

## COMPENSATION REPORT

### Basic features of the remuneration system

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. The amount of the remuneration of the members of the Management Board is contingent on the Company's size and activities, its economic and financial situation as well as the responsibilities of each individual member of the Management Board. 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 overall remuneration comprises a fixed component and variable performance or share-based components.

The fixed remuneration comprises both the base salary, which is paid in equal monthly installments, and benefits. The benefits include a company car for both official and private use, as well as insurance contributions for individual members of the Management Board, particularly in connection with health insurance and retirement plans.

Furthermore, the members of the Management Board are also paid variable performance-based remuneration conditioned on multi-year performance targets that gives them a share in the Group's profit pursuant to its consolidated earnings before interest and taxes (EBIT) in the financial year ended. If negative EBIT is reported for the following year, in certain circumstances the given loss may be taken into account retroactively. A cap has been stipulated for this component of remuneration. The potential variable component of remuneration may exceed the fixed component.

The Supervisory Board may grant additional stock options to the members of the Management Board, at its discretion, as an additional variable component of their remuneration with a long-term incentive effect that accounts for elements of risk.

The Supervisory Board is currently developing a new remuneration system for the Management Board. This is expected to include more remuneration components that provide a long-term incentive. Variable remuneration will be based on achieving EBIT targets as well as on other key performance indicators.

### Compensation of the Management Board

The current members of the Management Board were paid total remuneration of EUR 1,653 thousand (2011: EUR 1,501 thousand) for their activities in the 2012 financial year.

EUR thsd.		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek	Total
Fixed remuneration	2012	282	239	184	18	723
(including benefits)*	2011	257	230	174	0	661
Performance-based remuneration	2012	375	315	240	0	930
(provisions)	2011	300	307	233	0	840
Performance-based remuneration	2012	0	0	0	0	0
(supplementary payments or reversals of provisions)	2011	0	0	0	0	0
Total remuneration	2012	657	554	424	18	1,653
	2011	557	537	407	0	1,501

\* In particular, the benefits comprise the use of a company car for official and private purposes, as well as insurance contributions, especially in connection with health insurance and retirement plans.

As in the previous year, the maximum agreed variable remuneration was reached for the 2012 financial year.

The performance-based remuneration for 2012 shall not be paid until the 2013 financial year. Provisions were recognized to this end as of at the reporting date.

A total of 120,000 stock options could be granted to members of the Management Board under the employee stock option program for members of the Management Board, as well as executives and other employees of the Company, which the Annual General Meeting adopted on 17 May 2001 (hereinafter the "Stock Option Program 2001"). The Supervisory Board decides, at its discretion, on whether to grant stock options to members of the Management Board. The basic features of the Stock Option Program are disclosed in greater detail in the Notes.

As in the 2011 financial year, no stock options were granted to the members of the Management Board in the 2012 financial year and in the previous two years.

The number of the stock options granted to members of the Management Board developed as follows:

		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek
Portfolio of options as of 1 Jan. 2012	Number	0	0	3,300	0
Exercised in the 2012 financial year	Number	0	0	3,300	0
Expired in the 2012 financial year	Number	0	0	0	0
Portfolio as of 31 Dec. 2012	Number	0	0	0	0

#### *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.

The Company has not made any pension commitments to the current members of its Management Board. Pension contracts were closed with the members of the Management Board, Kai Bentz and Bernd Lange; the Company makes contributions toward these contracts that are part of their fixed remuneration. 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 438 thousand (previous year: EUR 454 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

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

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

\_\_\_\_\_ 31 March 2012 \_\_\_\_\_ 30 June 2012 \_\_\_\_\_ 30 Sept. 2012 \_\_\_\_\_ 31 Dec. 2012

**Management Board**

Dr. Ingo Bretthauer _____	30,000 _____	30,000 _____	30,000 _____	25,000 _____
Bernd Lange _____	47,510 _____	47,510 _____	47,510 _____	47,510 _____
Kai Bentz _____	7,000 _____	10,300 _____	10,300 _____	10,300 _____
Dr.-Ing. Christian Bieniek _____	0 _____	0 _____	0 _____	0 _____

**Supervisory Board**

Dr. Heino Büsching _____	4,000 _____	4,000 _____	4,000 _____	5,000 _____
Bernd Hackmann _____	N.A. _____	62,800 _____	62,800 _____	62,800 _____
Prof. Dr.-Ing. Erich Barke _____	1,000 _____	1,000 _____	1,000 _____	1,000 _____
Bernd Hildebrandt _____	721,177 _____	N.A. _____	N.A. _____	N.A. _____

*Compensation 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.

In addition, each member of the Supervisory Board is paid remuneration amounting to EUR 1,000.00 for each percentage point by which the dividend distributed to shareholders exceeds 4% of the share capital. The variable component cannot be specified at this time because it has not been determined to date whether a dividend will be paid for the 2012 financial year and in what amount. A dividend of EUR 0.40 per share was paid in 2012 for the 2011 financial year, resulting in total variable remuneration of EUR 108 thousand for the Supervisory Board (previous year: EUR 108 thousand).

The expenses for members of the Supervisory Board were as follows:

EUR thsd.		Bernd Hildebrandt (Chairman until 31 May 2012)	Dr. Heino Büsching (Chairman from 31 May 2012)	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2012	33	72	35	40	180
	2011	80	60	0	40	180
Variable remuneration	2012	36	36	0	36	108
	2011	36	36	0	36	108
Total remuneration	2012	69	108	35	76	288
	2011	116	96	0	76	288