

## REMUNERATION REPORT

### *Remuneration of the Management Board*

#### *Basic features of the remuneration system*

The system of Management Board remuneration at LPKF AG is set up to provide an incentive for 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 respective director's contracts. When determining the appropriate amount of remuneration for the members of the Management Board, the Supervisory Board focuses on the Company's size and activities, its economic and financial position as well as on the responsibilities and performance of the respective Management Board member, the success and future prospects of the Company, and the customary level of the remuneration under consideration of the level of executive remuneration at peer companies and the remuneration structure in place in other parts of the Company. The relationship between the remuneration of the Executive Board and that of senior management and the workforce overall is taken into account also in terms of its development over time, whereby the Supervisory Board determines how senior managers and the workforce are to be defined for the purposes of the comparison. The remuneration of the members of the Management Board is based on performance and calculated such that it is both appropriate and competitive, offering an incentive for committed and successful work. The remuneration system was approved by the Annual General Meeting on 5 June 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. These remuneration components are explained in more detail below.

#### *Non-performance-based components*

The fixed remuneration comprises both the base salary, which is paid in equal monthly installments, and benefits. The incidental benefits include a company car for both official and private use, as well as insurance contributions, particularly in connection with health, care and legal insurance.

#### *Performance-based components*

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

The remuneration components Quality (LTI 1), Options (LTI 2) and Long-term EBIT (LTI 3) are designed as long-term incentives while EBIT (STI 1) and EBIT per employee (STI 2) are designed as short-term incentives. The LTI 1, LTI 3, STI 1, and STI 2 remuneration components are based on targets whose achievement is decisive for the amount of the remuneration component in question.

#### *Short Term Incentives (STI)*

STI 1 and STI 2 are each calculated based on the corporate planning approved prior to the beginning of a given financial year, in which the targets for EBIT and EBIT per employee are set for three different future scenarios (normal, aggressive, and defensive). A target achieved in the financial year under the normal scenario constitutes a target achievement in accordance with the target value shown in the benefits table and, under the defensive scenario, a target achievement of 0% (minimum). The maximum target achievement shown in the table is calculated when the planned aggressive scenario is exceeded by at least 20%. The scenarios are based on ambitious targets, which means that the maximum can only be reached if the targets are significantly overachieved. There is linear interpolation between the individual values. If negative EBIT is reported for the following year, in certain circumstances the given loss may be taken into account retroactively.

#### *Long Term Incentives (LTI)*

Safeguarding product quality at the highest level is one of the strategic action areas of LPKF Laser & Electronics AG. LTI 1 (Quality), which will run for three years, is measured by the achievement of these quality specifications. The aim is to lower the error rate in the Group calculated 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- and 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 target value of the error rate.

For the variable multi-year remuneration components LTI 1 (Quality), the Company will make advance payments at the end of a given financial year based on the level of target achievement of the error rate at the end of the financial year. If the advance payments shown under benefits received exceed the entitlement to variable remuneration under LTI 1, the Management Board members will be required to pay the excess.

A long-term bonus plan was established as LTI 2 (Options). Details are laid down in the plan's terms and conditions, which are part of the contractual arrangements with the Management Board members. Decisive factors for the amount of LTI 2 are the development of the EBIT margin of the LPKF Group and the share price performance. LTI 2 is therefore directly tied to the pursuit of the Group's objectives of profitable growth and a long-term increase in the enterprise value.

In detail, LTI 2 is designed as follows: Fictitious shares, known as phantom stocks, are granted to the Management Board members in a contractually stipulated amount, which for Chief Executive Officer Dr. Ingo Bretthauer is EUR 50 thousand and for the Management Board members Kai Bentz, Dr. Christian Bieniek and Bernd Lange EUR 25 thousand. The number of phantom stocks granted to a single Management Board member will be calculated based on the set amount to be granted divided by the average closing price of the shares of LPKF Laser & Electronics AG over the last 30 trading days prior to 1 January of the year in which the shares are allotted. After the expiry of a four-year performance period, the beneficiaries will be entitled for the first time to a disbursement amount whose calculation will depend on the final number of phantom stocks. The final number of phantom stocks will be calculated by multiplying the preliminary number of phantom stocks by a performance factor that is determined by the average EBIT margin of the LPKF Group during the relevant performance period. The amount to be paid out will in turn be calculated by multiplying the final number of phantom stocks by the average share price of LPKF Laser & Electronics AG on the last 30 trading days before the end of the relevant performance period. This is capped at three times the amount to be granted, the maximum shown in the benefits table. If the beneficiaries waive their right to a disbursement after the four-year performance period, they can obtain the amount to be paid out after a five- or six-year performance period. One prerequisite for a disbursement under the long-term bonus plan is an own investment in the form of shares of LPKF Laser & Electronics AG, which must correspond to at least half of the amount to be granted.

From 2016 onwards, the Directors' contracts have in included an additional long-term remuneration component, LTI 3 (Long-term EBIT), which will replace STI 2. Annual payments are calculated based on target achievement in accordance with STI 1 (EBIT) for the respective financial year, the prior financial year and the financial year before that.

### Cap

Each of the components of variable performance-based remuneration has a maximum amount (cap).

Due to the economic situation, the Management Board and Supervisory Board agreed a reduction in variable remuneration for the 2017 financial year.

It was therefore agreed that there would be no entitlement to any of the variable remuneration components in the event of an EBIT margin of less than 5%. The calculation of STI 1 EBIT was also changed so that otherwise identical operating results generate lower values than under the previous contractual provisions: In the range of the aggressive scenario up to 5% EBIT margin, values decline on a straight-line basis, so that the target achievement amounts to 0% at 5% EBIT margin. The resulting provisional bonus amount is then reduced by 20% to give the final STI 1 EBIT amount.

### 2018 outlook

During the 2018 financial year, the Management Board and Supervisory Board again discussed a reduction in variable remuneration if unsatisfactory business performance is imminent.

In addition, the Supervisory Board is currently developing a new remuneration system that it expects to apply to the contracts of a new Chief Executive Officer during the 2018 financial year. In addition to a non-performance-related fixed salary, the new system includes short and long-term variable remuneration components based even more closely on positive value creation, growth and the return on investment of LPKF Laser & Electronics AG. These new targets are designed to be even more demanding than those already published.

### Value of the benefits in the reporting period

The benefits for the 2017 reporting period are presented in the table below, supplemented by the minimum and maximum amounts that can be reached. The multi-year variable remuneration granted in the past is broken down according to various plans and the length of the respective periods is indicated. The target value of a moderately probable scenario is stated for LTI 1 and the amount to be granted is stated for LTI 2.

## BENEFITS GRANTED (PLAN)

EUR thsd.	Dr. Ingo Bretthauer Chief Executive Officer (CEO) until 15 October 2017				Bernd Lange Chief Technology Officer (CTO)				Kai Bentz Chief Financial Officer, Spokesman of the Management Board from 16 October 2017				Dr.-Ing. Christian Bieniek Chief Operating Officer (COO)				Total
	2016	2017	(Min)	(Max)	2016	2017	(Min)	(Max)	2016	2017	(Min)	(Max)	2016	2017	(Min)	(Max)	2017
Fixed remuneration <sup>1</sup>	325	257	257	257	243	243	243	243	213	213	213	213	210	210	210	210	923
Incidental benefits	40	29	29	29	23	24	24	24	20	19	19	19	20	22	22	22	94
<b>Total</b>	<b>365</b>	<b>286</b>	<b>286</b>	<b>286</b>	<b>266</b>	<b>267</b>	<b>267</b>	<b>267</b>	<b>233</b>	<b>232</b>	<b>232</b>	<b>232</b>	<b>230</b>	<b>232</b>	<b>232</b>	<b>232</b>	<b>1,017</b>
<b>One-year variable remuneration</b>																	
STI 1 (EBIT)	152	122	0	203	94	150	0	188	79	132	0	165	79	126	0	158	530
STI 2 EBIT per employee	49	49	0	81	38	n/a	n/a	n/a	32	n/a	n/a	n/a	n/a	n/a	n/a	n/a	49
<b>Multi-year variable remuneration</b>																	
LTI 1 Quality (3 years)	73	73	0	122	56	75	0	94	47	66	0	83	47	63	0	79	277
LTI 2 Options 2016 (4 years)	50	n/a	n/a	n/a	25	n/a	n/a	n/a	25	n/a	n/a	n/a	25	n/a	n/a	n/a	n/a
LTI 2 Options 2017 (4 years)	n/a	n/a	n/a	n/a	n/a	25	0	75	n/a	25	0	75	n/a	25	0	75	75
LTI 3 Long-term EBIT (3 years)	n/a	n/a	n/a	n/a	n/a	75	0	94	n/a	66	0	83	55	63	0	79	204
<b>Other</b>																	
Termination benefit	n/a	125	125	125													125
<b>Total</b>	<b>324</b>	<b>369</b>	<b>125</b>	<b>531</b>	<b>213</b>	<b>325</b>	<b>0</b>	<b>451</b>	<b>183</b>	<b>289</b>	<b>0</b>	<b>406</b>	<b>206</b>	<b>277</b>	<b>0</b>	<b>391</b>	<b>1,260</b>
Cost of benefits <sup>1</sup>	0	0	0	0	7	7	7	7	7	7	7	7	0	0	0	0	14
<b>Total remuneration</b>	<b>689</b>	<b>655</b>	<b>411</b>	<b>817</b>	<b>486</b>	<b>599</b>	<b>274</b>	<b>725</b>	<b>423</b>	<b>528</b>	<b>239</b>	<b>645</b>	<b>436</b>	<b>509</b>	<b>232</b>	<b>623</b>	<b>2,291</b>

<sup>1)</sup> According to the contracts, the cost of benefits is part of fixed remuneration.

### Benefits received for the reporting period

In compliance with the recommendations of the German Corporate Governance Code (GCGC), the fixed remuneration and incidental (fringe) benefits are stated in the table below. Since Management Board members are entitled to performance-based remuneration components only if the EBIT margin is at least 5%, in financial year 2017 there no benefits were received from the one-year variable remuneration components or from multi-year variable remuneration for the ordinary members of the Management Board. The Chairman of the Management Board is entitled to a termination benefit totaling EUR 125 thousand upon his departure. Of this amount, EUR 50 thousand were received in 2018.

Following the recommendations of the GCGC, the benefit costs correspond to the committed contributions to old-age pensions, although they do not represent benefits received in the narrow sense.

The members of the Management Board in office in 2017 were paid total remuneration of EUR 1,107 thousand (2016: EUR 1,108 thousand) for their activities in the 2017 financial year. EUR 1,107 thousand of which can be attributed to fixed remuneration components, including incidental benefits, that were fully paid out in the 2017 reporting period.

## BENEFITS RECEIVED (ACTUAL)

	Dr. Ingo Bretthauer Chief Executive Officer (CEO) until 15 October 2017		Bernd Lange Chief Technology Officer (CTO)		Kai Bentz Chief Financial Officer, Spokesman of the Management Board from 16 October 2017		Dr.-Ing. Christian Bieniek Chief Operating Officer (COO)		Total
	2016	2017	2016	2017	2016	2017	2016	2017	
EUR thsd.									
Fixed remuneration	325	257	243	243	213	213	210	210	923
Incidental benefits	40	29	23	24	20	19	20	22	94
<b>Total</b>	<b>365</b>	<b>286</b>	<b>266</b>	<b>267</b>	<b>233</b>	<b>232</b>	<b>230</b>	<b>232</b>	<b>1,017</b>
<b>One-year variable remuneration</b>									
STI 1 (EBIT)	0	0	0	0	0	0	0	0	0
STI 2 EBIT per employee	0	0	0	0	0	0	0	0	0
<b>Multi-year variable remuneration</b>									
LTI 1 Quality (3 years)	0	0	0	0	0	0	0	0	0
LTI 2 Options (4 years)	0	0	0	0	0	0	0	0	0
LTI 3 Long-term EBIT (3 years)	0	0	0	0	0	0	0	0	0
<b>Other</b>									
Termination benefit	0	75	0	0	0	0	0	0	75
<b>Total</b>	<b>0</b>	<b>75</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>75</b>
Cost of benefits	0	0	7	7	7	7	0	0	14
<b>Total remuneration acc. to GCGC (benefits received)</b>	<b>365</b>	<b>361</b>	<b>273</b>	<b>274</b>	<b>240</b>	<b>239</b>	<b>230</b>	<b>232</b>	<b>1,106</b>
Share-based remuneration acc. to GCC / GAS 17 (for LTI 2 options)	0	0	0	0	0	0	0	0	0
<b>Total remuneration acc. to GCC / GAS 17 (inflow)</b>	<b>365</b>	<b>361</b>	<b>273</b>	<b>274</b>	<b>240</b>	<b>239</b>	<b>230</b>	<b>232</b>	<b>1,106</b>

### Commitments to members of the Management Board upon termination

Post-contractual non-competition agreements have been made with the members of the Management Board in the event their activities as such are terminated, irrespective of whether it is an ordinary or extraordinary termination. Under these agreements, the Company shall pay remuneration equivalent to 50% of the respective individual's most recent average base salary for the 12-month term of the post-contractual non-competition agreement unless the individual in question is retiring.

If the appointment of a member of the Management Board ends early on account of his or her death while in office, the fixed monthly remuneration shall be paid to the heirs for a six-month period.

A separate agreement was entered into with Dr. Bretthauer to settle the employment relationship. Termination benefits of EUR 125 thousand were paid on this basis. These mainly comprise the continued payment of his fixed salary including fringe benefits for 2.5 months after his dismissal on 15 October and an amount of EUR 50 thousand to settle claims from the allocation of the LTI 2 options from 2015 and, if applicable, any other claims. A post-contractual non-compete clause was agreed for a period of 18 months after his departure. Any remuneration claims resulting from an advisory role of Dr. Bretthauer will not be offset against the compensation to be paid in connection with the non-compete clause.

The Company has not made any defined-benefit commitments to the current members of its Management Board.

Contracts regarding a company pension were closed with the members of the Management Board, Kai Bentz and Bernd Lange. These are defined-contribution commitments. No provisions for pensions are required in this case.

No other provisions and commitments have been made with respect to the ordinary or extraordinary termination of a member of the Management Board.

#### Total remuneration of former members of the Management Board

Provisions were recognized for EUR 535 thousand (previous year: EUR 511 thousand) in pension commitments (pension

plan, disability pension and widow's pension) toward 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 2017. A commitment to pay termination benefits of EUR 125 thousand was also made. Of that amount, EUR 75 thousand were paid in 2017.

#### Shareholdings of members of the Company's corporate bodies

The shareholdings of the members of the Company's corporate bodies are distributed as follows:

#### SHAREHOLDINGS OF MEMBERS OF THE COMPANY'S CORPORATE BODIES

EUR thsd.	31 Dec. 2017	30 Sep. 2017	30 June 2017	31 March 2017
<b>Management Board</b>				
Dr. Ingo Bretthauer (until 15 October 2017)	n/a	60,000	60,000	60,000
Bernd Lange	35,000	35,000	35,000	35,000
Kai Bentz	17,600	17,600	17,600	17,600
Dr.-Ing. Christian Bieniek	1,500	1,500	1,500	1,500
<b>Supervisory Board</b>				
Dr. Markus Peters (since 13 July 2017)	0	0	n/a	n/a
Dr. Heino Büsching	10,000	10,000	10,000	10,000
Prof. Dr.-Ing. Erich Barke	2,000	2,000	2,000	2,000
Dr. Dirk Rothweiler (since 13 June 2017)	0	0	0	n/a
Bernd Hackmann (until 12 July 2017)	n/a	n/a	125,600	125,600

#### Remuneration of the Supervisory Board

Each member of the Supervisory Board receives fixed basic remuneration for each full financial year of membership on the Supervisory Board that is specified by resolution of the Annual General Meeting and is payable after the end of the financial year. The Chairman of the Supervisory Board receives double and the Deputy Chairman receives one-and-a-half times the amount of the fixed basic

remuneration. By resolution of the 2011 Annual General Meeting, the fixed basic remuneration of each member of the Supervisory Board was set at EUR 40 thousand effective 1 January 2011. The fixed remuneration from 1 January 2017 was set at EUR 32 thousand by resolution of the Annual General Meeting on 2 June 2016.

The remuneration of the Supervisory Board is as follows:

#### REMUNERATION OF THE SUPERVISORY BOARD

EUR thsd.		Dr. Markus Peters (Chairman)	Dr. Heino Büsching (Deputy Chairman)	Dr. Dirk Rothweiler	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2016	0	80	0	60	40	180
	2017	25	61	18	25	32	161
Variable remuneration	2016	0	0	0	0	0	0
	2017	0	0	0	0	0	0
<b>Total remuneration</b>	<b>2016</b>	<b>0</b>	<b>80</b>	<b>0</b>	<b>60</b>	<b>40</b>	<b>180</b>
	<b>2017</b>	<b>25</b>	<b>61</b>	<b>18</b>	<b>25</b>	<b>32</b>	<b>161</b>

### Supervisory Board members

Dr. Markus Peters Head of Finance and Investment of  
(from 13 July 2017; German Technology AG, Hannover,  
Chairman from Germany  
16 Oct. 2017)

Dr. Heino Büsching Lawyer / tax consultant at  
(Chairman until CMS Hasche Sigle, Partnerschaft  
15 Oct. 2017; von Rechtsanwälten und Steuer-  
Deputy Chairman beratern mbB, Hamburg, Germany  
from 16 Oct. 2017)

Bernd Hackmann Consultant to technology companies  
(Deputy Chairman formerly: Chief Executive Officer  
until 12 July 2017) of LPKF Laser & Electronics AG,  
Chairman of the Supervisory Board  
of Viscom AG, Hannover, Germany,  
Member of the Supervisory Board  
SLM Solutions Group AG, Lübeck,  
Germany

Prof. Dr.-Ing. Retired professor of Leibniz  
Erich Barke University, Hannover, Germany,  
formerly: President of Leibniz  
University Hannover, Germany,  
Member of the Supervisory Board  
of the following companies:  
Esso Deutschland GmbH, Hamburg,  
Germany,  
ExxonMobil Central Europe Holding  
GmbH, Hamburg, Germany,  
hannoverimpuls GmbH, Hannover,  
Germany,  
Solvay GmbH, Hannover, Germany  
(until July 2017)

Dr. Dirk Rothweiler CEO of First Sensor AG Berlin,  
(from 13 June 2017) Germany

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

### 2.4.1 Results of operations

#### Development of revenue

The LPKF Group generated revenue of EUR 102.1 million in the 2017 financial year, an increase of 12.0% compared with the previous year. An encouraging business trend emerged in all operating segments. The Solar segment in particular lifted its revenue by 48.2% to EUR 20.6 million. However, the Development segment also achieved growth

of 7.7% year-on-year with revenue of EUR 24.4 million. Likewise, the Welding segment slightly exceeded its prior-year revenue figure with an increase of 6.0%. In the Electronics segment, substantial growth was seen in cutting systems for electronics production, though the other product groups fell short of their prior-year revenue figures. LDS systems, for example, now account for less than 2% of the Group's total revenue. Overall, the Electronics segment boosted its revenue by 3.5% year-on-year.

The following table shows the revenue by region:

#### DISTRIBUTION OF REVENUE

in %	2017	2016
Asia	44.8	46.5
Germany	10.2	14.2
Europe excluding Germany	20.1	18.0
North America	22.5	19.4
Other	2.4	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

At 89.8%, the Group's export rate is higher than the level for the previous year (85.8%). Germany's share was down slightly, but combined with the rest of Europe it still accounts for one-third of revenue. Due to its importance for electronics production, Asia remains LPKF's most important market despite minor decreases compared with the previous year.

#### Development of orders

At EUR 113.2 million, incoming orders during the reporting period were 7% up on the previous year's level. Orders on hand at the end of the year, at EUR 38.8 million were clearly above the previous year's figure of EUR 27.8 million (+39%). This increase is primarily attributable to a strong solar business.

#### Development of main income statement items

EUR 3.3 million of the development costs for products and software were shown as capitalized development costs. Overall, other operating income was virtually unchanged on the previous year. In 2017, compensation of EUR 2.2 million was paid for the business interruption in connection with the fire damage at the Garbsen site in 2015. In the previous year, the same amount had been paid from the property damage adjustment and an initial advance payment toward the business interruption loss had been made. Otherwise, higher income from the reversal of write-downs and higher investment grants were offset by lower income from the reversal of provisions and lower other income.