of disclosing compensation granted and owed, the information on compensation in 2021 differs from the figures published in the Remuneration report 2021.

3. REMUNERATION OF THE SUPERVISORY BOARD

The remuneration system for the Supervisory Board of LPKF was adopted at the 2021 Annual General Meeting with 99.01% of the vote and became effective retroactively on 1 January 2021.

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

The remuneration system for the Supervisory Board is regulated in Article 20 of the Articles of Incorporation. The respective level of fixed remuneration takes into account the specific role and responsibility of members of the Supervisory Board. The greater amount of time required by the Chairman of the Supervisory Board, the Deputy Chairman of the Supervisory Board and the chairs of committees to carry out their work is adequately reflected in higher remuneration. A distinction is made here between the Audit Committee and other committees.

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

Members of the Supervisory Board who have not belonged to the Supervisory Board for a full financial year or who have been Chair or Deputy Chair of the Supervisory Board or who have chaired a committee receive pro rata remuneration.

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

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

Remuneration granted and owed in the 2022 financial year

The remuneration components granted and owed to current and former Supervisory Board members in the 2022 financial year, including the respective relative share in accordance with Section 162 of the German Stock Corporation Act, are shown below.

Remuneration awarded and due according to § 162 AktG - Supervisory Board members

	Fixed remuneration			Committee remuneration			Total remuneration	
	2022		2021	2022		2021	2022	2021
	in €k	in %	in €k	in €k	in %	in €k	in €k	in €k
Jean-Michel Richard	64	93%	64	5	7%	1	69	65
Dr. Dirk Michael Rothweiler	48	93%	48	4	7%	1	52	49
Prof. Ludger Overmeyer	32	100 %	32	0	0%	0	32	32
Julia Kranenberg (since 14 June 2021)	32	90%	19	4	10%	1	36	20

The remuneration shown here includes the remuneration in the financial year until the point LPKF SE was converted into a European stock corporation (1 January to 11 December 2022) and the expected remuneration for the period from 12 to 31 December 2022, provided the 2023 Annual General Meeting determines Supervisory Board remuneration for this period in a manner that is consistent with the period up to the point of conversion.

The remuneration individually granted and owed fully corresponds to the remuneration system presented.

4. COMPARISON OF THE DEVELOPMENT OF REMUNERATION AND INCOME

The table below shows a comparison of the development of Management Board and Supervisory Board remuneration with the development of LPKF's income and the development of average remuneration for employees on a full-time equivalents basis.

The disclosures for the Management Board and Supervisory Board are based on remuneration granted and owed within the meaning of Section 162 (1) sentence 1 of the German Stock Corporation Act.

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

On the basis of Section 26j (2) sentence 2 of the Introductory Act to the German Stock Corporation Act (EGAktG) and the interpretation variants of the Institute of Public Auditors in Germany (IDW), the comparison will gradually be expanded over future reporting years and will cover the full five-year period for the first time in the 2025 remuneration report.

Comparable Presentation

	Annual change in remuneration and earnings			
	2022	2021	Change	Change 2020 / 2021
	in €k	in €k	in %	in %
Current members of the Management Board				
Dr. Klaus Fiedler (since 1 January 2022)	418	-	-	-
Christian Witt	497	437	13.7%	98.7%
Former members of the Management Board				
Dr. Götz M. Bendele (until 30 April 2021)	0	144	-100.0%	-43.2%
Britta Schulz (until 31 December 2021)	0	212	-100.0%	-
Members of the Supervisory Board				
Jean-Michel Richard (since 24 November 2020)	69	65	5.7%	994.6%
Dr. Dirk Michael Rothweiler	52	49	5.4%	1.8%
Prof. Ludger Overmeyer	32	32	0.0%	0.0%
Julia Kranenberg (since 14 June 2021)	36	20	81.4%	-
Development of earnings				
Net revenue in €m	123,699	93,568	32.2%	-2.8%
EBIT in €m	6,779	59	11312.5%	-99.2%
Net income according to HGB in €m	4,438	1,388	319.7%	-63.5%
Average remuneration of employees				
Employees (FTE) in Germany	54	50	6.6%	-2.1%

As a result of the change in the method of disclosing compensation granted and owed, the information on compensation in 2021 differs from the figures published in the Remuneration report 2021.

5. OUTLOOK FOR THE 2023 FINANCIAL YEAR

In view of LPKF's future growth ambitions, the approval rates for the remuneration system at the 2021 Annual General Meeting and the feedback on the 2021 remuneration report, the Supervisory Board carried out an extensive review of the Management Board remuneration system in 2022 in consultation with its Remuneration and ESG Committee. The Supervisory Board also considered feedback from investors and appropriate recommendations from voting rights consultants in its review. The revised remuneration system is to be submitted to the 2023 Annual General Meeting for approval and, subject to approval by the 2023 Annual General Meeting, it will become effective for all Management Board members retroactively for the 2023 financial year.

An overview is presented below of the core elements of the revised remuneration system and the significant changes and additions to the current remuneration system. A detailed description of the revised remuneration system can be found in the invitation to the 2023 Annual General Meeting.

The most significant changes and additions relating to the revised remuneration system can be summarized as follows:

- Reinforcement of long-term orientation

To enhance the orientation toward LPKF's long-term and sustainable development even further, the ratio between the short-term and long-term variable remuneration components is to be shifted in favor of the LTI. In the future, the ratio between the target amount for STI and the target amount for LTI will be 40% to 60% (currently 50% to 50%).

- Alignment of the LTI to the corporate strategy and investor expectations

The current LTI is being replaced by a completely new LTI plan. The new LTI is designed as a stock option plan that is linked to both financial targets and ESG targets. The Supervisory Board believes that the use of a stock option plan is best suited to LPKF's growth ambitions.

As an internal financial target, ROCE is being moved from the STI to the new LTI (weighting: 40%). Furthermore, relative total shareholder return (TSR) is being implemented as an additional financial performance target with a weighting of 40%. The financial targets are being supplemented with measurable ESG targets (weighting: 20%), which are derived from the sustainability strategy and are established each year by the Supervisory Board.

Achievement of the described performance targets will be measured over a period of three years and will determine the final number of share options. These options will then have to be held for a further year, in which the value of the share options will continue to depend on the performance of the share price. This means that the share options may be exercised four years after allocation at the earliest. The subsequent exercise period is four years, which means that the plan term for the new LTI is up to eight years.
The new LTI will be settled in shares.

- Introduction of penalty and clawback provisions

In line with the expectations of investors and voting rights consultants, the revised remuneration system contains penalty and clawback provisions for the variable remuneration components. These cover instances where variable remuneration was paid on the basis of misstatements in the annual financial statements (performance clawback) and instances where intentional gross breaches of material obligations were committed by a Management Board member (compliance penalty / clawback).

- Introduction of a Share Ownership Guideline

The revised remuneration system also makes provision for a share ownership guideline (SOG) to tie the interests of the Management Board and shareholders more closely together. Under the share ownership guideline, members of the Management Board will be required to invest at least 50% of their net STI payment in shares of the company each year until the SOG target of 100% of the gross basic salary is met. These shares must be held until the end of the employment contract. Share options from the new LTI cannot be exercised if the SOG target is not met.

- Adjustment of maximum remuneration to the new LTI and the remuneration structure

As the new LTI in the form of a stock option plan presents a different risk profile to the former LTI, the maximum remuneration is being adjusted. Firstly, payment depends on fulfillment of the newly introduced performance targets, including a relative performance measurement for total shareholder return. Secondly, a payment is only made if the share price goes up. If this stipulation is not met, there is no payment. In view of this changed risk profile compared with the former LTI and considering the new remuneration structure outlined above, the Supervisory Board has deemed it necessary to adjust the maximum remuneration in accordance with Section 87a (1) sentence 2 no. 1 of the German Stock Corporation Act. From 2023 onward, the maximum remuneration will be EUR 2 million for each member of the Management Board. In determining the maximum remuneration, the Supervisory Board has also taken into account the level of maximum remuneration in companies of a comparable size.

The significant changes and additions relating to the present remuneration system are as follows:

Component		Remuneration system in 2022	Remuneration system from 2023 on

Performance-based	Short-term variable remuneration (STI)	Target amount: 50% of base salary
		Performance criteria:
		• 75% corporate targets
		  • 25% Revenue
		  • 25% ROCE
		  • 25% EBIT margin
		• 25% personal targets
			Target amount: 40% of base salary
			Performance criteria:
			• 75% corporate targets
			  • 37.5% Revenue
			  • 37.5% EBIT margin
			• 25% personal targets

	Long-term variable remuneration (LTI)	Plan type: Equity Deferral Target amount: 50% of base salary Plan term: Four years • One-year basis for assessment • Subsequent three-year holding period for shares Performance criteria: • As for STI	Plan type: Stock Option Plan Target amount: 60% of base salary Plan term: Eight years • Three-year performance period • Subsequent one-year waiting period for Stock Options • Subsequent four-year exercise period Performance criteria: • 40% ROCE • 40% Relative TSR • 20% ESG targets
Other key regulations	Maximum remuneration	EUR 1.1 million per Management Board member	EUR 2 million per Management Board member
	Malus and Clawback	-	Performance and compliance malus / clawback provisions applying to all variable remuneration components.
	Share Ownership Guideline	-	SOG target: 100% of gross base salary Holding period: Until end of service Additional provisions: • Each year, at least 50% of the net STI payout must be invested until the SOG target is met • Exercisable Stock Options from the LTI cannot be exercised until the SOG target is met

CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS

For the LPKF Group and LPKF Laser & Electronics SE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FROM 1 JANUARY TO 31 DECEMBER 2022

in EUR thousand	Note	**2022**	2021
Revenue	1	123,699	93,568
Changes in inventory		-5,209	7,272
Other own work capitalized	2	6,282	5,890
Other income	3	4,235	3,269
Cost of materials	4	-38,026	-36,828
Staff costs	5	-49,484	-44,348
Depreciation, amortization and write-downs	6	-8,338	-7,537
Impairment expenses (including reversals) on financial assets and contract assets	30	-77	-73
Other expenses	7	-26,303	-21,154
Operating Result (EBIT)	8	**6,779**	59
Finance income	9	25	18
Finance costs	9	-392	-247
Earnings before tax		**6,412**	-170
Income taxes	10	-4,753	56
Period result		**1,659**	-114
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluations of defined benefit plans		83	124
Tax effects		-15	-39
Items that will be reclassified to profit or loss			
Currency translation differences		585	1,770
Other comprehensive income after taxes		**653**	1,855
Total comprehensive income		**2,312**	1,741
Earnings per share (basic)	26	0.07	0.00
Earnings per share (diluted)	26	0.07	0.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2022

in EUR thousand	Note	**12/31/ 2022**	12/31/ 2021
ASSETS			
Intangible assets and goodwill	11	20,731	19,072
Property, plant and equipment	12	45,088	46,317
Trade receivables	14	27	696
Other non-financial assets	16	292	181
Deferred tax assets	18	916	2,766
Non-current assets		**67,054**	69,032
Inventories	13	27,677	28,536
Trade receivables	14	27,423	16,486
Income tax receivables		674	1,511
Other financial assets	15	0	13
Other non-financial assets	16	2,767	1,495
Cash and cash equivalents	17	12,785	15,167
Current assets		**71,326**	63,208
Total		**138,380**	132,240

in EUR thousand	Note	**12/31/ 2022**	12/31/ 2021
EQUITY			
Subscribed capital		24,497	24,497
Capital reserve		15,463	15,463
Other reserves		12,674	12,021
Net retained profits		41,881	40,222
Equity	19	**94,515**	92,203
LIABILITIES			
Provisions for pensions and similar obligations	21	279	370
Other financial liabilities	23	1,216	2,630
Deferred income	20	383	676
Contract liabilities	1	227	141
Other provisions	22	30	68
Deferred tax liabilities	18	2,153	327
Non-current liabilities		**4,288**	4,212
Other provisions	22	3,476	2,270
Other financial liabilities	23	1,704	2,568
Deferred income	20	88	0
Trade payables		7,505	7,213
Contract liabilities	1	21,347	19,081
Other liabilities	24	5,457	4,693
Current liabilities		**39,577**	35,825
Liabilities		**43,865**	40,037
Total		**138,380**	132,240

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY TO 31 DECEMBER 2022

in EUR thousand	Note	**2022**	2021
Cash flow from operating activities			
Period result		1,659	-114
Adjustments:			
Tax expenses		4,753	-56
Financial expenses		392	247
Financial income		-25	-18
Depreciation/amortization of non-current assets		8,338	7,537
Gains/losses on the disposal of property, plant and equipment		0	-9
Impairment losses/reversals	13, 14	1,444	1,186
Other non-cash expenses and income		-58	98
Changes:			
Inventories (before depreciation)		-325	-9,438
Trade receivables		-10,336	-3,604
Other assets		-1,376	838
Provisions		1,081	-547
Trade payables		280	-465
Other liabilities		2,894	14,476
Other:			
Income from interest		25	6
Income taxes paid		-242	-2,216
Cash flow from operating activities		**8,504**	7,921
Cash flow from investing activities			
Investments in intangible assets		-6,164	-5,441
Investments in property, plant and equipment		-2,134	-3,244
Revenue from the disposal of assets		56	62
Cash flow from investing activities		**-8,242**	-8,623

in EUR thousand	Note	**2022**	2021
Cash flow from financing activities			
Dividends paid		0	-2,450
Interest paid		-392	-248
Payments of lease liabilities		-791	-729
Payments for repaying loans		-1,909	-1,817
Cash flow from financing activities		**-3,092**	-5,244
Change in cash and cash equivalents			
Increase (decrease) in cash and cash equivalents		**-2,830**	-5,946
Cash and cash equivalents as of 1 January		15,167	20,074
Effects of exchange rate changes on cash and cash equivalents		448	1,039
Cash and cash equivalents as of 31 December	**17, 25**	**12,785**	15,167

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FROM 1 JANUARY TO 31 DECEMBER 2022

in EUR thousand	Subscribed capital	Capital reserve	Other retained earnings	
As of 01/01/2022	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 12/31/2022	24,497	15,463	10,529	

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

	Other reserves				
	Revaluations of defined benefit plans	Share-based payment reserve	Foreign currency translation reserve	Net retained profits	**Total equity**
	-276	490	1,278	40,222	**92,203**
				1,659	1,659
	68		585		653
	68	0	585	1,659	**2,312**
	-208	490	1,863	41,881	**94,515**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2022 CONSOLIDATED FINANCIAL STATEMENTS

A. BASIC INFORMATION

At the Annual General Meeting on 19 May 2022, the shareholders resolved to convert LPKF Laser & Electronics SE into the legal form of a European company (Societas Europaea, SE). The conversion became effective upon entry in the commercial register on 12 December 2022. As this change took place prior to the preparation of these consolidated financial statements, the Company is referred to throughout this report by its current name, LPKF Laser & Electronics SE.

LPKF Laser & Electronics SE and its subsidiaries (hereinafter the LPKF Group) develop and 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 SE is entered in the Commercial Register of the Hanover Local Court (Reg. No. 110740 B).

The company is a stock corporation under European law 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 2023.

B. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of LPKF Laser & Electronics SE, 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 2022, the Group reported consolidated net profit of EUR 1,659 thousand. The Group recorded net working capital of EUR 26,048 thousand as of 31 December 2022. 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. As at the reporting date of 31 December 2022, the Group had cash and cash equivalents of EUR 12,785 thousand. In addition, as of 31 December 2022, 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.

Economic development is currently uncertain. In some regions of the world, there were also pandemic-related restrictions in the past year, so that further negative effects cannot be ruled out. In addition, the Russian war of aggression is causing uncertainty within Europe and continues to impact the continent's energy supply. The aforementioned factors may have a temporary negative impact on the LPKF Group's business performance. The appropriateness of the going concern assumption as a basis of accounting is dependent on the Group's ability to meet its loan conditions to ensure continued availability of capital. At the time of approval of the financial statements, the Group has sufficient headroom with regard to its credit facilities.

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

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

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

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

The financial year corresponds to the calendar year. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (EUR thousand). All financial information presented in euro has been rounded to the nearest thousand unless otherwise stated.

The following standards that were amended, revised or issued prior to the reporting date were applied in the 2022 financial year. They have no material effects on the consolidated financial statements.

First-time application	New or amended standards and interpretations
1 April 2021	COVID-19-Related Rent Concessions after June 30th 2021 (Amendment to IFRS 16)
1 January 2022	Onerous contracts - costs of fulfilling a contract (amendments to IAS 37)
	Annual improvements to IFRS standards 2018-2020
	Property, plant and equipment: Revenue before planned use (amendments to IAS 16)
	Reference to the Framework (Amendments to IFRS 3)

The following standards that were amended, revised or issued prior to the reporting date were not yet applied in the 2022 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 January 2023	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
	IFRS 17 Insurance Contracts
	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
	Definition of Accounting Estimates (Amendments to IAS 8)
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
Available for optional adoption/ effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

BASIS OF CONSOLIDATION

As of 31 December 2022, LPKF Laser & Electronics SE 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 SE, 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.	Tianjin/China	100.0 (100.0)
LPKF Laser & Electronics Trading (Shanghai) Co. Ltd.	Shanghai, China	100.0 (100.0)
LPKF Shanghai Co., Ltd.	Shanghai/China	100.0 (n.a.)
LPKF Laser & Electronics K.K.	Tokyo, Japan	100.0 (100.0)
LPKF Laser & Electronics Korea Ltd.	Seoul, Korea	100.0 (100.0)

LPKF Laser & Electronics (Hong Kong) Ltd. was closed to streamline and simplify the Group's structures. The operating business had already been transferred to other Group companies in previous years. The company was finally deleted from the local register with the announcement on 25 March 2022. In January 2022, LPKF (Shanghai) Trading Co., Ltd. was founded with its registered office in Shanghai, China. In October, the company was renamed LPKF Shanghai Co.,Ltd. It will replace the previous company LPKF (Tianjin) Co. Ltd. in the medium term.

There were no other changes to the LPKF Group's legal structure during the financial year.

With the approval of the Annual General Meeting on 28 May 2015, a profit transfer agreement exists between LPKF Laser & Electronics SE (formerly LPKF Laser & Electronics SE) 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 SE (formerly LPKF Laser & Electronics SE) 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 2022 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 SE. LPKF Laser & Electronics SE 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 SE 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 SE gains control over the entity. It ends when LPKF Laser & Electronics SE 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 SE's subsidiaries, the functional currency is the same as the local currency in the country in which the subsidiary is domiciled.

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

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

1 euro = currency x	Closing rate		Average rate	
	12/31/2022	12/31/2021	**2022**	2021
US dollar	1.0666 USD	1,1326 USD	1,0539 USD	1,1835 USD
Chinese renminbi yuan	7.3582 CNY	7,1947 CNY	7,0801 CNY	7,6340 CNY
Hong Kong dollar	8.3163 HKD	8,8333 HKD	8,2512 HKD	9,1988 HKD
Japanese yen	140.66 JPY	130,38 JPY	138,01 JPY	129,86 JPY
South Korean won	1,344.09 KRW	1,346.38 KRW	1,358.07 KRW	1,353.95 KRW

E. MATERIAL ACCOUNTING AND MEASUREMENT ESTIMATES AND ASSUMPTIONS

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

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

(A) INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

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

(B) PROVISIONS

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

(C) INCOME TAXES

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

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

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

(D) FAIR VALUE OF DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

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

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

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

(F) RECOGNITION OF REVENUE

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

F. SEGMENT REPORTING

In accordance with the provisions of IFRS 8 (Operating segments), selected information in the annual financial statements is presented by operating segment and region, with segmentation based on internal reporting to the chief operating decision maker. The chief operating decision maker is responsible for determining the allocation of resources to segments and reviewing their performance. The Management Board of LPKF Laser & Electronics SE 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
In the Development segment, LPKF supplies almost everything that developers of electronic devices need to produce and assemble PCB prototypes quickly, in-house and largely without the use of chemicals. Since 2021, LPKF has been developing systems and solutions for biomedical research under the name ARRALYZE.

Electronics
Within the Electronics segment, LPKF manufactures systems that are mainly used in production in the electronics industry. The Electronics segment also includes the LIDE (Laser Induced Deep Etching) technology developed by LPKF.

LPKF's Active Mold Packaging (AMP) technology enables the placement of electrical circuits directly on the surface and inside epoxy mold compounds (EMC).

Welding
The Welding segment includes laser systems, thermal process monitoring and software for welding plastics. The business unit develops and sells standardized standalone and integration systems, but also offers customized solutions for customers. These systems are mainly used in the automotive supply industry, medical technology and in the manufacture of consumer electronics.

Solar
In the Solar segment, LPKF develops and produces laser systems for structuring thin-film solar cells (LaserScribers) for various thin-film technologies. This segment also includes laser systems for digital printing of functional pastes and inks (Laser Transfer Printing, LTP).

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

The segment information was determined as follows:

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

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

in Mio. EUR	Revenue (before consolidation)		External revenue		Operating result (EBIT)	
	2022	2021	**2022**	2021	**2022**	2021
Electronics	31.5	32.0	31.5	32.0	-2.1	-0.8
Development	30.6	23.6	28.2	22.1	3.9	1.2
Welding	25.6	27.4	25.6	27.4	1.4	3.0
Solar	38.4	12.1	38.4	12.1	3.6	-3.3
Total	**126.1**	95.1	**123.7**	93.6	**6.8**	0.1

in Mio. EUR	Investments		Depreciation and amortization (non-current assets)*		Write-downs (inventories)	
	2022	2021	**2022**	2021	**2022**	2021
Electronics	2.5	4.2	-2.7	-2.0	-0.8	-0.5
Development	3.9	2.3	-1.3	-1.4	-0.2	-0.2
Welding	1.4	0.7	-1.3	-1.2	-0.1	-0.2
Solar	0.5	1.4	-0.9	-0.9	-0.2	-0.3
Total	**8.3**	8.6	**-6.2**	-5.5	**-1.3**	-1.2

*only direct allocated amortization

EUR 2.1 million (previous year: EUR 2.0 million) relates to depreciation not directly attributable to the segments. These are distributed to the segments via allocations. Total depreciation of the Group's fixed assets amounted to EUR 8.3 million (previous year: EUR 7.5 million).

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

In the 2022 financial year, revenue of EUR 21.3 million (previous year: EUR 8 million) was generated in the Solar segment from a single customer.

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

GEOGRAPHICAL INFORMATION

Reporting reflects information on a geographical basis. Revenue is based on the geographical locations of customers.

	External revenue			
	2022		2021	
	in EUR million	in %	in EUR million	in %
Germany	9.9	8.0	11.2	12.0
Rest of Europe	17.7	14.3	19.9	21.3
USA	40.9	33.1	16.6	17.7
Rest of North America	1.4	1.1	0.4	0.4
China	26.6	21.5	28.7	30.7
Malaysia	3.3	2.7	1.9	2.0
Vietnam	4.0	3.2	1.9	2.0
Rest of Asia	17.3	14.0	11.0	11.8
Other	2.6	2.1	2.0	2.1
Total	**123.7**	**100.0**	93.6	100.0

The following table provides information on the geographical locations of non-current assets in accordance with IFRS 8.33 (b).

	2022	2021
Germany	58.6	57.9
Rest of Europe	4.0	4.3
USA	1.9	1.8
China	1.0	1.1
Rest of Asia	0.3	0.3
Total	65.8	65.4

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 as well as service components. In the sale of equipment, systems, production services (Foundry) and service components, mainly spare parts, 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	External revenue (total)		Time point of revenue recognition: Equipment and systems (at a specific time)		Service contracts (over time)	
	2022	2021	**2022**	2021	**2022**	2021
Electronics	31.5	32.0	30.0	30.3	1.5	1.7
Development	28.2	22.1	27.3	21.8	0.9	0.3
Welding	25.6	27.4	25.4	27.3	0.2	0.1
Solar	38.4	12.1	38.4	11.7	0.0	0.4
Total	**123.7**	93.6	**121.1**	91.1	**2.6**	2.5

Contract balances

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

in EUR million	**12/31/2022**	12/31/2021
Contract assets	0.0	0.0
Contract liabilities (by term)	21.5	19.2
Breakdown by maturity:		
Current	21.3	19.1
Non-current	0.2	0.1
Breakdown by type:		
Revenue recognized over time from service contracts	2.6	2.3
Services rendered at a specific point in time (advance payments received)	18.9	16.9

Contract assets arise from the right to consideration for services rendered but not yet invoiced. There were no contract assets in the 2022 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 19.2 million included in contract liabilities as of 31 December 2021 was recognized as revenue in the 2022 financial year (previous year: EUR 4.7 million). In the 2022 reporting period, there was no recognized revenue from performance obligations that were settled or partially settled in prior periods.

During the 2022 financial year, there were no significant or substantial changes to the balances of contract assets and contract liabilities other than those listed in the table. The increase of EUR 2.3 million in contract liabilities compared with the previous year is mainly due to higher advance payments received for the sale of equipment and systems as of the reporting date.

Performance obligations

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

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

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

LPKF employs the IFRS 15.121 practical expedient if the original expected duration of the contract is one year or less. This applies to both the sale of equipment and service contracts with a duration of one year or less. The transaction price of unsatisfied (or partially unsatisfied) performance obligations with a duration of more than one year amounts to EUR 227 thousand (previous year: EUR 141 thousand) and corresponds to contract liabilities with an identical duration. The revenue for these will be recognized from 2024 onwards.

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

2. OTHER OWN WORK CAPITALIZED

Own work capitalized by the Group concerned equipment of EUR 6,282 thousand (previous year: EUR 5,890 thousand). This comprised own work for technical equipment and machinery used by Group companies for production as well as prototype development projects capitalized during 2022, 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 five 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	**2022**	2021
Research and development grants	1,634	859
Income from currency translation differences	1,091	576
Income from the reversal of provisions	423	733
Income from insurance payments	193	4
Reversal of deferred item income from grants	36	37
Other	858	1,060
Total	**4,235**	3,269

Research and development grants amounting to EUR 1.634 thousand (Prior year: EUR 859 thousand) 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 generally 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 originally 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 36 thousand (previous year: EUR 37 thousand).

Income from the reversal of provisions mainly results from the reversal of provisions for guarantees and warranties in the amount of EUR 243 thousand (previous year: EUR 159 thousand) and for short- and long-term bonus provisions in the amount of EUR 128 thousand (previous year: EUR 539 thousand).

The reimbursement amounts requested from the Federal Employment Agency last year for social security contributions related to short-time work amounted to EUR 133 thousand. Since June 2021, short-time work has no longer been used at the German sites. In the 2022 financial year, the LPKF Group did not realize any income from COVID-19 support packages.

4. COST OF MATERIALS

in EUR thousand	**2022**	2021
Cost of (system) parts and purchased goods	-35,805	-33,370
Cost of purchased services	-953	-2,249
Write-downs on inventories	-1,268	-1,209
Total	**-38,026**	-36,828

Depreciation on inventories includes the write-down of a damaged system in the amount of EUR 135 thousand, for which the Group received a commitment for an insurance compensation in the full amount. The compensation is reported as other income from insurance reimbursements.

5. STAFF COSTS AND EMPLOYEES

in EUR thousand	**2022**	2021
Wages and salaries		
Expenses for wages	-40,885	-36,318
Other	-999	-1,003
	-41,884	-37,321
Social security costs and pension costs		
Employer's contribution to social security	-7,277	-6,578
Pension costs	-121	-258
Employer`s liability insurance association	-202	-191
	-7,600	-7,027
Total	**-49,484**	-44,348

The previous year's personnel expenses were relieved by EUR 404 thousand through the use of short-time work at German locations until May 2021. There were ongoing pension payments of EUR 17 thousand (previous year: EUR 17 thousand) arising from pension obligations in the 2022 financial year (also see note 21).

The workforce is distributed as follows:

	As of reporting date		Annual average	
	12/31/2022	12/31/2021	**2022**	2021
Development	211	207	212	196
Production	136	136	134	135
Service	98	100	97	99
Sales	138	141	138	139
Administration	157	162	158	155
Total	**740**	746	**739**	724

6. DEPRECIATION, AMORTIZATION AND WRITE-DOWNS

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

7. OTHER EXPENSES

in EUR thousand	**2022**	2021
Third-party work, temporary work costs	-3,098	-2,788
Repairs, maintenance, operating materials	-2,767	-2,412
Travel, meals/entertainment	-2,693	-1,382
Advertising and sales expenses	-2,363	-2,018
Legal and consulting expenses	-2,258	-1,846
Consumables, development and purchased development services	-2,197	-1,513
Rent, ancillary rental costs, leases, land and building costs	-1,344	-1,343
Insurance, contributions, duties	-1,170	-1,221
Exchange rate losses	-1,036	-675
Trade fair costs	-844	-354
Vehicle costs	-798	-564
Voluntary benefits, training and further education	-674	-305
Sales commissions	-672	-488
Financial statement preparation, publication and auditing costs	-572	-258
Telecommunications costs	-565	-499
Investor relations	-515	-556
Expenses for warranties	-470	-220
Bank charges	-249	-243
Supervisory Board remuneration incl. reimbursement of expenses	-192	-168
Office supplies	-162	-168
Addition to loss allowance on receivables and losses on receivables	-108	-58
Other	-1,556	-2,075
Total	**-26,303**	-21,154

Expenses for R&D/effect on income statement

in EUR thousand	**2022**	2021
Materials and other costs	-4,489	-4,209
Other costs (including staff costs and D&A)	-12,042	-9,103
Total expenses for R&D	**-16,531**	-13,312

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	**2022**	2021
Finance income		
Other interest and similar income	25	18
Finance costs		
Interest and similar expenses	-392	-247
	-367	-229

Other interest and similar income mainly arose from overnight and time deposits totaling EUR 25 thousand (previous year: EUR 6 thousand). In the previous year income from fair value measurement of derivatives in the amount of EUR 12 thousand was included. Other interest expense of EUR 351 thousand (previous year: EUR 206 thousand) was incurred in connection with long-term loans and short-term money market loans. In addition, interest expenses of EUR 41 thousand (previous year: EUR 42 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

Current tax is the expected tax payable on the taxable income or tax loss for the year, based on tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. The amount of the expected tax liability or tax receivable is subject to the best possible estimate, taking into account tax uncertainties, if any.

Deferred taxes are recognized on temporary differences between the carrying amounts of assets and liabilities for Group accounting purposes and the amounts used for tax purposes. A deferred tax asset is recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available.

Income tax liabilities are offset against income tax assets in the same tax jurisdiction to the extent that they relate to the same taxable entity and there is a legally enforceable right to offset the recognized amounts.

Income taxes are calculated on the basis of applicable laws and regulations.

Current and deferred taxes are recognized in the income statement unless they relate directly to items recognized in equity or in other comprehensive income. In this case, the taxes are recognized directly in equity or in other comprehensive income.

in EUR thousand	2022	2021
Corporate income tax and solidarity surcharge	-1,037	-773
Trade tax	-126	-75
	-1,163	**-848**
of which related to prior period	0	-44
Deferred taxes	-3,590	904
	-4,753	**56**

Other comprehensive income includes a tax effect of EUR -15 thousand (previous year: EUR -39 thousand) from the remeasurement of defined benefit plans.

The German companies of the LPKF Group are subject to trade tax of between 14.8 % and 15.7 % depending on the applicable trade tax multiplier. The corporate income tax rate is unchanged from the previous year at 15.0 % plus a solidarity surcharge of 5.5 % on corporate income tax. The calculation of foreign income taxes is based on the laws and regulations applicable in the individual countries. The income tax rates applied to foreign companies vary from 11.0 % to 34.6 % (previous year: 11.0 % to 34.6 %) for deferred taxes and from 11.0 % to 34.6 % (previous year: 11.0 % to 34.6 %) for current taxes.

In preparing the consolidated financial statements, the individual income tax rate of the countries concerned was applied to the measurement of deferred tax assets and liabilities.

Reconciliation of anticipated to current tax expense:

in EUR thousand	2022	2021
Consolidated profit/loss before income taxes	6,412	-170
Anticipated tax expenses 31.5% (previous year: 31.5%)	-2,020	54
Effect of different tax rates	314	173
Effect from unrecognized and impaired deferred tax assets	-1,990	-66
Effect from the non-recognition of current losses	-584	-21
Tax-free income	227	152
Tax effect of non-deductible operating expenses	-597	-157
Prior-period tax effects	0	-44
Other differences	-103	-35
Effective tax expenses 74.1 % (previous year: 32.9 %)	**-4,753**	56

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

The effect of unrecognized and impaired deferred tax assets results, on the one hand, from the valuation allowance of deferred tax assets on tax loss carryforwards and temporary differences in the amount of EUR 2,008 thousand (previous year: EUR 4 thousand) and, on the other hand, from the offsetting effects due to the utilization of previously unrecognized tax losses and temporary differences in the amount of EUR -18 thousand (previous year: EUR -70 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 01/01/2021	74	50,807	11,345	**62,226**
Additions	0	5,289	152	5,441
Disposals	0	0	0	0
Reclassification	0	0	0	0
Currency differences	0	0	3	3
As of 12/31/2021	74	56,096	11,500	**67,670**
Additions	0	5,544	620	6,164
Disposals	0	-20	-6	-26
Reclassification	0	0	0	0
Currency differences	0	0	-2	-2
As of 12/31/2022	74	61,620	12,112	**73,806**
Accumulated depreciation				
As of 01/01/2021	0	-34,274	-10,612	**-44,886**
Additions	0	-3,487	-222	-3,709
Disposals	0	0	0	0
Reclassification	0	0	0	0
Currency differences	0	0	-3	-3
As of 12/31/2021	0	-37,761	-10,837	**-48,598**
Additions	0	-4,259	-245	-4,504
Disposals	0	20	6	26
Reclassification	0	0	0	0
Currency differences	0	0	1	1
As of 12/31/2022	0	-42,000	-11,075	**-53,075**
Carrying amount as of 12/31/2021	74	18,335	663	**19,072**
Carrying amount as of 12/31/2022	**74**	**19,620**	**1,037**	**20,731**

Goodwill

Goodwill arising on the acquisition of companies (goodwill arising on consolidation) is not amortized. 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. The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. 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 2022, 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	**2022**	2021
Electronics	7,333	7,314
Development	3,822	3,203
Welding	1,826	2,141
Solar	6,639	5,677
Total	**19,620**	18,335

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. For the development of a new basic technology in 2022, a scheduled useful life of five years was assumed.

Other intangible assets

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

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

12. PROPERTY, PLANT AND EQUIPMENT

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

in EUR thousand	Land and buildings	Technical equipment	Other equipment, operating and office equipment	PPE in construction	Right-of-use assets	**Total**
Acquisition and production costs						
As of 01/01/2021	**51,836**	**13,029**	**16,397**	**481**	**3,531**	**85,274**
Additions	91	1,053	1,069	1,031	802	4,046
Disposals	-4	-166	-88	0	0	-258
Reclassification	0	596	0	-596	0	0
Currency differences	192	134	34	0	0	360
As of 12/31/2021	**52,115**	**14,646**	**17,412**	**916**	**4,333**	**89,422**
Additions	1	1,407	608	116	422	2,554
Disposals	0	-493	-149	0	-1	-643
Reclassification	15	864	64	-943	0	0
Currency differences	154	17	3	0	0	174
As of 12/31/2022	**52,285**	**16,441**	**17,938**	**89**	**4,754**	**91,507**
Accumulated depreciation						
As of 01/01/2021	**-14,763**	**-10,574**	**-12,665**	**0**	**-1,286**	**-39,288**
Additions	-1,394	-883	-973	0	-578	-3,828
Disposals	3	158	44	0	0	205
Reclassification	0	0	0	0	0	0
Currency differences	-51	-121	-22	0	0	-194
As of 12/31/2021	**-16,205**	**-11,420**	**-13,616**	**0**	**-1,864**	**-43,105**
Additions	-1,396	-911	-971	0	-556	-3,834
Disposals	0	448	138	0	1	587
Reclassification	0	0	0	0	0	0
Currency differences	-39	-19	-10	0	1	-67
As of 12/31/2022	**-17,640**	**-11,902**	**-14,459**	**0**	**-2,418**	**-46,419**
Carrying amount as of 12/31/2021	35,910	3,226	3,796	916	2,469	**46,317**
Carrying amount as of 12/31/2022	**34,645**	**4,539**	**3,479**	**89**	**2,336**	**45,088**

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

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

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

They are deemed to have the following useful lives:

	years
Buildings	25 or 33
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 1,120 thousand (previous year: EUR 3,029 thousand) are secured by land and buildings.

Leases

LPKF Laser & Electronics SE 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	**2022**	2021
Write-downs of right-of-use assets	**-556**	-578
of which für property leases	-254	-271
of which for movable asset leases	-302	-307
Additions to right-of-use assets	**422**	802
of which for property leases	169	457
of which for movable asset leases	253	345
Carrying amount of right-of-use assets on 12/31	**2,336**	2,470
of which for property leases	1,352	1,437
of which for movable asset leases	984	1,033
Expenses for short-term leases	0	0
Expenses for leasing low-value assets	-30	-35
Interest expense on lease liabilities	-41	-42
Total cash outflow for leases	-791	-729

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	**2022**	2021
Raw, auxiliary and operating materials	13,024	8,797
Unfinished products and services	7,007	7,474
Finished products and goods	7,396	12,165
Advance payments	250	100
Total	**27,677**	28,536

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 1,268 thousand (previous year: EUR 1,209 thousand).

14. TRADE RECEIVABLES

in EUR thousand	**2022**	2021
Nominal amount of receivables	27,744	17,300
+/- Loss allowances for non-credit-impaired receivables	-162	-85
+/- Loss allowances for credit-impaired receivables	-132	-33
Receivables after loss allowances, discounts and currency losses	**27,450**	17,182
of which receivables with a remaining term of more than one year	27	696
of which receivables with a remaining term of less than one year	27,423	16,486

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

There was no income from the recovery of derecognized receivables in the 2021 financial year, as was the case in the previous year. The value adjustments for trade receivables increased by EUR 176 thousand in the financial year. See the risk management notes in Section 30 for more information on default risks for trade receivables.

15. OTHER FINANCIAL ASSETS

in EUR thousand	**2022**	2021
Derivatives - without hedge accounting	0	13
Total	**0**	13

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

16. OTHER NON FINANCIAL ASSETS

in EUR thousand	**2022**	2021
Net assets for defined benefit plans	271	158
Other	21	23
Non-current other non-financial assets	**292**	181
Receivable from research grants	419	282
Deferred income	1,201	419
Insurance reimbursement claims	147	0
Other	1,000	794
Current other non-financial assets	**2,767**	1,495

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	**2022**	2021
Cash and cash equivalents on the statement of financial position	12,785	15,167
Overdraft facilities used for cash management	0	0
Cash and cash equivalents shown in the statement of cash flows	**12,785**	15,167

18. DEFERRED TAXES

Deferred taxes are calculated using the liability method in accordance with IAS 12, under which deferred taxes are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxes are not recognized for:

- temporary differences arising on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit.
- temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.
- taxable temporary differences on initial recognition of goodwill.

A deferred tax asset is recognized for unused tax losses and temporary differences if it is probable that future taxable profit will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and reduced, if appropriate, to the extent that it is no longer probable that the related tax benefit will be realized.

Temporary differences relating to a right-of-use asset and a lease liability for a specific lease are considered together for the purpose of recognizing deferred tax.

As deferred tax assets, deferred taxes were mainly recognized on temporary differences relating to inventories and loss carryforwards. Deferred tax liabilities were mainly recognized on capitalized development costs. Deferred taxes are composed as follows:

DEFERRED TAX ASSETS

in EUR thousand	**2022**	2021
Tax loss carryforwards	3,724	5,545
Intangible assets	42	69
Property, plant and Equipment	0	463
Trade receivables	130	1,136
Provisions	530	668
Inventory	398	637
Other liabilities	47	14
Other	132	24
Offsetting with deferred tax liabilities	-4,087	-5,790
Total	**916**	2,766

DEFERRED TAX LIABILITIES

in EUR thousand	**2022**	2021
Capitalized development costs	6,026	5,589
Leasing contracts and Other	204	172
Property, plant and equipment	10	356
Trade receivables	0	0
Offsetting with deferred tax assets	-4,087	-5,790
Total	**2,153**	327

The remeasurement of defined benefit plans resulted in tax adjustments of EUR -86 thousand, which are shown directly in OCI.

The Group recognizes deferred tax liabilities of EUR 664 thousand (previous year: EUR 699 thousand) for rights of use and deferred tax assets of EUR 460 thousand (previous year: EUR 589 thousand) for lease liabilities in connection with leases, which are shown netted.

Due to the geopolitical situation, LPKF Laser & Electronics SE was forced for the first time to recognize a valuation allowance on deferred tax assets from loss carryforwards and longer-term temporary differences in accordance with IAS 12 despite the positive earnings outlook due to a loss history of the German companies in 2020-2022.

The deferred tax assets for the German companies have therefore only been recognized in the amount of the deferred tax liabilities, taking into account the minimum taxation.

Deferred tax assets and deferred tax liabilities are offset by maturity under certain conditions, provided that the offsetting requirements of IAS 12 are met.

The effect of the non-recognition of tax losses and temporary differences in the current year amounts to EUR -584 thousand (previous year: EUR -21 thousand).

The amount of impaired and unused tax losses and temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 19,745 thousand (previous year: EUR 3,640 thousand), of which EUR 10,434 thousand relates to corporate income tax, EUR 7,418 thousand to trade tax and EUR 1,893 thousand to temporary differences.

Of these tax loss carryforwards, EUR 2,486 thousand (previous year: EUR 1,789 thousand) will expire within the next 5 years and EUR 548 thousand (previous year: EUR 1,581 thousand) within the next 6 to 10 years.

No deferred tax liabilities were recognized for temporary differences of EUR 717 thousand (previous year: EUR 1,110 thousand) relating to investments in subsidiaries and branches, as the Group is able to control the timing of the reversal of the temporary differences and it is not probable that these temporary differences will reverse in the foreseeable future.

19. EQUITY

Subscribed capital

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

Capital reserve

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

Other reserves

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

Authorized capital / Contingent capital

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

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

Own shares

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

2022 employee participation program

On 15 November 2022, LPKF Laser & Electronics SE bought back a total of 19,220 no-par value treasury shares with a notional share of EUR 1.00 each in the share capital on the capital market as part of an employee share program and passed these on to the participating employees through an intermediary. The average repurchase price was EUR 11.0694 per share. The total value amounted to EUR 212,753.77.

The shares are subject to a two-year lock-up period.

LPKF Laser & Electronics SE created an incentive to participate in the employee share program by subsidizing the payment per employee up to a maximum amount of EUR 720.00 by 50 %. The resulting expense of EUR 106 thousand was recognized as personnel expense.

2021 employee participation program

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

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

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

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

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.

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	**2022**	2021
Present value of the defined benefit obligation at beginning of period	**773**	853
Current service cost	0	0
Interest expense	8	4
Pension payments	-17	-17
Actuarial gains (-) and losses (+)	-224	-67
Present value of the defined benefit obligation at the end of period	**540**	773
Plan assets		
Reinsurance cover	-454	-484
Securities	-357	-447
Deficit (net liability (+)/Excess (net asset (-)) shown in the statement of financial position	**-271**	-158

Development of net liabilities/assets:

in EUR thousand	**2022**	2021
Net assets at beginning of period	**158**	12
Total amount in the income statement	2	0
Total revaluations recognized in OCI	95	129
Benefit payments	0	0
Employer contributions	16	16
Net assets at end of period	**271**	158

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	**2022**	2021
At beginning of period	**932**	865
Interest income from plan assets	10	4
Cost of/income on plan assets without interest income	-130	63
Payments from plan assets	-17	-17
Funded by the employee	16	16
At end of period	**811**	932

The plan assets are made up as follows:

	2022	
in EUR thousand	Absolute	Percentage
Equity instruments	0	0%
Debt securities	357	44%
Other	454	56%
Total	**811**	100%

	2021	
in EUR thousand	Absolute	Percentage
Equity instruments	0	0%
Debt securities	447	48%
Other	484	52%
Total	931	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	**2022**	2021
Interest income from plan assets	10	4
Interest expenses on the obligation	-8	-4
Total effect on earnings in the income statement	**2**	0

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

in %	**2022**	2021
Discount rate as of 12/31	3.78	1.05
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	3.78	1.05
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 2023 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:

12/31/2022 in EUR thousand	Up to 1 year	Between 1 and 5 years	Between 5 and 10 years	**Total**
Pension benefits	17	51	134	**202**

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

Baseline values	
Discount rate	3.78%
Pension trend	1.75%
DBO	540

Sensitivities	Revalued DBO	Percentage change in the DBO
Discount rate plus 0.5%	510	5.55%
Discount rate minus 0.5%	573	6.09%
Pension trend plus 0.25%	554	2.59%
Pension trend minus 0.25%	526	2.49%

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 98 thousand are expected in the next five years.

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

in EUR thousand	**2022**	2021
Present value of the defined benefit obligation at the beginning of period	**370**	357
Current service cost	24	32
Interest expense	5	4
Benefit payments	-11	-7
Employees left	-10	-18
Benefit changes	0	0
Actuarial gains (-) and losses (+)	-99	2
Present value of the defined benefit obligation at end of period	**279**	370

The following amounts were recognized in the income statement:

in EUR thousand	**2022**	2021
Current service cost	24	32
Interest expense on the obligation	5	5
Total amount in the income statement	**29**	37

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

Baseline values	
Discount rate	4.59%
Salary trend	2.50%
DBO	279

Sensitivities	Revalued DBO	Percentage change in the DBO
Discount rate plus 0.5%	264	-5.38%
Discount rate minus 0.5%	295	5.73%
Salary trend plus 0.5%	296	6.09%
Salary trend minus 0.5%	264	-5.38%

22. OTHER PROVISIONS

Provisions are recognized for legal or constructive obligations resulting from past events if it is probable that settling the obligation will lead to an outflow of Group resources and that a reliable estimate of the amount of the obligation can be made. Other provisions are recognized at their estimated settlement value in accordance with IAS 37.

in EUR thousand	Guarantees and warranties	Bonuses	LTI	Other	**Total**
As of 01/01/2022	857	849	189	443	**2,338**
Utilization	-587	-821	-77	-248	-1,733
Reversals	-243	-31	-97	-52	-423
Additions	906	1,558	31	831	3,326
Currency differences	3	-8	1	1	-3
As of 12/31/2022	936	1,547	47	975	**3,505**
Long-term	0	0	30	0	30
Short-term	936	1,547	17	975	3,475

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 could participate. The beneficiaries were entitled to a long-term bonus. This is paid to the beneficiaries depending on the long-term bonus allotment granted to each individual, the average EBIT margin of the LPKF Group during a four-, five- or six-year performance period and the performance of LPKF’s share price. The program does not stipulate settlement by granting of equity instruments. Payment requires beneficiaries to have an unterminated employment contract as of 20 July of the year in which the payment is made.

At plan inception, a preliminary number of phantom stocks corresponding to the allotment value were specified, which were representing the starting point for calculating the bonus payment. The final number of phantom stocks is determined at the end of the performance period. The performance period amounts to at least four years, but can be extended to five, or no more than six years, upon the request of an individual beneficiary. The final number of phantom stocks is determined based on an in-house measure of the company’s success, the EBIT margin. If the target is exceeded or the actual figure falls short of the target, the preliminary number of phantom stocks at the time of the allotment is increased or decreased accordingly. The payment amount is determined by measuring the value of the phantom stocks using the average XETRA closing price for LPKF shares on the 30 trading days prior to 21 July after the end of the four-, five- or six-year performance period. The amount of the payment is limited to no more than 300% of the individual allotment value.

LTI for executives: 2020 – 2022 tranches

In 2020, the LTI program for key executives was largely aligned with the program for Management Board members applicable in 2020. The beneficiaries are entitled to a long-term bonus. This is paid to the beneficiaries depending on the long-term bonus allotment granted to each individual, the average value contribution of the LPKF Group during a three-year performance period, and the performance of LPKF's share price, subject to compliance with further requirements in accordance with the long-term bonus plan. The individual performance periods begin on 1 January of each year. The program does not stipulate settlement by granting of equity instruments. Payment requires beneficiaries to have an unterminated employment contract at the end of the three-year performance period.

At plan inception, a preliminary number of phantom stocks corresponding to the allotment value is specified, which represents the starting point for calculating the bonus payment. The final number of phantom stocks is determined at the end of the performance period. The final number of phantom stocks is determined based on an in-house measure of the average value contribution of the LPKF Group over the respective three-year performance period.

If the target is exceeded or the actual figure falls short of the target, the preliminary number of phantom stocks at the time of the allotment is increased or decreased accordingly. The final number of phantom stocks is limited to twice the number of phantom stocks originally allocated. The amount to be paid out is calculated by multiplying the final number of phantom stocks by the average XETRA closing price for LPKF shares for the first quarter following the end of the three-year performance period. The average XETRA closing share price is increased by the sum of all dividends per share paid out during the performance period. The maximum amount of the payment is limited to four times the individual allotment value.

A 2022 tranche was also issued in the current financial year under the plan conditions described for the 2020 tranche.

LTI for members of the Management Board: 2020 tranche

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.

Furthermore, no payment will be made if the average closing share price in the first quarter after the end of the three-year performance period is lower than the average closing share price at the time of allocation.

LTI for members of the Management Board: 2022 tranche

At the Annual General Meeting of 20 May 2021, the remuneration system for members of the Executive Board was approved in a revised form. The revised remuneration system applies to all Executive Board service contracts to be newly concluded or extended from 7 April 2021. As part of the revision, there was an adjustment to the long-term remuneration component. The new LTI is issued in annual tranches and is linked to the overall achievement of the Short Term Incentive ("STI") target for the respective financial year as well as to the share price performance of the subsequent three years. The LTI is based on the development of the LPKF Laser & Electronics SE share price. For this purpose, the average share price of LPKF Laser & Electronics SE in quarter 1 of the year in which the target is achieved is determined (starting share price). In addition, the average share price of LPKF Laser & Electronics SE in quarter 1 of the year following the year in which the target is achieved is determined (final share price). These values are used to calculate a payout amount, which is paid out to the member of the Board of Managing Directors directly after it is determined that the target has been achieved. The net amount received must be invested immediately afterwards in shares of LPKF Laser & Electronics SE. These shares must be held for at least three years after purchase. Only then can the members of the Board of Managing Directors freely dispose of the shares. If the average share price of LPKF Laser & Electronics SE in quarter 4 of the year in which the target is achieved and in quarter 1 of the year following the year in which the target is achieved falls below 90 % of the starting share price (hurdle share price), no LTI will be paid out.

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 2022:

LTI (executives)	Tranche 2017	Tranche 2018	Tranche 2020	Tranche 2021	Tranche 2022
Expected volatility	49%	49%	49%	49%	49%
Risk-free interest rate	2.5% p. a.	2.5% p. a.	0.00% p. a.	2.6% p. a.	2.7% p. a.
Allotment value	EUR 60 thousand	EUR 40 thousand	EUR 210 thousand	EUR 183 thousand	EUR 185 thousand
Expected remaining maturity	7 months	7 months	0 years	1 year	2 years
LPKF share price as of 12/31/2022	EUR 9.67	EUR 9.67	EUR 9.67	EUR 9.67	EUR 9.67
Initial price of LPKF shares	EUR 9.58	EUR 7.02	EUR 19.18	EUR 27.35	EUR 16.05
Number of phantom stocks at the allotment date	6,212	5,660	10,950	6,704	11,527

No executive tranche was issued in the 2019 financial year.

The amount of the LTI provision for the executive tranches was EUR 47 thousand as of the reporting date (previous year: EUR 120 thousand): There is no provision requirement from the tranches for the Executive Board as at 31 December 2022 (previous year: EUR 69 thousand). For the 2020 tranche, the average closing share price in the first quarter of 2023 will most likely be below the average closing share price of EUR 19.18 at the time of allocation. For the 2022 tranche, as in the previous year, there was no entitlement to payment of the LTI bonus due to the share price falling below the hurdle price.

The expenses and income from share-based payments recognized in the 2022 financial year amount to:

in EUR thousand	**2022**	2021
Other income	97	306
Personnel expenses	-31	-28
Total	**66**	278

The currently valid program of the Executive Board members is explained in detail in the compensation report as part of the management report.

Other

Other provisions mainly include provisions for the installation of customer systems delivered at the end of 2022 as well as inventor compensation.

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.

	2022			
in EUR thousand	**Total**	of which current	of which non-current	Secured amounts
Liabilities to banks	**1,120**	874	246	1,120
Liabilities from leases	**1,800**	830	970	
Other financial liabilities	**2,920**	1,704	1,216	

	2021			
in EUR thousand	**Total**	of which current	of which non-current	Secured amounts
Liabilities to banks	3,029	1,808	1,221	3,029
Liabilities from leases	2,169	760	1,409	
Other financial liabilities	5,198	2,568	2,630	

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 2022. The overdraft facilities are secured by land charges, assignment of receivables and security assignment of inventories. The carrying amount of the inventories pledged as collateral as of the reporting date is EUR 13,696.

24. OTHER LIABILITIES

Other liabilities of EUR 5,457 thousand (previous year: EUR 4,693 thousand) mainly include accrued liabilities that are fixed in principle but subject to residual uncertainties in terms of amount and timing of EUR 1,443 thousand (previous year: EUR 1,936 thousand). Also included are short-term employee benefits due from wages, salaries and social security contributions in the amount of EUR 981 thousand (previous year: EUR 797 thousand) as well as from compensated absences such as holidays and overtime reduction in the amount of EUR 2,184 thousand (previous year: EUR 1,579 thousand). In addition, EUR 94 thousand (previous year: EUR 91 thousand) in liabilities to the Supervisory Board are reported in this item.

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			
2022 in EUR thousand	01/01/2022	Cash changes	Acquisitions	Currency-exchange-related changes	Fair value changes	**12/31/2022**
Non-current loans	1,221	-975	0	0	0	246
Current loans	1,808	-934	0	0	0	874
of which overdraft facilities	0	0	0	0	0	0
Lease liabilities	2,169	-791	422	0	0	1,800
Total	5,198	-2,700	422	0	0	**2,920**

			Non-cash changes			
2021 in EUR thousand	01/01/2021	Cash changes	Acquisitions	Currency-exchange-related changes	Fair value changes	**12/31/2021**
Non-current loans	3,029	-1,808	0	0	0	1,221
Current loans	1,816	-8	0	0	0	1,808
of which overdraft facilities	0	0	0	0	0	0
Lease liabilities	2,096	-729	802	0	0	2,169
Total	6,941	-2,545	802	0	0	**5,198**

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 SE by the weighted number of shares outstanding during the financial year. There are currently no transactions that would trigger dilution.

in EUR thousand	**2022**	2021
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)	1,659	-114
Basic earnings per share (in EUR)	0.07	0.00

27. DIVIDEND PER SHARE

The Board of Managing Directors and the Supervisory Board believe that investments in LPKF's innovative technologies are essential in the current situation to enable sustainable and profitable growth in the coming years. For this reason, the Board of Managing Directors will propose to the Annual General Meeting on 19 May 2023 that no dividend be paid for the 2022 financial year. The financial resources from the balance sheet profit are to be used specifically for the development and commercialization of future technologies.

28. TRANSACTIONS WITH RELATED PARTIES

As of the reporting date, LPKF Laser & Electronics SE had EUR 94 thousand in liabilities to members of the Supervisory Board (previous year: EUR 91 thousand), which result from the remuneration of the Supervisory Board activities as well as the chairmanship of committees.

Apart from these, there are no other receivables or liabilities, and no remuneration paid or benefits granted to related parties or to LPKF Group companies. Notes 33 and 34 provide details on the corporate bodies of LPKF Laser & Electronics SE.

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 SE’s consolidated financial statements do not include any equity instruments.

The first step in classifying debt instruments is to analyze how the entity manages the relevant financial instruments in order to realize cash flows from them (business model test). The cash flows to be realized are analyzed to determine whether they originate primarily from the **HOLDING** or **SELLING** of financial assets or from a **COMBINATION OF THE TWO**. The second step is to analyze the contractual cash flows to determine whether the financial asset meets the core principle of a normal lending arrangement. This is the case when the contractual cash flows of a financial asset give rise to payments on specified dates that are solely payments of **PRINCIPAL** and **INTEREST** on the principal amount outstanding.

Based on the business model test and the cash flow criterion, the Group’s financial assets are predominantly classified under the “at amortized cost” category. On the other hand, derivatives do not meet the cash flow criterion and should therefore be assigned to the “at fair value through profit or loss” category. Income and expenses related to the financial assets are recognized in profit or loss.

At initial recognition, financial liabilities are measured at fair value plus any transaction costs. They are subsequently measured at amortized cost using the effective interest rate method. Transaction costs are taken into account when calculating the effective interest rate. Income and expenses related to the financial liabilities are recognized in profit or loss.

2022 in EUR thousand	Measure-ment category as per IFRS 9	Carrying amount as of 12/31/ 2021	IFRS 9 carrying amount Amortized cost	Fair Value through other compre-hensive income	Fair value through profit or loss	Fair Value as of 12/31/ 2021	FVH*
Assets							
Other financial liabilities	AC	12,785	12,785	-	-	12,785	-
Trade receivables	AC	27,450	27,450	-	-	27,450	-
Derivatives - without hedge accounting	FVtPL	0	-	-	0	0	2
Total		**40,235**	**40,235**	**-**	**0**	**40,235**	**-**
EQUITY AND LIABILITIES							
Trade payables	FLAC	7,505	7,505	-	-	7,505	-
Liabilities to banks	FLAC	1,120	1,120	-	-	1,120	2
Other interest-free liabilities	FLAC	875	875	-	-	875	-
Lease liabilities	n.a.	1,800	-	-	-	-	-
Total		**11,300**	**9,500**	**-**	**-**	**9,500**	**-**

* FVH: Fair Value Hierarchy level

Aggregated by measurement category as of IFRS 9	in EUR thousand	Carrying amount
Amortized cost	(AC)	40,235
Fair value through profit or loss	(FVtPL)	0
Financial liabilities at amortized cost	(FLAC)	9,500
not to be classified	(n.a.)	1,800

2021 in EUR thousand	Measure-ment category as per IFRS 9	Carrying amount as of 12/31/ 2020	IFRS 9 carrying amount Amortized cost	 Fair Value through other compre-hensive income	 Fair value through profit or loss	Fair Value as of 12/31/ 2020	FVH*
Assets							
Other financial liabilities	AC	15,167	15,167	-	-	15,167	-
Trade receivables	AC	17,182	17,182	-	-	17,182	-
Derivatives - without hedge accounting	FVtPL	13	-	-	13	13	2
Total		**32,362**	**32,349**	**-**	**13**	**32,362**	**-**
EQUITY AND LIABILITIES							
Trade payables	FLAC	7,213	7,213	-	-	7,213	-
Liabilities to banks	FLAC	3,029	3,029	-	-	3,067	2
Other interest-free liabilities	FLAC	1,606	1,606	-	-	1,606	-
Lease liabilities	n.a.	2,169	-	-	-	-	-
Total		**14,017**	**11,848**	**-**	**-**	**11,886**	**-**

* FVH: Fair Value Hierarchy level

Aggregated by measurement category as of IFRS 9	in EUR thousand	Carrying amount
Amortized cost	(AC)	32,349
Fair value through profit or loss	(FVtPL)	13
Financial liabilities at amortized cost	(FLAC)	11,848
Not to be classified	(n.a.)	2,169

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 2022 or the year before.

Because of short remaining maturities, the fair values of cash and cash equivalents, current receivables, trade payables as well as current financial assets and liabilities closely correspond to the respective carrying amounts. The fair value of liabilities to banks was determined by discounting future cash flows with risk-adjusted interest rates corresponding to the respective term. The fair value of derivatives is determined externally by banks using a mid-market valuation.

The net gains/losses from financial instruments are as follows:

in EUR thousand		**2022**	2021
Amortized cost	(AC)	-22	-142
Fair value through profit or loss	(FVtPL)	0	13
Financial Liabilities at amortized cost	(FLAC)	-392	-248
		-414	-377

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 2022, there were no hedge relationships with hedge accounting.

Risk management principles

The assets, liabilities and planned transactions of LPKF Laser & Electronics SE are exposed, in particular, to risks from fluctuations in foreign exchange rates and interest rates. The aim of financial risk management is to limit these risks. Depending on the nature of the risk, this primarily involves the use of derivative financial instruments. These instruments are exclusively used for hedging, i.e. they are not used for trading or speculative purposes.

Risk management is handled by the Management Board, which fixes the general guidelines for risk management and determines the relevant procedures. It is implemented by the specialist departments and subsidiaries subject to compliance with authorized business guidelines and coordinated by the Group Risk Officer. The Audit Committee of the Supervisory Board of the Company monitors compliance with the guidelines and processes issued by the Management Board as well as the effectiveness of the risk management system.

The material risks from financial instruments and the attendant risk management system of the LPKF Group are disclosed below:

Currency risk

The currency risks to which the LPKF Group is exposed mainly arise from receivables, liabilities, cash and future transactions in foreign currencies. Assets recognized in currencies with declining exchange rates decline in value. Liabilities reported in currencies with rising exchange rates increase in value. From the Group's point of view, only the difference between income and expense in a foreign currency is exposed to risk.

As a rule, risks are hedged only if they have an impact on the Group's cash flows. Foreign currency risks that have no impact on the Group's cash flows are not hedged. These include risks from the translation of the assets and liabilities reported in the annual financial statements of foreign subsidiaries into euros, the Group's reporting currency. Most invoices related to operations are issued in euros. Sales in North America are invoiced in US dollar. Cash flows in other foreign currencies are required in some cases. As far as possible, the Group pays for its procurement in US dollar, thus applying a natural hedge philosophy. In net terms, however, this does give rise to US dollar cash inflows. For hedging purposes, forward exchange contracts are used when the need arises to cover contracted net foreign currency inflows for up to twelve months.

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 US dollar 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 4,178 thousand, if the euro had risen by 10% against the US dollar, earnings before income taxes would have decreased by EUR 356 thousand. A 10% decline in the euro would have resulted in a positive effect on earnings (before income taxes) of EUR 435 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 13,976 thousand, an increase in interest rates by 25 basis points yields a gain of EUR 70 thousand, while a decrease in interest rates by 25 basis points yields a loss of EUR 25 thousand. Given low interest rates, the sensitivities were determined using a hypothetical change by 25 basis points. The low interest rate sensitivities relative to cash and cash equivalents largely stem from low-interest cash and cash equivalents.

The long-term loans within the LPKF Group obtained to finance buildings are subject to fixed interest rates.

Liquidity risk

The liquidity risk concerns the risk of not being able to satisfy existing or future payment obligations due to a lack of cash. The Group's objective in managing liquidity is to ensure that, as far as possible, sufficient cash is available under both normal and stressed conditions to meet payment obligations as they fall due without incurring unacceptable losses or causing damage to the Group's reputation.

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

Liquidity planning

Currency-differentiated planning enables the Group to initiate measures at an early stage with regard to the required liquidity resources. In addition to the main influences on cash flows, contingencies that could have an impact on the future liquidity situation are also taken into account. Because the LPKF Group is only moderately indebted, it also has adequate liquidity reserves of EUR 25.0 million available through credit facilities.

In addition, the LPKF Group has two unsecured guarantee lines of EUR 10.0 million each with internationally renowned insurance companies.

Working capital

As of the balance sheet date, working capital increased due to higher receivables. This is due to a high turnover at the end of the year. This effect was partially offset by higher advance payments received. Nevertheless, the working capital and the working capital ratio are higher than in the previous year due to these developments.

The board of Managing Directors expects that the Group will have sufficient financial resources to continue its business activities in the coming year and that the going concern assumption remains appropriate as the basis of accounting.

This risk is managed centrally within the LPKF Group.

The liquidity risk is minimized through continuous liquidity planning. In addition to existing cash and cash equivalents, credit lines are also available from various banks. The European companies of the LPKF Group pool their liquidity peaks by way of cash pooling. All other companies carry out their ongoing cash management locally. LPKF is continually reviewing whether to expand cash pooling to other international companies. In the event of a significant financing requirement, reviews are performed to determine whether to utilize local financing or financing via LPKF Laser & Electronics SE. Long-term bank loans were used to finance the buildings in Garbsen 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.

	2022				
in EUR thousand	**Carrying amount as of 12/31**	Total amount	Up to 1 year	Between 1 and 5 years	More than 5 years
Trade payables	**7,505**	7,505	7,505	0	0
Financial obligations and loans	**1,120**	1,132	885	247	0
Other interest-free liabilities	**875**	875	875	0	0
Lease liabilities	**1,800**	2,476	853	1,623	0

	2021				
in EUR thousand	**Carrying amount as of 12/31**	Total amount	Up to 1 year	Between 1 and 5 years	More than 5 years
Trade payables	7,213	7,213	7,213	0	0
Financial obligations and loans	3,029	3,080	1,865	1,215	0
Other interest-free liabilities	1,606	1,606	1,606	0	0
Lease liabilities	2,169	2,548	731	1,817	0

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 6,716 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 11,504 thousand in trade receivables is securitized through credit default insurance. 66%

of the trade receivables are securitized and 34% are not. The maximum default risk for trade receivables is therefore 66% 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, information from trade credit insurers and available press information about customers as well as information about the future prospects of the industries in which the Group's debtors operate obtained from various sources. The historic default rates are updated and the future-oriented estimates are reanalyzed on each reporting date.

The time bands used in the impairment matrix to determine the expected losses are as follows:

	Gross value of receivables in EUR thousand			
Days past due	**12/31/ 2022**	Credit-impaired	12/31/ 2021	Credit-impaired
Current	23,785	No	14,357	No
1-30 days past due	2,237	No	2,113	No
31-60 days past due	971	No	418	No
61-90 days past due	559	No	250	No
More than 90 days past due	192	Yes	162	Yes
Total	**27,744**		17,300	

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	**2022**	2021
As of 01/01	**-118**	-140
+/- Stage 2 loss allowances	-77	-73
+/- Stage 3 loss allowances	-99	95
- Depreciation, amortization and write-downs	0	0
As of 12/31	**-294**	-118

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	**12/31/2022**	12/31/2021
Equity	94,515	92,203
Debt securities	43,865	40,037

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 387 thousand (previous year: EUR 522 thousand). For annually recurring maintenance contracts, mainly for software applications, there are contracts amounting to EUR 1,811 thousand (previous year: EUR 1,510 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. Klaus Fiedler (CEO) (since 01. January 2022)	Strategy, Sales & Marketing, Human Resources, Production, Research & Development, Innovation
Christian Witt (CFO)	Finance & Controlling, Investor Relations, Compliance & Legal, Organization & IT, Purchasing, ESG

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.

In the 2022 financial year, the members of the Executive Board received total remuneration of EUR 915 thousand (previous year: EUR 743 thousand) for their work in accordance with section 162 of the German Stock Corporation Act (AktG). Of this, EUR 631 thousand (previous year: EUR 639 thousand) was accounted for by the fixed salary components including fringe benefits, which were paid out in full in the 2022 reporting year. The variable remuneration components that accrued to the members of the Executive Board for tax purposes in the 2022 financial year accounted for a total of EUR 62 thousand (previous year: EUR 104 thousand).

In the financial year, as in the previous year, no expense for share-based remuneration within the meaning of IAS 24.17 (e) was accrued for members of the Executive Board, EUR 8 thousand (previous year: EUR 116 thousand) was released. An amount of EUR 222 thousand (previous year: EUR 55 thousand) was accrued for the 2022 bonus. The fair value of the share-based remuneration at the point of allocation totaled EUR 65 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 693 thousand (previous year: EUR 688 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 2022.

The interest income from the plan assets in the amount of EUR 10 thousand (previous year: EUR 4 thousand) exceeds the interest expense on the obligation in the amount of EUR 8 thousand (previous year: EUR 4 thousand), resulting in a positive effect on the income statement in the amount of EUR 2 thousand.

34. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION

Jean-Michel Richard	
(Chairman)	Founder and independent senior advisor at Fisadis Consulting Ltd, London, UK
	Member of Supervisory Board committees: - Audit and Risk Committee (Chairman) - Nomination Committee - Compensation and ESG Committee
Dr. Dirk Rothweiler	
(Deputy Chairman)	Independent management consultant, Weimar, Germany
	Member of Supervisory Board committees: - Audit and Risk Committee - Nomination Committee (Chairman) - Compensation and ESG Committee
Julia Kranenberg	
(Member of the Supervisory Board)	Member of the Executive Board (CHRO & COO Ground Handling) of Fraport AG, Frankfurt, Germany (since November 2022) Member of the Executive Board (CHRO) of Avacon AG, Helmstedt, Germany (until July 2022) Membership in comparable German and foreign supervisory bodies of business enterprises: Since November 2022: - Fraport Ausbau Süd GmbH, Member of the Supervisory Board (not listed) - Airport Cater Service GmbH, Member of the General Meeting (not listed) - Zusatzversorgungskasse für die Gemeinden und Gemeindeverbände in Wiesbaden, Member of the Management Committee (not listed) - Vereinigung der kommunalen Arbeitgeberverbände, Member of the Presiding Board (not listed) Until July 2022: - Stadtwerke Wunstorf GmbH & Co. KG, Wunstorf, Member of the Supervisory Board (not listed) - LeineNetz GmbH, Neustadt, Member of the Supervisory Board (not listed) - Stadtwerke Garbsen GmbH, Garbsen, Vice Chairwoman of the Supervisory Board (not listed) - Stadtnetze Neustadt GmbH & Co. KG, Neustadt, Vice Chairwoman of the Supervisory Board (not listed) - Stadtwerke Burgdorf GmbH, Burgdorf, Member of the Supervisory Board (not listed) - Stadtwerke Wolfenbüttel GmbH, Wolfenbüttel, Vice Chairwoman of the Supervisory Board (not listed)
	Member of Supervisory Board committees: - Nomination Committee - Compensation and ESG Committee (Chair)

Prof. Dr.-Ing. Ludger Overmeyer

(Member of the Supervisory Board)	University professor and Head of the Institute of Transport and Automation Technology at Leibniz University Hanover, Germany Member of other statutory supervisory boards: Member of the Supervisory Board of Viscom AG, Hanover, Germany (listed company)
	Member of Supervisory Board committees: - Audit and Risk Committee

In addition to reimbursement of all expenses and any sales tax payable on remuneration and expenses, the members of the Supervisory Board each receive fixed annual remuneration, which is determined by resolution of the Annual General Meeting. Each member of the Supervisory Board receives a fixed basic remuneration of EUR 32,000 for each full financial year of membership of the Supervisory Board. The Chairman of the Supervisory Board receives double and the Deputy Chairman one and a half times the amount of the fixed basic remuneration. The Chairman of the Audit Committee receives additional remuneration of EUR 5,000 and the Chairman of the Nomination Committee and the Chairman of the Remuneration and ESG Committee each receive additional remuneration of EUR 3,500.

Members of the Supervisory Board who have not belonged to the Supervisory Board for a full financial year or have chaired or dechaired the Supervisory Board or chaired a committee receive pro rata remuneration. Since fiscal year 2021, compensation has been payable in two equal installments after 6 months from the beginning of the fiscal year and after the end of the fiscal year.

The remuneration of the Supervisory Board’s active members solely concerns short-term benefits as defined in IAS 24.17 (a). Further disclosures regarding the remuneration of the Supervisory Board, particularly individual disclosures, are set out in the remuneration report, which is part of the Group management report.

35. AUDITOR FEES INVOICED DURING THE FINANCIAL YEAR

The company is obligated under the German Commercial Code (Section 314 (1) no. 9) to disclose Group auditor’s fees for auditing the annual financial statements invoiced during the financial year:

in EUR thousand	**2022**	2021
Audits of financial statements	425	194
of which prior-period	39	55
Other assurance services	0	0
Other services	33	30
Total	**458**	224

36. EVENTS AFTER THE REPORTING PERIOD

No events occurred after the end of the 2022 financial year that are of particular significance for the Group’s net assets, financial position and results of operations.

Garbsen, 16 March 2023

LPKF Laser & Electronics Societas Europaea

The Management Board

DR. KLAUS FIEDLER CHRISTIAN WITT

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Garbsen, 16 March 2023

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

Klaus Fiedler | Christian Witt

AUDITOR’S REPORT

INDEPENDENT AUDITOR'S REPORT

to LPKF Laser & Electronics SE (until December 11, 2022 LPKF Laser & Electronics Aktiengesellschaft,), Garbsen, Germany

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of LPKF Laser & Electronics SE, Garbsen and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, 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 to 31 December 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report (hereinafter referred to as the “combined management report”) of LPKF Laser & Electronics SE including the remuneration report for the financial year from 1 January 2021 to 31 December 2022.

In accordance with German legal requirements we have not audited the content of those components of the group management report specified in the “Other Information” section of our auditor’s report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2022 and of its financial performance for the financial year from 1 January to 31 December 2022, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those components of the group management report specified in the “Other Information” section of the auditor´s report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2021 to 31 December 2022. 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 19.6 million as of 31 December 2022, representing 14,2% of total assets.

The development costs relate to development projects for equipment and related software. Development costs are capitalized if the requirements of IAS 38 are met. Research costs are recognized as expenses.

The examination of the capitalization requirements under IAS 38 for projects under development is complex and based on a number of discretionary assumptions. These include, in particular, the forecast cash flows and technical feasibility. Against this background, there is a risk for the financial statements that an intangible asset has been recognized although the requirements have not been met.

Our audit approach

We have gained an understanding of the company’s process of capitalizing development costs through explanations provided by accounting staff and an appreciation of the Group’s accounting guidelines. We have examined the control implemented in this process with regard to the fulfillment of the capitalization requirements for design, application and effectiveness.

As part of our audit, on a spot check basis we evaluated the documentation on which the capitalized development costs. For the projects in the sample, we examined the recognition criteria in accordance with IAS 38 and, in particular, discussed the expected cash flows with those responsible for planning and traced the steps taken to determine technical feasibility.

Our conclusions

The capitalization of development costs is in accordance with the provisions of IAS 38 and the assumptions and parameters used by the company are appropriate

Accrual of sales

For information on sales, please refer to section G.1 of the Notes.

The risk for the financial statements

The Group's revenues in the 2022 financial year amount to EUR 123.7 million. Revenues are mainly generated from the sale of machines.

LPKF recognizes revenue when it fulfills a performance obligation by transferring a promised asset to a customer. An asset is deemed to have been transferred when the customer obtains control over the asset. In accordance with the transfer of control, revenue is recognized either on a time proportion basis or on a time proportion basis at the amount to which LPKF expects to be entitled.

The Group's main markets are in Europe, the USA and Asia. For the global delivery of products, the Group enters into various agreements with customers that include not only the sale of equipment but also service components such as maintenance and warranty extensions.

Due to the use of different contractual arrangements in the various markets and the discretionary nature of the indicators used to determine and assess the timing of the transfer of control, there is a risk to the financial statements that revenue will be recognized prematurely as of the reporting date.

Our audit approach

To audit the accrual basis of revenue recognition, we assessed the design and establishment of internal control related to the proper accrual basis. We also assessed the presentation of revenue recognition in the Group-wide accounting policy for compliance with IFRS 15.

For the new contracts concluded in the fiscal year, we assessed the interpretation and weighting of the indicators used by the legal representatives to assess the timing of the transfer of control. For this purpose, we assessed the appropriate implementation of the accounting guideline on the basis of representatively selected samples of contracts from a population defined according to risk-oriented criteria from December 2022.

In addition, for trade receivables not yet settled at the balance sheet date, balance confirmations were obtained, selected on the basis of a mathematical-statistical procedure. For missed balance confirmation responses, alternative audit procedures were performed by reconciling revenue to underlying purchase orders, contracts, invoices, proof of delivery, and acceptance records, among others.

Our conclusions
LPKF SE's approach to the accrual of revenue is appropriate.

OTHER INFORMATION

Management respectively Supervisory Board are responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- the separate non-financial consolidated report expected to be made available to us after the date of this auditor's report and referred to in the combined management report; and
- the group corporate governance statement, where reference is made in the group management report, and
- information extraneous to management reports and marked as unaudited.

The other Information includes also the remaining parts of the annual report. The other Information does not include the consolidated financial statements, the group management report information audited for content and our auditor’s report thereon.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the above-mentioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The Board of Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Management is responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Board of Management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Board of Management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of the combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

The Board of Management and the Supervisory Board of LPKF Laser & Electronics Aktiengeselleschaft are responsible for the preparation of the remuneration report, including the related disclosures, in accordance with the requirements of Section 162 AktG. The Board of Management and the Supervisory Board are also responsible for such internal control as they have determined necessary to enable the preparation of the remuneration report that is free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the

prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT ON THE ASSURANCE ON THE ELECTRONIC RENDERING OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT PREPARED FOR PUBLICATION PURPOSES IN ACCORDANCE WITH SECTION 317 (3A) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the electronic file „lpkf-2022-12-31-de.zip " (SHA256-Hashwert: 1d1e559a6f2ff535e056c53197d2e8bdc52343209b0fd9824cf3f5480fea4011) made available and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the combined management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from 1 January to 31 December 2022 contained in the "Report on the Audit of the Consolidated Financial Statements and the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the consolidated financial statements and the combined management report contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the company's management is responsible for such internal control that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the the process of preparing the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional 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 control relevant to the assurance on the ESEF documents design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and the audited combined management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated

Regulation (EU) 2019/815, as amended as at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the Annual General Meeting on 19 May 2022. We were engaged by the Supervisory Board on 10 October 2022. We have been the group auditor of the LPKF Laser & Electronics SE without interruption since the financial year 2019.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

In addition to auditing the consolidated and annual financial statements, we performed various audits of the financial statements of subsidiaries. We have reviewed the separate non-financial consolidated financial statements of the previous year.

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor´s report must always be read together with the audited consolidated financial statements and the audited combined management report as well as the examined ESEF documents. The consolidated financial statements and group management report converted to the ESEF format – including the versions to be published in the German company register [Unternehmensregister] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hanover, 16 March 2023

KPMG AG

Wirtschaftsprüfungsgesellschaft

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

EXTRACT FROM INDIVIDUAL FINANCIAL STATEMENTS – INCOME STATEMENT

from 1 January to 31 December 2022

in EUR thousand	**2022**	2021
1. Revenue	48,329	47,767
2. Change in inventories of finished and unfinished products	-528	419
3. Other own work capitalized	642	500
4. Other operating income	4,591	2,508
	53,034	51,194
6. Cost of materials Costs for raw, auxiliary and operating materials and purchased goods	-19,284	-21,319
6. Staff costs		
a) wages and salaries	-18,693	-16,562
b) social security costs and pension costs (of which pension costs: EUR 110 thousand; previous year: EUR 115 thousand)	-3,349	-3,090
7. Depreciation and amortization of non current assets and property, plant and equipment	-2,107	-2,110
8. Other operating expenses	-17,197	-14,663
	-60,630	-57,744
9. Income from investments (of which fom affiliated companies: EUR 11,694 thousand; previous year: EUR 2,599 thousand)	11,694	2,599
10. Other interest and similar income (of which from affiliated companies: EUR 491 thousand; previous year: EUR 471 thousand)	496	472
11. Income from profit transfers	6,413	4,575
12. Costs of loss absorption	0	0
13. Depreciation of financial assets	0	0
14. Interest and similar expenses	-318	-147
15. Taxes on income and earnings	-6,201	491
16. Earnings after tax	**4,488**	1,440
17. Other taxes	-50	-52
18. Net profit	**4,438**	1,388
19. Accumulated profits/losses brought forward from the previous year	19,143	17,755
20. Retained profit	**23,581**	19,143

EXTRACT FROM INDIVIDUAL FINANCIAL STATEMENTS – BALANCE SHEET

as of 31 December 2022

ASSETS (in EUR thousand)	**12/31/2022**	12/31/2021
A. NON-CURRENT ASSETS		
I. Intangible assets		
1. Software	169	242
2. Rights of use	102	12
3. Advance payments	476	0
	747	254
II. Property, plant and equipment		
1. Land, similar rights and buildings	15,898	16,635
2. Techinical equipment	3,346	1,942
3. Other equipment, operating and office equipment	2,997	3,322
4. Advance payments made on assets under construction	52	905
	22,293	22,804
III. Financial Assets		
Shares in affiliated companies	15,860	15,136
	38,900	38,194
B. CURRENT ASSETS		
I. Inventories		
1. Raw, auxiliary and operating materials	6,071	5,050
2. Unfinished products	1,668	2,055
3. Finished products and goods	2,209	2,662
4. Advance payments	40	24
	9,988	9,791
II. Receviables and other assets		
1. Trade receivables (of which with remaining maturities of more than one year: EUR 27 thousand; previous year: EUR 696 thousand)	5,944	5,333
2. Receivables from affiliated companies	27,817	20,200
3. Other assets	2,171	1,619
	35,932	27,152
III. Cash on hand, bank balances and checks	**7,659**	7,372
	53,579	44,315
C. Deferred Income	**516**	264
D. Deferred taxes	**0**	6,282
E. Capitalized differences from assets offsetting	**119**	244
	93,114	89,299

EQUITY AND LIABILITIES (in EUR thousand)	**12/31/2022**	12/31/2021
A. EQUITY		
I. Subscribed Capital	**24,497**	24,497
(Contingent capital: EUR 0 thousand; previous year: EUR 0 thousand)		
II. Capital reserves	**16,160**	16,160
III. Retained earnings		
1. Statutory reserve	41	41
2. Other retained earnings	11,200	11,200
	11,241	11,241
IV. Retained profit	**23,581**	19,143
	75,479	71,041
B. PROVISIONS		
1. Tax provisions	0	0
2. Other provisions	2,926	2,434
	2,926	2,434
C. LIABILITIES		
1. Liabilities to banks	519	1,007
2. Advances received	1,744	2,304
3. Trade payables	2,601	3,813
4. Liabilities to affiliated companies	8,703	7,281
5. Other liabilities	805	836
(of which taxes: EUR (252 thousand; previous year: EUR 241 thousand)		
(of which in conjunction with social security: EUR 13 thousand; previous year: EUR 24 thousand)		
	14,372	15,241
D. Accruals and deferred income	**337**	238
E. Deferred taxes	**0**	345
	93,114	89,299

FINANCIAL CALENDAR

27 April 2023	Publication of the three-months report
17 May 2023	Annual General Meeting
27 July 2023	Publication of the six-months report
26 October 2023	Publication of the nine-months report

More dates and publications can be found on the LPKF website at

www.lpkf.com/en/investor-relations/financial-calendar

CONTACT & PUBLISHING INFORMATION

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For more information on LPKF Laser & Electronics SE and the addresses of our subsidiaries, please go to www.lpkf.com. This financial report can also be downloaded from our website.