Information on Item 7 of the agenda of the Annual General Meeting of LPKF Laser & Electronics AG on May 31, 2018

Written report by the Management Board in accordance with Sections 203 (2) sentence 2 and 186 (4) sentence 2 German Stock Corporation Act (Aktiengesetz) regarding agenda item 7 on the reasons for authorizing the Management Board to exclude shareholders' subscription rights when utilizing the authorized capital

LPKF Laser & Electronics

The Annual General Meeting on June 5, 2014 authorized the Management Board to increase the Company's share capital once or several times with the approval of the Supervisory Board by up to EUR 11,134,794.00 by issuing up to a total of 11,134,794 new no-par value bearer shares in return for contributions in cash and/or in kind. This authorization has not been utilized to date. The current authorization expires on June 4, 2019 and therefore probably before the Annual General Meeting in 2019. In view of this, new authorized capital is to be created in good time that is largely similar to the current authorized capital as regards content, but which will be limited to 25% of the share capital in terms of volume. The option to exclude shareholders' subscription rights in the event of capital increases from authorized capital will once again be limited to a total of 10% of the share capital, taking into account shares that will be issued or sold on the basis of another authorization with exclusion of shareholders' subscription rights.

The Management Board and Supervisory Board therefore propose to the Annual General Meeting with regard to agenda item 7 that new authorized capital of up to EUR 5,567,397.00 be created. This corresponds to 25% of the Company's current share capital. To ensure flexibility, it will be possible to use the authorized capital for both cash capital increases and capital increases through contributions in kind.

In the case of capital increases from authorized capital, shareholders of the Company in principle have subscription rights. The shares can also be taken over by one or more banks or companies specified by the Management Board within the meaning of Section 186 (5) sentence 1 German Stock Corporation Act (Aktiengesetz) with an obligation to offer them to shareholders for subscription ("indirect subscription right").

However, the Management Board will also be authorized, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders

- to exclude fractional amounts from shareholders’ subscription rights;
- if the new shares are issued in return for cash contributions and the issue price of the new shares is not significantly lower than the stock exchange price of the shares currently listed when the issue price is finally determined. The number of shares issued with such exclusion of shareholders’ subscription rights may not exceed a total of 10% of the share capital, neither at the time when this authorization takes effect nor when it is exercised. Other shares that were issued or sold during the period in which this authorization is in effect with exclusion of shareholders’ subscription rights in direct or corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz) are to be counted toward this upper limit of 10% of the share capital. Shares that are issued to service option rights and/or conversion rights or conversion obligations from convertible bonds or bonds with warrants or profit participation rights are also to be counted toward this limit if such debt securities or profit participation rights are issued during the period in which this authorization is in effect with exclusion of shareholders’ subscription rights in corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz);
- if the capital increase is carried out in return for contributions in kind for the purpose of acquiring entities, business divisions, equity investments, other assets related to an intended acquisition or in connection with mergers or for the purpose of acquiring industrial property rights, including copyrights and know-how or rights to use such rights;
- to the extent it is necessary to grant subscription rights for new shares to the bearers or creditors of bonds with warrants and convertible bonds or profit participation rights with option rights or conversion rights and/or conversion obligations that were or will be issued by the Company or companies in which the Company directly or indirectly owns 100% of the shares in the volume to which they would be entitled after exercising the option rights or conversion rights or after the option or conversion obligations are fulfilled;

- if the new shares are issued to individuals who are in an employment relationship with the Company or one of its affiliated companies (employee shares). The number of shares thus issued with exclusion of shareholders' subscription rights may not exceed a proportionate amount of the share capital in the total amount of EUR 200,000.00.

The authorization to exclude shareholders' subscription rights shall be limited insofar as after exercising the authorization the sum of shares issued with exclusion of shareholders' subscription rights in exchange for contributions in cash and/or in kind under this authorized capital may not exceed a total of 10% of the share capital, neither at the time that this authorization takes effect nor when it is exercised. The following count toward the aforementioned 10% limit:

- treasury shares that are sold during the period in which this authorization is in effect with exclusion of shareholders' subscription rights, as well as
- new shares that are to be issued on the basis of bonds with warrants or convertible bonds or profit participation rights issued during the period in which this authorization is in effect with exclusion of shareholders' subscription rights and
- new shares that are issued during the period in which this authorization is in effect on the basis of any other authorized capital with exclusion of shareholders' subscription rights.

The Management Board has submitted the following report in accordance with Sections 203 (2) sentence 2 and 186 (4) sentence 2 German Stock Corporation Act (Aktiengesetz) regarding this authorization to exclude shareholders' subscription rights with the approval of the Supervisory Board:

(1) Exclusion of subscription rights for fractional amounts

Firstly, it shall be possible to exclude subscription rights for fractional amounts. This authorization serves to ensure that a practicable subscription ratio can be shown with regard to the amount of the respective capital increase. Without excluding subscription rights with regard to fractional amounts, the technical implementation of a capital increase would become considerably more difficult, particularly in the case of a capital increase involving a round sum. The Company will do its best to sell new shares to which shareholders' subscription rights are excluded because they constitute fractional amounts, either by selling them via the stock market or in other ways. For these reasons, the Management Board and Supervisory Board believe that the authorization to exclude subscription rights is appropriate.

(2) Exclusion of subscription rights when the issue price of the new shares is not significantly lower than the stock exchange price and the shares issued in this way with exclusion of subscription rights do not exceed 10% of the share capital in total

It shall also be possible to exclude subscription rights if the new shares in accordance with Sections 203 (1) and 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz) are issued in exchange for cash at an amount that is not significantly lower than the stock exchange price and if the total proportionate amount of the share capital attributable to the issued shares does not exceed 10% of the share capital, either at the time that this authorization takes effect or when it is exercised. The authorization enables the Company to meet its capital requirements in the short term and thus to take advantage of market opportunities quickly and flexibly. Excluding subscription rights allows the Company to act very quickly without having to go through the process associated with subscription rights, which is more costly and time-consuming, and enables it to place the shares close to the stock exchange price, i.e. without the discount that is usual with issues in which subscription rights apply. The Company is also able to attract new investors in Germany and abroad with such capital increases. When utilizing the authorization, the Management Board shall – with the approval of the Supervisory Board – set the discount on the stock exchange price as low as is possible based on the prevailing market conditions at the time that the issue price is finally determined. The discount on the stock exchange price shall on no account exceed 5% of the stock exchange price.

The scope of a cash capital increase with exclusion of subscription rights in accordance with Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz) is also limited to 10% of the share capital at the time the authorization comes into effect or, if lower, at the time the authorization to exclude subscription rights is exercised. Those shares that were issued or sold during the period in which this authorization is in effect with exclusion of shareholders’ subscription rights in direct or corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz), e.g. treasury shares, are to be counted toward this limit of 10%. Shares that are issued to service option rights and/or conversion rights or conversion obligations from convertible bonds or bonds with warrants or profit participation rights are also to be counted toward this limit if such debt securities or profit participation rights are issued during the period in which the authorization is in effect with exclusion of shareholders’ subscription rights in corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz). This limit takes into account the shareholders' need to protect their shareholdings against dilution. As the new shares are placed close to the stock exchange price, each shareholder can purchase shares on the market at almost the same conditions in order to maintain the percentage of shares held.

(3) Exclusion of subscription rights in the case of capital increases through contributions in kind

In addition, there shall be an option to exclude shareholders' subscription rights insofar as a capital increase through contributions in kind is carried out for the purpose of acquiring entities, business divisions, equity investments or other assets related to an intended acquisition or in connection with mergers. This gives the Company the necessary scope to take advantage of opportunities that arise to acquire other companies, equity investments or divisions of companies, as well as opportunities for mergers and to acquire other material assets that are important to the Company and assets related to an intended acquisition, quickly, flexibly and in a way that protects liquidity, to improve its competitive position and strengthen its profitability. It shall also be possible to exclude shareholders' subscription rights insofar as a capital increase through contributions in kind is carried out for the purpose of acquiring industrial property rights, including copyrights and know-how or rights to use such rights. This is also intended to enable the Company to acquire such rights quickly, flexibly and in a way that protects liquidity in order to improve its competitive position.

The amount of consideration that must be provided in return for such transactions is often very high, which means that it should not or cannot be provided in cash. The owners of attractive companies or other attractive acquisition objects (including the aforementioned rights) often also demand shares in the buyer's company that carry voting rights as consideration. To ensure that the Company can also acquire such companies or other acquisition objects, it must be able to offer shares as consideration. As such acquisitions usually take place at short notice, they cannot generally be resolved upon by the Annual General Meeting, which as a rule is held only once a year. This requires the creation of authorized capital that the Management Board – with the approval of the Supervisory Board – can access quickly. In such cases, the Management Board shall ensure when stipulating the pricing ratios that the interests of shareholders are adequately protected. In doing this, the Management Board shall bear in mind the stock exchange price of shares in the Company. The Management Board shall utilize this authorization only if it is in the Company's best interests to exclude subscription rights in the individual case. There are no specific acquisition plans at present for which the Company intends to utilize the option to carry out capital increases through contributions in kind with exclusion of shareholders' subscription rights in accordance with the proposed authorization.

(4) Exclusion of subscription rights to the extent it is necessary in order to grant subscription rights for new shares to the bearers or creditors of bonds with warrants and convertible bonds or profit participation rights with option or conversion rights and/or conversion obligations in the volume to which they would be entitled after exercising the option rights or conversion rights or after the option or conversion obligations are fulfilled

Furthermore, it shall be possible to exclude subscription rights to the extent it is necessary in order to grant subscription rights for new shares to the bearers or creditors of bonds with warrants and convertible bonds or profit participation rights issued by the Company or its wholly owned subsidiaries or sub-subsidiaries at the time that the authorized capital is utilized in the volume to which they would be entitled after exercising the option rights or conversion rights or after an option or conversion obligation arising from these bonds is fulfilled. To make it easier to place bonds and/or profit participation rights on the capital market, the corresponding option or bond conditions generally include protection against dilution. One option for protecting against dilution is to grant the bearers or creditors of bonds or profit participation rights a subscription right to new shares in subsequent share issues in the same volume to which shareholders are entitled. That will put them in the same position as if they were already shareholders. To be able to provide bonds or profit participation rights with such protection against dilution, shareholders' subscription rights must be excluded for new shares. This serves to make it easier to place bonds/profit participation rights, and thus serves the shareholders' interests in ensuring an optimum financing structure for the Company.

Alternatively, only the option or conversion price could be reduced, insofar as the option, bond or profit participation conditions allow this, for the purposes of protecting against dilution. However, this would be more complicated and costly for the Company to implement. It would also reduce the inflow of capital from the exercising of option and conversion rights and obligations. It would also be possible to issue bonds or profit participation rights without protection against dilution. However, these would be considerably less attractive to the market. At the time of convening the Annual General Meeting taking place on May 31, 2018, LPKF Laser & Electronics AG has not issued any bonds with warrants and/or convertible bonds and/or profit participation rights.

(5) Exclusion of subscription rights if the new shares are issued to individuals who are in an employment relationship with the Company or one of its affiliated companies (employee shares)

It shall also be possible to exclude subscription rights if the new shares are issued to individuals who are in an employment relationship with the Company or one of its affiliated companies (employee shares). The number of shares thus issued with exclusion of shareholders' subscription rights may not exceed a proportionate amount of the share capital in the total amount of EUR 200,000.00. This allows shares to be used as a remuneration component for employees of the Company or its affiliated companies and encourages employees to participate in the Company's share capital, thereby strengthening employees' identification with the Company in the interests of the Company and its shareholders. Issues of employee shares are therefore intended to be used in individual cases as a means of rewarding and motivating employees. The limit on the proportionate amount of the share capital to a total of EUR 200,000.00 takes into account the shareholders' need to protect their shareholdings against dilution.

(6) Utilization of authorizations, limiting the exclusion of subscription rights to a total of 10% of the share capital

Furthermore, the Management Board is authorized to exclude shareholders' subscription rights in accordance with (1) to (5) above when utilizing the authorized capital only insofar as the proportionate amount of the share capital attributable to shares issued on the basis of this authorization with exclusion of shareholders' subscription rights does not exceed a total of 10% of the share capital, either at the time that this authorization takes effect or when it is exercised. The following count toward the aforementioned 10% limit:

- treasury shares that are sold during the period in which this authorization is in effect with exclusion of shareholders' subscription rights, as well as
- new shares that are to be issued on the basis of bonds with warrants or convertible bonds or profit participation rights issued during the period in which this authorization is in effect with exclusion of shareholders' subscription rights and

- new shares that are issued on the basis of any other authorized capital during the period in which this authorization is in effect with exclusion of shareholders’ subscription rights.

This capital limit restricts the total volume of a share issue without subscription rights. In this way, shareholders receive additional protection against dilution of their shareholdings.

The Management Board and Supervisory Board will consider carefully in each individual case whether to utilize one of the authorizations to carry out a capital increase with exclusion of shareholders' subscription rights. This option will be utilized only if the Management Board and the Supervisory Board believe it is in the best interests of the Company and thus of its shareholders.

The Management Board shall inform the next Annual General Meeting of any utilization of the above authorizations to exclude subscription rights.

Garbsen, in April 2018

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