www.lpkf.com/en/investor-relations/corporate-governance/

See corporate governance report on page 30.

CORPORATE GOVERNANCE DECLARATION

The corporate governance declaration pursuant to Section 289a HGB is part of the combined management report. The declaration is available for the public on **LPKF AG'S WEBSITE** and included in the corporate governance report on **PAGES 30–33** of the annual report.

DISCLOSURES RELATED TO ACQUISITIONS

The takeover-related disclosures required under Section 289a (1) and Section 315a (1) German Commercial Code are shown below.

On 31 December 2018 LPKF AG's share capital was EUR 24,496,546.00. The share capital is made up of 24,496,546 no-par value ordinary bearer shares (unit shares). No preferred shares have been issued. One no-par share represents a pro-rata interest of EUR 1.00 in the share capital. The rights and duties under the no-par shares comply with the relevant requirements of the German Stock Corporation Act, specifically, in Sections 12, 53a ff., 118 ff. and 186. Both the exercising of voting rights and the transfer of shares are subject solely to statutory limits.

Direct or indirect interests in the share capital exceeding 10% of the voting rights are disclosed in the consolidated notes.

The regulations on appointing and dismissing members of the Management Board, as well as on amending the Articles of Incorporation, comply with the respective requirements of both the German Stock Corporation Act and the Articles of Incorporation. Complementing Sections 84 and 85 of the German Stock Corporation Act, Article 7 of the Company's Articles of Incorporation governs the Management Board's composition as follows: The Management Board shall comprise at least two members. Deputy members of the Management Board may be appointed. They have the same rights as the regular members of the Management Board when representing the Company vis-à-vis third parties. The Supervisory Board shall determine the number of both regular and deputy members of the Management Board and appoint them, enter into director's contracts with them as well as dismiss them. Likewise, the Supervisory Board may also appoint a member of the Management Board to serve as its chairperson or speaker and appoint additional Management Board members to serve as deputy chairpersons or speakers.

Under Sections 133 and 179 German Stock Corporation Act, in conjunction with Article 25 (1) of the Company's Articles of Incorporation, the latter may only be amended by resolution of the Annual General Meeting, which must be adopted by the simple majority of the share capital represented at the Meeting unless larger majorities are required by law. The Supervisory Board is authorized under Article 12 (2) of the Articles of Incorporation to make amendments that affect solely the given wording.

REMUNERATION REPORT

CHANGES TO THE MANAGEMENT BOARD

In April 2018, the Supervisory Board decided that, going forward, the Management Board would consist of one Chairman of the Management Board (CEO) and one Chief Financial Officer (CFO). In its meeting on 3/15/2018, the Supervisory Board appointed Dr. Götz M. Bendele as the new Chairman of the Management Board. His term of office began on 1 May 2018. On 9/1/2018 Mr. Christian Witt was appointed to the Management Board with responsibility for finance. In both cases the contracts are for three years.

Accordingly, Mr. Lange, Mr. Bentz and Dr. Bieniek retired from the company in 2018.

BASIC FEATURES OF THE NEW REMUNERATION SYSTEM

On 20 March 2018 the Supervisory Board agreed on changes to the remuneration system for the members of the Management Board with the aim of aligning the interests of the shareholders and those of the Management Board more closely. This means that the Management Board's remuneration is closely linked to an increase of Company value. In addition, the new system is strongly oriented towards return on investment, cash flow and long-term value increase. It combines profitability, liquidity and sustainable growth targets and is capital-market oriented.

Criteria for Management Board remuneration appropriateness include the responsibilities of the respective Management Board members, personal performance, the economic position, success, future prospects and sustainable development 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 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 a higher incentive for committed and successful work. The new remuneration system was approved at the Annual General Meeting on 31 May 2018 with a majority of 92% and was applied for the first time for Chairman of the Management Board Dr. Götz M. Bendele and Management Board member Christian Witt in 2018.

The remuneration structure consists of a fixed basic remuneration, two short-term and one long-term variable elements, as well as incidental benefits (benefits in kind). As stipulated in the German Stock Corporation Act and the Corporate Governance Code, the higher proportion of the remuneration is allotted to the variable remuneration elements, which have a predominantly perennial assessment base.

NONPERFORMANCE 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, health and care insurance contributions and, for Management Board member Christian Witt, a contractually agreed contribution towards trips home.

PERFORMANCEBASED COMPONENTS

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

Remuneration element Options (LTI) is designed as a Long Term Incentive and remuneration element ROCE (STI 1) and Cash flow (STI 2) are designed as Short Term Incentives (STI). The variable remuneration elements are based on different performance indicators in order to incentivize a swift reorientation of the Company and to reward sustainable value creation in particular. The LTI, STI 1, and STI 2 remuneration components are based on ambitious targets, independent of budget planning, whose achievement is decisive for the amount of the remuneration component in question.

SHORT TERM INCENTIVES (STI)

STI 1 corresponds to performance indicator ROCE. Payment for STI 1 is made in cash for the relevant financial year after approval of the consolidated financial statements. The amount of STI 1 is graded depending on target achievement; a payment is only made if a minimum ROCE value of 8% (floor) is achieved. The target value is a ROCE of 18% and the cap is 30%. There is no linear interpolation between the target levels.

STI 2 corresponds to the ratio of cash flow to total capital. Payment for this performance indicator is also made in cash following approval of the consolidated financial statements in the following year. The amount of STI 2 is graded, the target value is 13%, the floor is 8% and the cap is 21%. There is no linear interpolation between the individual grading values.

If there is a negative ROCE or cash flow the following year, this loss will subsequently be taken into consideration and STI 1 and STI 2 reassessed in light of the negative ROCE and/or cash flow. Any overpayments will be repaid by the Management Board members. In addition, extraordinary developments as defined in the contracts will not be included in the calculation of STI 1 and STI 2.

LONG TERM INCENTIVE (LTI)

A long-term bonus plan has been created as LTI (Options) and is a value-oriented performance target. 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 are the development of the LPKF Group value added and the share price performance. LTI is therefore directly tied to the achievement of profitable growth and a long-term increase in Company value. The RCE value used is identical to the target value in STI 1.

In detail, LTI is designed as follows: Fictitious shares, known as phantom stocks, are granted to the Management Board members annually in a contractually stipulated amount. The number of phantom stocks corresponds to the individual amount stated, divided by the average closing price of LPKF shares in the first quarter of the year the shares are being allotted. The scheme runs for 3 years. Once this performance period elapses, the beneficiaries will be entitled 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 number of originally allocated phantom stocks by a performance factor that is dependent on the average value added 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 thirty trading days before the end of the relevant performance period. This is capped at four times the amount to be granted, the maximum shown in the benefits table. The final number of phantom stocks is limited to a maximum of 200% of the allocated phantom stocks. Advance payments are not available. There is no minimum agreed bonus either.

BASIC FEATURES OF THE OLD REMUNERATION SYSTEM

The previous LPKF Laser & Electronics AG Management Board remuneration system has been in use since 2014 and applies to Management Board members Kai Bentz, Dr. Christian Bieniek and Bernd Lange until their retirement in the 2018 financial year.

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

The variable performance-based 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) is designed as a short-term incentive (STI). The LTI 1, LTI 3, and STI remuneration components are based on targets whose achievement is decisive for the amount of the remuneration component in question.

SHORT TERM INCENTIVES (STI)

STI is calculated based on the corporate planning approved prior to the beginning of a given financial year, in which the target for EBIT is 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 table shows the maximum target attainment (maximum) if the planned aggressive scenario is exceeded by at least 20%. 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)

LTI 1 (Quality), which will run for three years, is measured by the Group error rate. The aim is to lower the error rate 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.

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. Fictitious shares, known as phantom stocks, are allocated to the Management Board members in a contractually stipulated amount. 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. Once a four-year performance period elapses, 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 limited to three times the allocated value. 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.

Remuneration component LTI 3 (long-term EBIT) is 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.

VALUE OF THE BENEFITS IN THE REPORTING PERIOD

The benefits for the 2018 reporting period, split between old and new Management Boards, are presented in the tables 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 in the old remuneration system and the amount to be granted is stated for LTI Options.

BENEFITS GRANTED (PLAN)

	Dr. Götz M. Bendele Chairman of the Management Board since 5/1/2018			
in EUR thousand	2017	**2018**	(Min)	(Max)
Fixed remuneration	n/a	160	160	160
Incidental benefits	n/a	8	8	8
Total	n/a	**168**	168	168
One-year variable remuneration				
STI 1 ROCE	n/a	33	0	100
STI 2 Cash flow	n/a	33	0	86
Multi-year variable remuneration				
LTI Options 2018 (3 years)	n/a	50	0	200
Number of phantom stocks (in shares)	n/a	5.550	0	11.100
Other				
Total	n/a	**116**	0	386
Cost of benefits	n/a	0	0	0
Total remuneration	n/a	**284**	168	554

BENEFITS GRANTED (PLAN)

	Bernd Lange Management Board CTO until 12/31/2018			
in EUR thousand	2017	**2018**	(Min)	(Max)
Fixed remuneration**	243	243	243	243
Incidental benefits	24	22	22	22
Total	267	**265**	265	265
One-year variable remuneration				
STI 1 EBIT	150	150	0	188
Multi-year variable remuneration				
LTI 1 Quality (3 years)	75	75	0	94
LTI 2 Options 2017 (4 years)	25	n/a	n/a	n/a
LTI 2 Options 2018 (4 years)	n/a	25	0	75
LTI 3 Long-term EBIT (3 years)	75	75	0	94
Other				
Other contractual remuneration*	n/a	0	0	0
Total	325	**325**	0	450
Cost of benefits**	7	7	7	7
Total remuneration	599	**597**	272	722

* Contractual remuneration until the end of the employment contract.
** According to the contracts, the cost of benefits is part of fixed remuneration.

Christian Witt Chief Financial Officer since 9/1/2018					Total
2017	**2018**	(Min)	(Max)		**2018**
n/a	67	67	67		227
n/a	7	7	7		15
n/a	**74**	74	74		**242**
n/a	17	0	50		50
n/a	17	0	43		50
n/a	22	0	87		72
n/a	2.405	0	4.810		7.955
n/a	**56**	0	180		**172**
n/a	0	0	0		0
n/a	**130**	74	254		414

Kai Bentz Management Board CFO until 8/31/2018				Dr. Christian Bieniek Management Board COO until 8/31/2018				Total
2017	**2018**	(Min)	(Max)	2017	**2018**	(Min)	(Max)	**2018**
213	142	142	142	210	140	140	140	525
19	13	13	13	22	15	15	15	50
233	**155**	155	155	232	**155**	155	155	**575**
132	88	0	110	126	84	0	105	322
66	44	0	55	63	42	0	53	161
25	n/a	n/a	n/a	25	n/a	n/a	n/a	
n/a	17	0	50	n/a	17	0	50	59
66	44	0	55	63	42	0	53	161
n/a	86	38	106	n/a	127	77	154	213
289	**279**	38	376	277	**312**	77	414	**916**
7	6	6	6	0	0	0	0	13
528	**440**	199	537	509	**467**	232	569	**1,504**

BENEFITS RECEIVED FOR THE REPORTING PERIOD

In compliance with the recommendations of the GCGC, the benefits received for the reporting period and the previous-year period are stated in the table below.

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.

Total remuneration as per GCC/GAS 17 also includes the allotment value of the share-based remuneration from LTI Options as of the grant date, even though new Management Board members will not receive payment for this in the 2018 financial year. A hypothetical payment amount corresponds to the amount to be paid on attainment of the target at the end of the scheme.

BENEFITS RECEIVED (ACTUAL)

	Dr. Götz M. Bendele Chairman of the Management Board since 5/1/2018		**Christian Witt** Chief Financial Officer since 9/1/2018		Total
in EUR thousand	2017	**2018**	2017	**2018**	**2018**
Fixed remuneration	n/a	160	n/a	67	227
Incidental benefits	n/a	8	n/a	7	15
Total	n/a	**168**	n/a	**74**	**242**
One-year variable remuneration					
STI 1 ROCE	n/a	0	n/a	0	0
STI 2 Cash flow	n/a	0	n/a	0	0
Multi-year variable remuneration					
LTI Options 2018 (3 years)	n/a	0	n/a	0	0
Other					
Total	n/a	**0**	n/a	**0**	**0**
Cost of benefits	n/a	0	n/a	0	0
Total remuneration as per GCGC (benefits received)	n/a	**168**	n/a	**74**	**242**
Share-based remuneration as per GCC/GAS 17 (for LTI Options 2018)	n/a	10	n/a	5	15
Total remuneration as per GCC/GAS 17 (benefits received)	n/a	**178**	n/a	**79**	**257**

BENEFITS RECEIVED (ACTUAL)

	Bernd Lange Management Board CTO until 12/31/2018		Kai Bentz Management Board CFO until 8/31/2018		Dr. Christian Bieniek Management Board COO until 8/31/2018		Total
in EUR thousand	2017	**2018**	2017	**2018**	2017	**2018**	**2018**
Fixed remuneration**	243	243	213	142	210	140	525
Incidental benefits	24	22	19	13	22	15	50
Total	267	**265**	232	**155**	232	**155**	**575**
One-year variable remuneration							
STI 1 EBIT	0	78	0	46	0	43	167
Multi-year variable remuneration							
LTI 1 Quality (3 years)	0	21	0	12	0	12	45
LTI 2 Options (4 years)	0	6	0	4	0	4	
LTI 3 Long-term EBIT (3 years)	0	38	0	23	0	22	83
Other							
Other contractual remuneration*	n/a	0	n/a	59	n/a	98	157
Total	0	**143**	0	**144**	0	**179**	**466**
Cost of benefits**	7	7	7	6	0	0	13
Total remuneration as per GCGC (benefits received)	274	**415**	239	**305**	232	**334**	**1,054**
Share-based remuneration as per GCC/GAS 17 (for LTI 2 options)	0	0	0	0	0	0	0
Total remuneration as per GCC/GAS 17 (benefits received)	274	**415**	239	**305**	232	**334**	**1,054**

* Contractual remuneration until the end of the employment contract.
** According to the contracts, the cost of benefits is part of fixed remuneration.

The members of the Management Board in office in 2018 were paid total remuneration of EUR 1,296 thousand (2017: EUR 1,017 thousand). EUR 932 thousand of which can be attributed to fixed remuneration components (including incidental benefits) that were fully paid out in the 2018 reporting period.

The variable remuneration components account for EUR 351 thousand. EUR 333 thousand of this became due after the consolidated financial statements were approved by the Supervisory Board and will be paid in April 2019.

COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD UPON TERMINATION

A post-contractual non-competition clause for a period of twelve months after departure is in place for members of the Management Board irrespective of the termination was ordinary or extraordinary.

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 three-month period for new members of the Management Board and for a six-month period for old members of the Management Board.

Separate agreements were made with Kai Bentz and Dr. Christian Bieniek to settle their employment relationships. For this reason, there are payments for the settlement of claims resulting from the remaining contractual period ("other contractual remuneration") to the value of EUR 157 thousand. These comprise payment of fixed salary including benefits and pro-rata variable remuneration following the end of the appointment on 31 August to the end of the employment contract on 10/31/2018 for Kai Bentz and on 12/31/2018 for Dr. Christian Bieniek. No severance payments were made.

The Company has not made any performance-oriented pension commitments to the current members of its Management Board in the 2018 financial year. Contracts regarding a company pension were closed with the members of the Management Board, Kai Bentz and Bernd Lange. These are defined-contribution commitments from salary conversion. No provisions for pensions are required in this case.

TOTAL REMUNERATION OF FORMER MEMBERS OF THE MANAGEMENT BOARD

Provisions were recognized for EUR 573 thousand (previous year: EUR 535 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 2018.

In addition, non-competition payments to the value of EUR 163 thousand were paid to former Chairman of the Management Board Dr. Ingo Bretthauer in 2018 as part of his post-contractual non-competition agreement. According to the contractual agreement, this corresponds to 50% of the last ordinary monthly base salary paid.

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 Annual General Meeting dated 2 June 2016, the fixed basic remuneration of each member of the Supervisory Board was set at EUR 32 thousand effective 1 January 2017.

The remuneration of the Supervisory Board is as follows:

in EUR thousand	**2018**	2017
Dr. Markus Peters (Chairman)	64	25
Dr. Heino Büsching (Deputy Chairman until 5/31/2018)	20	61
Prof. Dr.-Ing. Erich Barke (Deputy Chairman from 6/1/2018)	41	32
Dr. Dirk Rothweiler	32	18
Total	**157**	136

SUPERVISORY BOARD MEMBERS

Dr. Markus Peters (Chairman)
- Head of Finance and Investment of German Technology AG, Hannover, Germany
- Member of the Board of Directors for LPKF Distribution Inc., Portland, USA

Dr. Heino Buesching (Deputy Chairman until 5/31/2018)
- Lawyer/tax consultant at CMS Hasche Sigle, Partnerschaft von Rechtsanwälten und Steuerberatern mbB, Hamburg, Germany

Prof. Dr.-Ing. Erich Barke (Deputy Chairman from 6/1/2018)
- Retired professor of Leibniz 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

Dr. Dirk Rothweiler
- CEO of First Sensor AG, Berlin, Germany

FINAL MANAGEMENT BOARD DECLARATION CONCERNING THE REPORT ON RELATIONS WITH AFFILIATED COMPANIES AS PER SECTION 312 OF THE GERMAN STOCK CORPORATION ACT.

We hereby declare that LPKF AG received an appropriate payment for each of the legal transactions listed in the report on its relations with affiliated companies according to the circumstances that were known to us at the time that the legal transactions were performed. Other measures subject to mandatory disclosure have neither been taken nor omitted.

AFFIRMATION BY THE LEGAL REPRESENTATIVES (RESPONSIBILITY STATEMENT)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Garbsen, Germany, 20 March 2019

Dr. Götz M. Bendele　　Christian Witt