



Separate Non-Financial Consolidated Report 2017
pursuant to the German Sustainability Code (Deutscher
Nachhaltigkeitskodex)

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General Information

Object of the Business, Services and Products

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

Supplementary Comments:

The information in this report refers, in part, to the LPKF Group's [2017 Annual Report](#). Unless otherwise stated, the information relates to LPKF Laser & Electronics AG and all its subsidiaries. The consolidated financial statements and the combined management report are audited annually by an independent auditor. Further regular audits are conducted as part of various certification processes for LPKF AG and its subsidiaries, for example quality management audits.

*Note on the key performance indicators: the key performance indicators reported are the Company's own indicators, but are based on the GRI (Global Reporting Initiative) G4 reporting standard.

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

1 Strategy

1.1 Strategic Analysis and Action

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

- refinement of company policy, group strategy and long-term planning by the Management Board at least once every year, in conjunction with the heads of the business segments and the managing directors of the subsidiaries and following consultation with the Supervisory Board;
- regular measurement and checking of the results of the management system processes;
- regular internal audits;
- annual management review based on the target agreements for executives drawn up in line with the strategy.

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

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

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

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

1.2 Materiality

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

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

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

1.3 Objectives

In relation to the main sustainability factors, LPKF AG has set itself the following objectives:

Value Creation:

We want to increase customer benefit, drive innovation and boost efficiency. In order to achieve this objective, in 2016 we invested 12.5% of our revenue into research and development. In the 2017 financial year, R&D investment stood at 10.9%. Our objective for the years ahead is to provide an R&D budget equating to at least 10% of revenue. Achievement of the objective is monitored by determining the relevant indicator as part of the preparation of the annual financial statements.

Employees:

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

Society:

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

Environment:

We strive to protect nature and conserve resources in all our business activities. On the one hand, we are continuing to drive forward the replacement of chemical production processes with laser technology; on the other, we are promoting the economical use of renewable energy in the solar sector. It is also our aim to consider all possible options for saving energy whenever we invest in buildings and facilities. Given the minimal ecological impact of our operating activities, specifically measurable objectives have not been defined in relation to this factor.

Error Rate:

The error rate is measured as the ratio of error costs to revenue and is one of the key performance indicators at LPKF. Error costs include expenditure associated with the fulfillment of warranty obligations. The aim is to reduce the error rate calculated within the Group in the 2013 financial year by 50% by 2016 and maintain this improved rate subsequently. Target achievement is calculated based on three-year averages. If the error rate is not reduced, this constitutes a target achievement of 0%. The target achievement is calculated by means of linear interpolation between the initial value and the minimum value of the error rate. The error rate has developed as follows since 2013:

2013: 100

2014: 71

2015: 60

2016: 73

2017: 78

1.4 Depth of Value Chain

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

We require our suppliers to act responsibly in the areas of environmental protection, employee rights and anti-corruption measures. Our conditions of purchase require them to ban forced and child labor, observe internationally recognized human and employee rights, and comply with environmental standards and anti-corruption legislation. In response to the Dodd-Frank Act in the USA, we expect our suppliers to rule out the use of so-called "conflict minerals" in a self-declaration. In order to integrate corporate responsibility into operational purchasing processes, a Supplier Code of Conduct is being developed and introduced which governs how we deal with our business partners.

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

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

2 Process Management

2.1 Responsibility

All sustainability considerations are firmly anchored at Management Board level at LPKF. All environmental matters fall within the remit of the Chief Operating Officer (COO); the Chief Financial Officer (CFO) is responsible, inter alia, for HR matters within the Group; and the Chief Technology Officer (CTO) covers product-related matters such as, for example, product safety. In coordination with the Supervisory Board, the Management Board as a whole determines the Group strategy and decides on the statements contained therein regarding sustainability issues.

In addition, sustainability considerations are also dealt with and reviewed in various departments within the Company, such as Product Development, Quality Management, Human Resources, Procurement, Organization, Sales Assistance, Innovation, Legal and Communications. A Sustainability Team consisting of representatives from those departments was formed in 2017. The team collates cross-departmentally information on sustainability issues and is also responsible for producing the CSR Report.

2.2 Rules and Processes

With a view to implementing the sustainability strategy as part of the Company's operating activities, rules and processes were laid down inter alia in the following documents: the Strategy Paper, the [LPKF Mission Statement](#), the Risk Management Handbook, the Management Handbook, process descriptions and operating procedures, the [Compliance Code](#), the German Corporate Governance Code and LPKF Executive Code of Conduct. At the 2017 Strategy Meeting, LPKF AG's Management and Supervisory Boards defined corporate responsibility in the 2018+ Strategy Paper. The Corporate Communications department is responsible for reporting.

2.3 Control

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

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

Corporation Act and is capable of detecting developments which jeopardize the Company's continued existence as a going concern at an early stage.

2.4 Key Performance Indicator for Criteria 2.1 – 2.3

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

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

1. We work for the success of our customers.

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

2. We utilize success to sustainably strengthen LPKF.

A successful enterprise is in the interest of customers, business partners, employees, and shareholders. Our particular focus is therefore on strengthening the company's innovative resources and profitability to lay the foundations for sustained, long-term growth.

3. We focus on leading positions in technology.

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

4. We work internationally and partnership-based.

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

5. We deliver quality.

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

6. We do our share to protect the environment.

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

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

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

8. We continually strive for improvement.

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

9. We take corporate social responsibility very seriously.

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

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

2.5 Incentive Systems

LPKF AG's Management Board remuneration system is designed to incentivize successful and sustainable corporate management. The Supervisory Board of LPKF Laser & Electronics AG fixes and regularly reviews the overall structure of the remuneration of the Management Board as well as the key elements of the Management Board members' contracts. The current Management Board remuneration system was approved by the Annual General Meeting 2014 with a majority of 93%.

The overall remuneration of the members of the Management Board comprises a non-performance-based fixed component and variable performance-based components. In addition to purely financial considerations, one variable component covers the long-term incentive (LTI) "Quality". Ensuring the highest level of product quality is one of the strategic activities at LPKF Laser & Electronics AG. This non-financial remuneration component functions as a long-term sustainability target. The Quality LTI, which will run for three years, is measured on the basis of the achievement of those quality requirements. The aim is to reduce the error rate calculated within the Group in the 2013 financial year by 50% by 2016 and maintain this improved rate in 2017 and 2018. Target achievement is calculated based on two-year or three-year averages. If the error rate is not reduced, this constitutes a target achievement of 0%. The target achievement is calculated by means of linear interpolation between the initial value and the average error rate target. Other variable components are tied, inter alia, to the pursuit of the Group's objectives of profitable growth and a long-term increase in the value of the Company.

The remuneration system for top-level senior executives below the Management Board also contains variable components. A target agreement for the variable percentage of the remuneration package is concluded; that agreement defines the Company's objectives (for example, ROCE, EBIT, net operating profit, stock values) and lays down targets.

All members of the Management Board agree specific departmental targets each year with their relevant executive team; the achievement of those targets is examined as part of an annual management review.

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

In order to give employees the opportunity to contribute their own ideas within the Company and to benefit from those ideas, an idea management pilot project was launched in 2017. As part of an initial trial period, employees are able to submit their proposals together with details of the expected improvement. Following the assessment and, where appropriate, implementation of the proposal, the employee receives a bonus

2.6 Key Performance Indicators for Criterion 2.5

*Key Performance Indicator G4-51a**

The remuneration of the Supervisory Board, the Company's highest monitoring body, is determined by a resolution of the Annual General Meeting. A report on the remuneration of the Supervisory Board in 2017 is provided in the [2017 Annual Report](#).

The Supervisory Board of LPKF AG fixes and regularly reviews the Management Board remuneration system. A report on the remuneration of the Management Board in 2017 is provided in the [2017 Annual Report](#).

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

*Key Performance Indicator G4-54**

LPKF is an export-oriented company. We therefore have a large number of branches and offices worldwide which have very different, country-specific salary levels. No final data about remuneration comparisons within the different countries have yet been gathered for the reporting year. This is, however, planned for the reporting year ahead.

2.7 Stakeholder Engagement

As a listed company, LPKF maintains a dialog with a number of stakeholders who have different demands of the Company. We firmly believe that regularly exchanging information with different stakeholder groups is vitally important for the internal and public perception of the Company. All the Company's key stakeholders have been analyzed and identified as part of corporate communications activities. Those stakeholders include:

- Employees and Works Councils
- Customers
- Suppliers
- Analysts
- Shareholders and investors
- Media
- Banks
- Insurance companies
- Local councils
- Neighbors
- Authorities

In the 2017 reporting year, communication with stakeholders occurred through a wide variety of channels, for example via:

- Employee performance appraisals
- Works and employee meetings
- Executive meetings
- Open Lunch with the Management Board for employees
- "LPKF Journal" employee magazine
- Intranet and social media

- Employee survey
- Meetings of the Economic Committee
- 2016 Annual Report
- 2017 Quarterly Reports
- Ad-hoc and press releases
- Press interviews
- lpkf.com website
- Annual General Meeting
- Road shows
- Analyst conferences and discussions
- Conference calls for investors
- Trade fairs
- Customer surveys

2.8 Key Performance Indicator for Criterion 2.7

*Key Performance Indicator G4-27**

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

Stakeholder	Interests	Actions
Employees	Secure job, attractive job description, fair pay, opportunities for personal development, appealing working environment	Examples include: increase in starting salaries, staff and executive management development program, launch of an ideas management scheme, “Big Picture” information event for employees, SPRINT Initiative (restructuring) to secure and increase sustainability
Works Council	Involvement of the Works Council in decisions affecting employees	Open and regular communication with the Works Councils at all German sites und with the Group Works Council
Customers	High-performance, reliable, precise, cost-effective, innovative and sustainable production machinery, speedy and punctual delivery, reliable servicing, sustainable and cooperative partnerships.	Development of extensive customer solutions by means of complete production processes. Improvement of product quality through systematic feedback on errors. Increased product sustainability through servicing for up to 10 years. Offer of annual warranty extensions so that customers can use products time and time again for new projects. Speedy and punctual delivery, for example through continual improvements in the supply chain. High levels of service through the restructuring of service locations and

		focus on newly established manufacturing regions. Expansion of the offers in the after-sales sector, for example individually-tailored maintenance and training packages, "Tech Days".
Suppliers	Long-term sales, liquidity, growth	Process optimization, improvements to liquidity, reliability of supply, market-based pricing
Shareholders, investors and analysts	Sustainable growth, profitability	Driving innovation, increasing turnover, optimizing costs, increasing efficiency, risk management
Media	Provision of regular and accurate company information	Regular media support from a specialist agency, continual and reliable flow of information
Banks	Continued existence of the company as a going concern, liquidity	Risk management monitoring in relation to cash flow, liquidity
Insurance companies	Prevention of loss/damage	Monitoring of occupational safety measures, comprehensive risk management
Local councils, neighbors, politicians	No pollution (emissions, noise) by the Company, jobs at the site	Observance of laws and requirements, increased turnover and profitability
Authorities	Compliance with legislation	Regular audit conducted by in-house legal adviser and external audits, employee training

2.9 Innovation and Product Management

LPKF has been known as a particularly innovative company for decades. One of its greatest successes was when it was awarded the top international prize for innovation, the Hermes Award, in 2010. Research and development have always been of considerable significance to LPKF as a technology group. Innovations have a decisive influence on future capabilities – and thus on economic success. The primary strategic goal of R&D activities is to attain, secure or develop the Company's role as an innovation leader within the sectors in question. We are also developing products with unique selling points and protecting them using patents. With that in mind, we have introduced an innovation and technology management in order to manage and coordinate the collective use of resources on a systematic basis. In addition to our own R&D activities, new procedures and products for tomorrow's markets are being developed both in partnerships with universities and institutes as well as in joint projects with industry partners.

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

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

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

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

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

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

2.10 Key Performance Indicator for Criterion 2.9

*Key Performance Indicator G4-FS11**

Data relating to this indicator were not gathered in the reporting period because it is not relevant to the Company.

3 Environment

3.1 Usage of Natural Resources

We have not as yet developed a specific concept, including a risk analysis, for this sustainability issue because the direct ecological impact of our business activities is fairly insignificant. However, from 2018 we will gradually devote greater attention to our energy consumption and pilot an energy management scheme. LPKF strives to use natural resources as sparingly as possible and to minimize the impact of its operations on the environment. Given the overall volume of waste produced, significant levels of hazardous waste are not generated within the Company in the production of our high-tech systems. Our expertise lies in research and development. The system components required are therefore chiefly procured from external suppliers and assembled as part of our manufacturing processes. Water and energy consumption are recorded and compared on a site-by-site basis in Germany. LPKF constantly strives at all stages in the internal value chain to optimize its use of energy and resources. Precise details about the use of resources in the reporting period as part of our business activities are provided in point 3.3 (energy consumption, water consumption, waste). Those figures relate both to the usage necessary in order to maintain operations at the sites and the consumption required to manufacture our products.

3.2 Resource Management

Beyond the continual optimization of the use of energy and resources outlined above, LPKF has not set itself any quantitative targets concerning the ecological aspects of its business activities on account of the relatively minimal direct ecological impact of the development and assembly of laser systems. Nevertheless, the consumption of energy and resources is regularly recorded, monitored and, if necessary, measures are introduced to reduce consumption. An energy management scheme is being piloted for 2018. As part of that scheme, precise monitoring of energy consumption will be introduced: first at the Garbsen site, before being expanded to all three sites in Germany. The aim is to identify the main energy users with a view – as part of a subsequent stage – to introducing effective energy-saving measures.

3.3 Key Performance Indicators for Criteria 3.1 – 3.2

*Key Performance Indicator G4-EN1**

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

*Key Performance Indicator G4-EN3**

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

Garbsen: 1,764,563 kWh

Suhl: 263,391 kWh

Fürth: 442,779 kWh

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

Garbsen: 612,583 kWh

Suhl: 266,572 kWh

Fürth: 500,747 kWh

*Key Performance Indicator G4-EN6**

The lion's share of energy consumption at LPKF stems from the use of electricity. Energy consumption is regularly reviewed and, from 2018, will be evaluated as part of the energy management scheme. When making investments in buildings and plants, we consider how energy can be saved. The employee car park constructed at the Garbsen site in 2010 was clad in thin-film solar modules that provide the local power grid with solar energy. In the course of 2016, the power supply at all German sites was converted to certified green electricity (TÜV Nord certification). The Suhl site uses an environmentally friendly form of pellet heating (2017 consumption: 75.3 t of pellets).

*Key Performance Indicator G4-EN8**

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

Garbsen: 2,577.00 m³

Suhl: 338.00 m³

Fürth: 1,068.00 m³

*Key Performance Indicator G4-EN23**

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

Garbsen: 52.046 t

Suhl: 36.290 t

Fürth: 25.508 t

3.4 Climate-Relevant Emissions

The bulk of our CO₂ emissions at the German sites stems from the use of electricity. We also use renewable forms of energy to an as yet limited extent. At the Garbsen site, a percentage of electricity is generated from solar power; at the Suhl location, a pellet-based heating system is in operation. In order to minimize the emissions caused by our activities, we will also always factor in energy efficiency when investing in buildings and facilities. Our aim is to achieve a constant reduction in CO₂ emissions under comparable conditions.

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

3.5 Key Performance Indicators for Criterion 3.4

*Key Performance Indicator G4-EN15**

In the reporting period, LPKF AG produced 303.6 tonnes of direct CO₂ emissions at its German sites through its consumption of gas.

*Key Performance Indicator G4-EN16**

In the reporting period, LPKF AG produced 1,320.1 tonnes of indirect, energy-related CO₂ emissions at its German sites through its consumption of electricity.

*Key Performance Indicator G4-EN17**

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

*Key Performance Indicator G4-EN19**

Data relating to the volume by which greenhouse gas emissions have been reduced were not recorded in the reporting period.

4 Society

4.1 Employee Rights

We have not as yet developed a written concept, including a risk analysis, for the “employee rights” sustainability issue. We intend to do so for 2018 and will report on this. Certain measures and processes which embrace this sustainability issue have however already been introduced; related information can be found in points 4.2 and 4.3. Attracting and retaining qualified staff is essential for the long-term success of the Company. Accordingly, safeguarding employee rights is a matter of course for us. In the reporting period, LPKF has sites in eight countries: Germany, USA, Slovenia, China, Japan, Korea, Hong Kong and Malaysia. Applicable national legislation governing, for example, working hours, vacation entitlements, maternity leave and protection against dismissal is observed at all sites. Representation of the interests and rights of our employees is guaranteed by works councils established at the individual sites and the Group Works Council, which operates across all sites.

Due to country-specific factors, operational HR activities are carried out autonomously in the international units. However, group functions are heavily integrated by LPKF AG into all strategic matters. At the Company’s German sites, numerous HR activities are provided in bundled form via the shared services approach. Processes with historical differences have been and continue to be harmonized gradually.

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

In addition, our employees also have the opportunity to play an active role in helping to shape our corporate policy and our approach to sustainability considerations. The Company’s short-term and long-term goals and the measures envisaged to develop the business are therefore brought to the attention of the entire workforce at regular employee meetings. Those meetings provide an opportunity for issues and questions to be raised directly with the Management Board and to influence internal decision-making processes

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

4.2 Equal Opportunities

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

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

Guaranteeing the health and safety of employees is one of the primary aims and activities of company social and occupational safety policy. We therefore operate an occupational safety management system which covers the health and safety of employees in the workplace and adheres to ISO 45001, a globally recognized standard. Protecting people, safety in the workplace and health care are the focal points. In addition, we also run various programs at the individual sites to promote

the health of our employees, for example the “health days” organized in conjunction with health insurance providers. Moreover, employees have the option to take part in medical check-ups conducted by company physicians, whose focus is also the provision of workplace health care to employees.

We operate in accordance with the statutory provisions governing the integration of people with disabilities and migrants.

The issue of fair pay is always shown due respect by our Company. In the reporting period, we developed a system to calculate starting salaries for various job roles; this system is to be introduced in the year ahead. We allow flexible working hours and flexible working time accounts in order to promote the work/life balance of our employees. Home-working days are also considered and allowed where the job in question so permits.

4.3 Qualifications

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

The Company has a balanced age structure. Long-serving employees bring a wealth of experience, which is enhanced by the fresh ideas of our young new recruits. With an average age of 39, LPKF has a relatively young workforce. We are, however, proud to have offered many employees employment for several decades or more. The turnover rate is 10.44%.

Young professionals are a crucial investment for the future, particularly set against the backdrop of demographic change. LPKF therefore trains a constant stream of young people across a range of professions, including mechatronics, industrial management, applied IT systems, product design and technical drawing. The Group employed 35 trainees over the reporting period. As part of the trainee exchange and familiarization program, traineeship guidelines were drawn up; a summary of those guidelines can be found in LPKF’s Mission Statement on Traineeships. Almost all of our trainees are offered a permanent position at the end of their training period. A dual course of study, combining vocational training and an academic qualification, is also a possibility at LPKF. The goal is to employ well-qualified staff and technicians at the Company for as long as possible.

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

4.4 Key Performance Indicators for Criteria 4.1 – 4.3

*Key Performance Indicator G4-LA6**

At 3.98%, the sick leave percentage in the LPKF Group is below the average for the metal working and electronics industry in Germany (2015: 5.3%).

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

As part of occupational safety management, we produce statistics about accidents in the workplace and on the commute. In the reporting period there were a total of four reportable accidents. 49 days were lost due to accidents. The accident statistics are assessed at the meetings of the Occupational Safety Committee, any necessary actions are taken, and the implementation of those actions is subsequently monitored.

*Key Performance Indicator G4-LA8**

LPKF Laser & Electronics AG is not bound by any collective bargaining agreements or affiliated to a trade union.

*Key Performance Indicator G4-LA9**

The need for training and/or continuing professional development is determined by the relevant supervisors and forms part of the annual training plan drawn up as part of the employee performance appraisal. The effectiveness of all training and continuing professional development is assessed. In the reporting period the average number of days of training and/or continuing professional development per employee was 0.89 days.

*Key Performance Indicator G4-LA12**

In accordance with the “Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst” (German Act on the Equal Participation of Women and Men in Executive Positions in the Private and the Public Sectors), the Management Board laid down a target for the percentage of women in the two management levels below the Management Board: 17% in each case. The deadline set for achievement of this target was June 30, 2017. As of that date, the percentage of women in the first management level below the Management Board was 17%; it was likewise 17% at the end of 2017. As of June 30, 2017, the percentage of women in the second management level below the Management Board was 21%; at the end of 2017, that figure was 23%. The Management Board has adopted a resolution which, with effect from July 1, 2017, sets a target of 17% of women in the first management level below the Management Board and 23% of women in the second management level below the Management Board. The deadline set for achievement of these targets is June 30, 2022.

The Supervisory Board had set a target of 0% for the percentage of women on the Management Board by June 30, 2017 since no changes in the composition of the Management Board were planned. That target was met. The Supervisory Board has now set a new target of 25% with a deadline of June 30, 2022.

The Supervisory Board had adopted a resolution setting a 25% target for the percentage of women on the Supervisory Board by June 30, 2017. As of June 30, 2017, the percentage of women on the Supervisory Board was 0%; it was likewise 0% at the end of 2017. The reasons for the failure to achieve the target percentage of women on the Supervisory Board have already been explained in connection with the nominations for election to the Supervisory Board at the 2017 ordinary Annual General Meeting. The Supervisory Board took suggestions from shareholders and submitted corresponding proposals to the Annual General Meeting; the Annual General Meeting approved the changes to the Supervisory Board. The Supervisory Board has passed a resolution setting a new target for the percentage of women on the Supervisory Board of 25% to be met by June 30, 2022.

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

*Key Performance Indicator G4-HR3**

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

4.5 Human Rights

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

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

4.6 Key Performance Indicators for Criterion 4.5

*Key Performance Indicator G4-HR1**

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

*Key Performance Indicator G4-HR9**

In the reporting period, sites were operated in eight countries around the globe (Germany, USA, Slovenia, China, Japan, Korea, Hong Kong and Malaysia). National laws are observed at all (100%) sites. The managing directors of the sites are required to ensure compliance with laws, thus including fundamental human rights.

*Key Performance Indicator G4-HR10**

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

*Key Performance Indicator G4-HR11**

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

4.7 Corporate Citizenship

We have not as yet developed a specific concept, including a risk analysis, for the “corporate citizenship” sustainability issue. This issue is, however, also covered by our compliance organization, which is established at all sites. This compliance organization provides sufficient coverage of issues of corporate citizenship. We do not consider the development of a supplementary written concept,

including a risk analysis, to be relevant to our Company in view of the minimal impact of our operating activities on this issue.

LPKF can only succeed in a functioning social environment. We are actively involved at the Company's various locations to the best of our ability. In that regard, most initiatives are planned and implemented by employees in coordination with management at the site. In the Hanover area, LPKF supports the "Tier hilft Mensch" ("Animals Help People") foundation by holding an annual family day at the foundation's premises and by making a donation. The Group has also been making charitable contributions to the Médecins sans Frontières/Doctors Without Borders (MSF) organization for many years.

For a technology company like LPKF, it is our duty to promote science and education to young people. For that reason, we take part in the national "Future Day" initiative for pupils and hold information events for pupils on the issue of career guidance. We have signed cooperation agreements with regional schools and take on pupil interns and students writing their bachelor's or master's thesis. In addition, we support three scholarship students at the Hanover University of Applied Sciences in the areas of mechatronics, applied information technology and electrical engineering. We also support "Photonik Campus", a joint initiative for young talent in the photonics industry.

4.8 Key Performance Indicator for Criterion 4.7

*Key Performance Indicator G4-EC1**

An overview of the business indicators for this key performance indicator can be found in the [2017 Annual Report](#) on pages 47-49 (Management Board and Supervisory Board Remuneration), pages 72/73 (Consolidated Statement of Financial Position), page 74 (Consolidated Income Statement, Consolidated Statement of Comprehensive Income), page 75 (Consolidated Statement of Cash Flows) and pages 88-91 (Notes on the Consolidated Income Statement).

4.9 Political Influence

We have not as yet developed a written concept, including a risk analysis, for the "corporate citizenship" sustainability issue (points 4.9 to 4.12). We intend to do so for 2018 and will report on this. Individual measures and processes which embrace this sustainability issue have however already been introduced and are reported in point 4.11 as well as the related risks in point 4.12.

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

The Company is a member of the following associations:

- BME - Bundesverband Materialwirtschaft, Einkauf und Logistik e.V. (Federal Association of Materials Management, Purchasing and Logistics)
- DGFP - Deutsche Gesellschaft für Personalführung e.V. (German Association for Human Resources Management)
- DIN – Deutsches Institut für Normung e.V. (German Institute for Standardization)
- Industrie-Club Hannover e.V. (Hanover Industry Club)
- Leibniz Universitätsgesellschaft Hannover e.V. (Leibniz University of Hanover Society)
- Stifterverband für die Deutsche Wissenschaft (German Association for the Promotion of Science)
- VDMA - Verband Deutscher Maschinen- und Anlagenbau e.V. (German Engineering Association)
- 3-D MID - Forschungsvereinigung Räumliche Elektronische Baugruppen e.V. (Research Association for 3D Electronic Modules)

Legislative processes relevant to LPKF relate primarily to general provisions of commercial, civil and capital market law, company and tax legislation, occupational safety, labor and social legislation and product category-specific requirements.

LPKF did not make any submissions on legislative processes during the reporting period.

4.10 Key Performance Indicator for Criterion 4.9

*Key Performance Indicator G4-SO6**

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

4.11 Conduct that Complies with the Law and Policy

As a company with global operations, LPKF has responsibilities to its customers, employees, shareholders and to the general public. Part of being a good corporate citizen means all LPKF employees obeying applicable laws everywhere and at all times, respecting ethical principles and adopting sustainable practices. In 2015, LPKF introduced a [Compliance Code](#) as a guidance framework for all employees in the LPKF Group. It identifies possible areas of risk and conflict in relation to corruption, export control/money laundering and data protection, and it lays down best-practice guidelines. Employees attend training sessions to learn about the Group-wide [Compliance Codex](#). Regular in-house training on compliance and liability issues is also provided to the Management Board, the Supervisory Board and the managing directors of the subsidiaries. The main features of the [Compliance Management System](#) are published on the Company's homepage.

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

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

Internal auditing, which is performed by an international audit firm operating as a third-party service provider, plays a key role in the compliance organization. The relevant audits are also used to update the internal control system.

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

4.12 Key Performance Indicators for Criterion 4.11

*Key Performance Indicator G4-SO3**

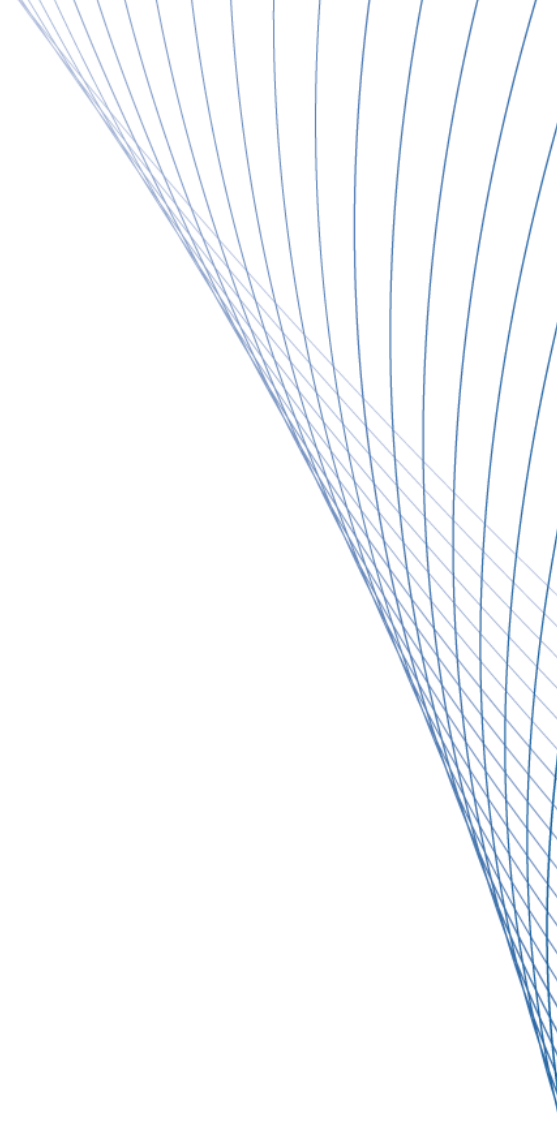
Preventing corruption is particularly relevant given the Company's major international operations. Corruption risks were classified by the Management Board as a priority in connection with compliance risks; this applies on a Group-wide basis (with a focus on the Company's sites in Asia). All employees in Sales and Procurement worldwide received training on corruption risks in the reporting period. There was therefore a full control of all sites.

*Key Performance Indicator G4-SO5**

There were no incidents of corruption in the reporting period.

*Key Performance Indicator G4-SO8**

LPKF AG was not subject to any significant fines or monetary penalties for failing to comply with laws and regulations in the reporting period.



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Limited Assurance Report of the Independent Auditor regarding the Combined Separate Non-Financial Report¹

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

We have performed an independent limited assurance engagement on the Combined Separate Non-Financial Report (hereinafter "Report") of LPKF Laser & Electronics AG, Garbsen and the Group (hereinafter "LPKF"), according to Sections 315b and 315c in conjunction with 289b to 289e HGB (German Commercial Code) for the business year from January 1 to December 31, 2017.

Management's Responsibility

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

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

Independence and Quality Assurance on the Part of the Auditing Firm

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

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

Practitioner's Responsibility

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

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

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

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

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

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Report of LPKF, for the business year from January 1 to December 31, 2017, is not prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289b to 289e HGB.

Restriction of Use / Clause on General Engagement Terms

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

Our assignment for the Supervisory Board of LPKF, Garbsen and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (German Public Audit Firms) (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms having taken note of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Hamburg, April 18, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Laue
Wirtschaftsprüfer
[German Public Auditor]

ppa.
Mathias