

## REMUNERATION REPORT

### Remuneration of the Management Board

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

*The system of Management Board remuneration is set up to provide an incentive for successful and sustainable corporate management.*

The system of Management Board remuneration at LPKF Laser & Electronics 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 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 Management Board and that of senior management and the workforce overall is taken into account also in terms of its development over time, whereby the Supervisory Board determines how senior managers and the workforce are to be defined for the purposes of 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 92.53%.

The overall remuneration of the members of the Management Board comprises a non-performance-based fixed component and variable performance-based components.

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

The non-performance-based fixed remuneration comprises both the base salary, which is paid in equal monthly installments, and incidental benefits. The incidental 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.

#### *Performance-based components*

For the 2014 financial year, the Chief Executive Officer, Dr. Ingo Bretthauer, is paid variable performance-based remuneration that gives him 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. With effect from 1 January 2015, the details of the performance-based remuneration component described below have also been agreed with the Chief Executive Officer.

Since 1 January 2014, Management Board members Kai Bentz, Dr. Christian Bieniek, and Bernd Lange have received variable remuneration components in accordance with the new remuneration system developed by the Supervisory Board and approved by the Annual General Meeting on 5 June 2014. This system comprises both long-term incentives (LTI) and short-term incentives (STI).

The remuneration components Quality (LTI 1) and Options (LTI 2) 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, STI 1, and STI 2 remuneration components are based on other 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 2014 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.

*Safeguarding product quality at the highest level is one of the strategic action areas of LPKF AG.*

*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% within three years. 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.

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, will be granted to the Management Board members Kai Bentz, Dr. Christian Bieniek and Bernd Lange in a contractually stipulated amount of 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.

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 allocations exceed the entitlement to variable remuneration under LTI 1, the Management Board members will be required to pay the excess. No advance payments are made under LTI 2 (Options).

*Cap*

Each of the components of variable performance-based remuneration has a maximum amount (cap). As a rule, the STI 1 remuneration component is only paid if Group EBIT amounts to at least EUR 9 million (floor).

*Value of the benefits in the reporting period*

The benefits for the 2014 reporting period are presented in the table below, supplemented by the minimum and maximum amounts that can be reached. In contrast to consideration of the amount paid out, the target value that would apply if the planned normal scenario is accomplished is stated for the one-year variable remuneration. In addition, the multi-year variable remuneration granted in the reporting period 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 fair value at the grant date is stated for LTI 2. This was determined with the help of an option price model based on Black/Scholes.

Benefits granted (PLAN)	Dr. Ingo Bretthauer Chief Executive Officer (CEO)				Bernd Lange Chief Technology Officer (CTO)				Kai Bentz Chief Financial Officer (CFO)				Dr.-Ing. Christian Bieniek Chief Operating Officer (COO)				Total	
	2013	2014	(Min)	(Max)	2013	2014	(Min)	(Max)	2013	2014	(Min)	(Max)	2013	2014	(Min)	(Max)		2014
EUR thsd.																		
Fixed remuneration*	250	250	250	250	215	243	243	243	165	193	193	193	200	205	205	205		891
Incidental benefits	32	32	32	32	23	22	22	22	18	16	16	16	16	18	18	18		88
<b>Total</b>	<b>282</b>	<b>282</b>	<b>282</b>	<b>282</b>	<b>238</b>	<b>265</b>	<b>265</b>	<b>265</b>	<b>183</b>	<b>209</b>	<b>209</b>	<b>209</b>	<b>216</b>	<b>223</b>	<b>223</b>	<b>223</b>		<b>979</b>
One-year variable remuneration																		
Bonus	375	375	0	375	322	n/a	n/a	n/a	248	n/a	n/a	n/a	220	n/a	n/a	n/a		375
STI 1 (EBIT)	n/a	n/a	n/a	n/a	n/a	94	0	156	n/a	75	0	125	n/a	77	0	128		246
STI 2 (EBIT per employee)	n/a	n/a	n/a	n/a	n/a	38	0	63	n/a	30	0	50	n/a	31	0	51		99
Multi-year variable remuneration																		
LTI 1 Quality (3 years)	n/a	n/a	n/a	n/a	n/a	56	0	94	n/a	45	0	75	n/a	46	0	77		147
LTI 2 Options (4 years)	n/a	n/a	n/a	n/a	n/a	30	0	75	n/a	30	0	75	n/a	30	0	75		90
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0
<b>Total</b>	<b>375</b>	<b>375</b>	<b>0</b>	<b>375</b>	<b>322</b>	<b>218</b>	<b>0</b>	<b>388</b>	<b>248</b>	<b>180</b>	<b>0</b>	<b>325</b>	<b>220</b>	<b>184</b>	<b>0</b>	<b>331</b>		<b>957</b>
Cost of benefits*	0	0	0	0	7	7	7	7	7	7	7	7	0	0	0	0		14
<b>Total</b>	<b>657</b>	<b>657</b>	<b>282</b>	<b>657</b>	<b>567</b>	<b>490</b>	<b>272</b>	<b>660</b>	<b>438</b>	<b>396</b>	<b>216</b>	<b>541</b>	<b>436</b>	<b>407</b>	<b>223</b>	<b>554</b>		<b>1,950</b>

\* According to the contracts, the benefit costs are part of fixed remuneration.

*Allocations for the reporting period*

In compliance with the recommendations of the German Corporate Governance Code (GCGC), the fixed remuneration and incidental (fringe) benefits as well as the one-year variable remuneration components are stated as allocations for financial year 2014 in the table below. Allocations from multi-year variable remuneration components arise only from advance payments for LTI 1 (Quality) that are measured based on the degree to which the targeted error rate is achieved at the end of the financial year. There were no other allocations from multi-year variable remuneration components, since none of the plan terms ended in the reporting period and the members of the Management Board have opted to forgo the advance payment of LTI 2 (Options) in 2014. Following the recommendations of the GCGC, the benefit costs correspond to the committed contributions to old-age pensions, although they do not represent an allocation in the narrow sense.

The current members of the Management Board received a total remuneration of EUR 1,565 thousand (2013: EUR 2,098 thousand) for their activities in the 2014 financial year, EUR 979 thousand of which can be attributed to fixed remuneration components, including incidental benefits, that were fully paid out in the 2014 reporting period.

A total of EUR 572 thousand can be attributed to variable remuneration components. The one-year variable remuneration components agreed for financial year 2014 as well as the advance payments for multi-year variable remuneration components are not due until after the consolidated financial statements are adopted by the Supervisory Board and will be paid in March 2015.

Allocations (ACTUAL)	Dr. Ingo Bretthauer Chief Executive Officer (CEO)		Bernd Lange Chief Technology Officer (CTO)		Kai Bentz Chief Financial Officer (CFO)		Dr.-Ing. Christian Bieniek Chief Operating Officer (COO)		Total
	2013	2014	2013	2014	2013	2014	2013	2014	
<b>EUR thsd.</b>									<b>2014</b>
Fixed remuneration	250	250	215	243	165	193	200	205	891
Incidental benefits	32	32	23	22	18	16	16	18	88
<b>Total</b>	<b>282</b>	<b>282</b>	<b>238</b>	<b>265</b>	<b>183</b>	<b>209</b>	<b>216</b>	<b>223</b>	<b>979</b>
One-year variable remuneration									
Bonus	375	326	322	n/a	248	n/a	220	n/a	326
STI 1 (EBIT)	n/a	n/a	n/a	0	n/a	0	n/a	0	0
STI 2 (EBIT per employee)	n/a	n/a	n/a	0	n/a	0	n/a	0	0
Multi-year variable remuneration									
LTI 1 Quality (3 years)	n/a	n/a	n/a	94	n/a	75	n/a	77	246
LTI 2 Options (4 years)	n/a	n/a	n/a	0	n/a	0	n/a	0	0
Other	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>375</b>	<b>326</b>	<b>322</b>	<b>94</b>	<b>248</b>	<b>75</b>	<b>220</b>	<b>77</b>	<b>572</b>
Cost of benefits	0	0	7	7	7	7	0	0	14
<b>Total remuneration acc. to GCGC (allocation)</b>	<b>657</b>	<b>608</b>	<b>567</b>	<b>366</b>	<b>438</b>	<b>291</b>	<b>436</b>	<b>300</b>	<b>1,565</b>
Share-based remuneration acc. to GCC/GAS 17 (for LTI 2 Options)	0	0	0	30	0	30	0	30	90
<b>Total remuneration acc. to GCC/GAS 17 (allocation)</b>	<b>657</b>	<b>608</b>	<b>567</b>	<b>396</b>	<b>438</b>	<b>321</b>	<b>436</b>	<b>330</b>	<b>1,655</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.

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 474 thousand (previous year: EUR 449 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 2014.

*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 Dec. 2014	30 Sep. 2014	30 June 2014	31 March 2014
<b>Management Board</b>				
Dr. Ingo Bretthauer	56,000	56,000	56,000	52,000
Bernd Lange	75,000	75,000	75,000	75,000
Kai Bentz	15,200	15,200	15,200	14,600
Dr.-Ing. Christian Bieniek	0	0	0	0
<b>Supervisory Board</b>				
Dr. Heino Büsching	10,000	10,000	10,000	10,000
Bernd Hackmann	125,600	125,600	125,600	125,600
Prof. Dr.-Ing. Erich Barke	2,000	2,000	2,000	2,000

**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. The fixed remuneration was set at EUR 40 thousand by resolution of the Annual General Meeting on 1 June 2011.

In addition, for every full financial year, each member of the Supervisory Board receives performance-based remuneration equal to EUR 1,000.00 for every EUR 0.01 by which the average of the (basic) earnings per share (EPS) for the financial year for which the remuneration is granted and the two preceding financial years exceeds a minimum amount of EUR 0.25, whereby the minimum amount increases annually by 10% p. a. for the first time on the financial year beginning on 1 January 2015. Since financial year 2013, the determination of earnings per share has been based on the (basic) earnings per share (EPS) calculated in accordance with International Financial Reporting Standards and reported in the adopted consolidated financial statements. This variable remuneration is limited to the amount of the basic remuneration.

According to the consolidated financial statements certified on 23 March 2015 by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, the (basic) consolidated earnings per share amount to EUR 0.38 per share. This results in the variable remuneration payable as shown in the following table: A dividend of EUR 0.25 per share was paid in 2014 for the 2013 financial year based on the regulation above, resulting in variable remuneration of EUR 63 thousand for the Supervisory Board.

The payments made to members of the Supervisory Board were as follows:

EUR thsd.		Dr. Heino Büsching (Chairman)	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2014	80	60	40	180
	2013	80	60	40	180
Variable remuneration	2014	31	31	31	93
	2013	21	21	21	63
Total remuneration	2014	111	91	71	273
	2013	101	81	61	243

#### *Supervisory Board members*

Dr. Heino Büsching (Chairman)	Lawyer/tax consultant at CMS Hasche Sigle, Hamburg, Germany
Bernd Hackmann (Deputy Chairman)	Chairman of the Supervisory Board of Viscom AG, Hannover, Germany Member of the Supervisory Board of SLM Solutions Group AG, Lübeck, Germany previously: Deputy Chairman on the Advisory Board of SLM Solutions GmbH, Lübeck, Germany
Prof. Dr.-Ing. Erich Barke	President of Gottfried Wilhelm Leibniz University Hannover, Germany (until December 2014) Chairman of the Supervisory Board of TEWISS – Technik und Wissen GmbH, Garbsen, Germany (until December 2014) 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 Metropolregion Hannover Braunschweig Göttingen Wolfsburg GmbH, Hannover, Germany (until December 2014) Solvay GmbH, Hannover, Germany