

## REMUNERATION REPORT

### Compensation of the Management Board

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

The system of Management Board remuneration at LPKF Laser & Electronics AG is set up to provide an incentive for successful and sustainable corporate management.

*Remuneration of the Management Board is performance-based*

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 for individual members of the Management Board, particularly in connection with health 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 thereafter. 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.

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.

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 included an additional long-term remuneration component, LTI 3 (Long-term EBIT), which is intended to replace STI 2 in future. 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). As a rule, the STI 1 remuneration component is only paid if Group EBIT amounts to at least EUR 9 mil-

lion (floor). This floor will be replaced by an EBIT margin of at least 5% in the Directors' contracts from 2016 onwards. This floor was also agreed on a one-off basis for Dr. Bretthauer for the 2017 financial year to establish the same targets for all members of the Management Board when calculating remuneration.

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.

#### Value of the benefits in the reporting period

The Management Board of LPKF Laser & Electronics AG opted to forgo the performance-based elements of their remuneration for the 2016 financial year. Members of the Management Board are thus making a personal contribution to the ongoing cost reduction measures at LPKF.

The remaining benefits for the 2016 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 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
	2015	2016	(Min)	(Max)	2015	2016	(Min)	(Max)	2015	2016	(Min)	(Max)	2015	2016	(Min)	(Max)	
EUR thsd.																	
Fixed remuneration <sup>1</sup>	325	325	325	325	243	243	243	243	203	213	213	213	210	210	210	210	991
Incidental benefits	38	40	40	40	22	23	23	23	18	20	20	20	20	20	20	20	103
<b>Total</b>	<b>363</b>	<b>365</b>	<b>365</b>	<b>365</b>	<b>265</b>	<b>266</b>	<b>266</b>	<b>266</b>	<b>221</b>	<b>233</b>	<b>233</b>	<b>233</b>	<b>230</b>	<b>230</b>	<b>230</b>	<b>230</b>	<b>1,094</b>
<b>One-year variable remuneration</b>																	
STI 1 (EBIT)	152	152	0	203	94	94	0	156	79	79	0	138	79	79	0	158	404
STI 2 (EBIT per employee)	49	49	0	81	38	38	0	63	32	32	0	55	32	n/a	n/a	n/a	119
<b>Multi-year variable remuneration</b>																	
LTI 1 Quality (3 years)	73	73	0	122	56	56	0	94	47	47	0	83	47	47	0	79	223
LTI 2 Options 2015 (4 years)	66	n/a	n/a	n/a	33	n/a	n/a	n/a	33	n/a	n/a	n/a	33	n/a	n/a	n/a	n/a
LTI 2 Options 2016 (4 years)	n/a	50	0	150	n/a	25	0	75	n/a	25	0	75	n/a	25	0	75	125
LTI 3 Long-term EBIT (3 years)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	55	0	79	55
Other																	
<b>Total</b>	<b>340</b>	<b>324</b>	<b>0</b>	<b>556</b>	<b>221</b>	<b>213</b>	<b>0</b>	<b>388</b>	<b>191</b>	<b>183</b>	<b>0</b>	<b>351</b>	<b>191</b>	<b>206</b>	<b>0</b>	<b>391</b>	<b>926</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>703</b>	<b>689</b>	<b>365</b>	<b>921</b>	<b>493</b>	<b>486</b>	<b>273</b>	<b>660</b>	<b>419</b>	<b>423</b>	<b>240</b>	<b>591</b>	<b>421</b>	<b>436</b>	<b>230</b>	<b>621</b>	<b>2,034</b>

1 According to the contracts, the cost of benefits is 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 are stated in the table below. The waiver by the Management Board members of their performance-based remuneration components in financial year 2016 does not result in allocations from the one-year variable remuneration components or from multi-year variable remuneration since none of the plan terms of LTI 2 ended in the reporting period. 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 1,108 thousand (2015: EUR 1,462 thousand) for their activities in the 2016 financial year, EUR 1,094 thousand of which can be attributed to fixed remuneration components, including incidental benefits, that were fully paid out in the 2016 reporting period.

A total of EUR 0 thousand can be attributed to variable remuneration components.

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
	2015	2016	2015	2016	2015	2016	2015	2016	
EUR thsd.									
Fixed remuneration	325	325	243	243	203	213	210	210	991
Incidental benefits	38	40	22	23	18	20	20	20	103
<b>Total</b>	<b>363</b>	<b>365</b>	<b>265</b>	<b>266</b>	<b>223</b>	<b>233</b>	<b>230</b>	<b>230</b>	<b>1,094</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)	117	0	94	0	79	0	79	0	0
LTI 2 Options (4 years)	0	0	0	0	0	0	0	0	0
Other									
<b>Total</b>	<b>117</b>	<b>0</b>	<b>94</b>	<b>0</b>	<b>79</b>	<b>0</b>	<b>79</b>	<b>0</b>	<b>0</b>
Cost of benefits	0	0	7	7	7	7	0	0	14
<b>Total remuneration acc. to GCGC (allocation)</b>	<b>480</b>	<b>365</b>	<b>366</b>	<b>273</b>	<b>307</b>	<b>240</b>	<b>309</b>	<b>230</b>	<b>1,108</b>
Share-based remuneration acc. to GCC /GAS 17 (for LTI 2 Options)	66	0	33	0	33	0	33	0	0
<b>Total remuneration acc. to GCC /GAS 17 (allocation)</b>	<b>551</b>	<b>365</b>	<b>399</b>	<b>273</b>	<b>340</b>	<b>240</b>	<b>342</b>	<b>230</b>	<b>1,108</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 511 thousand (previous year: EUR 520 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 2016.

#### *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. 2016	30 Sep. 2016	30 June 2016	31 March 2016
<b>Management Board</b>				
Dr. Ingo Bretthauer	60,000	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. 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 from 1 January 2017 was set at EUR 32 thousand by resolution of the Annual General Meeting on 2 June 2016.

By resolution of the Annual General Meeting on 2 June 2016, there will no longer be any performance-based remuneration starting with the financial year beginning on 1 January 2016.

The remuneration of the Supervisory Board is as follows:

EUR thsd.		Dr. Heino Büsching (Chairman)	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2016	80	60	40	180
	2015	80	60	40	180
Variable remuneration	2016	0	0	0	0
	2015	2	2	2	6
Total remuneration	2016	80	60	40	180
	2015	82	62	42	186

#### Supervisory Board members

Dr. Heino Büsching  
(Chairman) Lawyer / tax consultant at CMS Hasche Sigle  
Partnerschaft von Rechtsanwälten und Steuerberatern mbB, Hamburg,  
Germany

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

Prof. Dr.-Ing. Erich Barke Retired professor of Leibniz University Hannover, Germany  
previously: 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