Information on Item 8 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 221 (4) and 186 (4) sentence 2 German Stock Corporation Act (Aktiengesetz) regarding agenda item 8 on the reasons for authorizing the Management Board to exclude shareholders' subscription rights when issuing bonds with warrants and/or convertible bonds

LPKF
Laser & Electronics

The Management Board and Supervisory Board propose to the Annual General Meeting with regard to agenda item 8 that authorization should be granted to issue bonds with warrants and/or convertible bonds (referred to collectively as "bonds") up to a total nominal amount of EUR 80,000,000.00 and that associated contingent capital of up to EUR 5,567,397.00 should be created by issuing up to 5,567,397 new no-par value bearer shares. If this authorization is fully utilized, bonds could be issued that would grant subscription rights (or obligations) on up to 25% of the current share capital. The option to exclude shareholders' subscription rights when issuing bonds will be limited to shares representing a total of 10% of the share capital, taking into account shares that are issued or sold on the basis of another authorization with exclusion of shareholders' subscription rights.

The proposed authorization to issue bonds in exchange for cash is intended to offer the Company, in addition to the classic options for raising external capital or equity, the option to use attractive financing alternatives on the capital market depending on the market situation. Issuing bonds allows the Company to raise external capital that can be classified as equity or as similar to equity both for rating purposes and for accounting purposes, depending on how the bond conditions are structured. The option/conversion premiums achieved and the inclusion in equity benefit the Company's capital base. The envisaged options for establishing option or conversion obligations as well as granting option or conversion rights extend the scope for structuring these financing instruments. The authorization is intended to enable the Company to issue bonds itself or through Group companies based in Germany or abroad in which the Company directly or indirectly owns 100% of shares and to utilize the German or international capital market by being able to issue these bonds not only in euros but also in the legal currency of an OECD country.

The option/conversion price for shares purchased when option or conversion rights are exercised must, except in cases where an option or conversion obligation, a substitution right or a right to tender of the bond issuer for the delivery of shares is envisaged, amount to at least 80% of the stock exchange price of no-par value bearer shares in the Company, calculated close to the time at which the bonds with option or conversion rights are issued. The possibility of adding a premium (which can increase depending on the term of the bond) means that the bond conditions can take into account the prevailing situation on the capital market at the time the bonds are issued. In cases where there is an option or conversion obligation, a substitution right or a right to tender of the bond issuer for the delivery of shares, the option or conversion price for the new shares, in accordance with the more detailed provisions of the bond conditions, must amount to at least either the above minimum price or the volume-weighted average stock exchange price of shares in the Company at close of trade on Xetra (or a comparable successor system) on the Frankfurt Stock Exchange on the ten trading days before or after the date of maturity of the bonds, even if the aforementioned average price is below the minimum price referred to above.

Shareholders are in principle entitled to a statutory subscription right to bonds (Section 221 (4) in conjunction with Section 186 (1) German Stock Corporation Act (Aktiengesetz). To make implementation easier, it is envisaged that the bonds 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 shall be entitled to exclude the subscription rights of shareholders with the approval of the Supervisory Board for the following purposes:

- to exclude fractional amounts from shareholders’ subscription rights;

- if the bonds are issued in exchange for cash payments and the issue price of the bonds is not significantly lower than the theoretical market value of the bonds, calculated in accordance with recognized actuarial methods. The number of shares issued in order to service bonds issued in this way with 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. Shares that are 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 option or conversion obligations from bonds with warrants and/or convertible bonds and/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 on the basis of another authorization with exclusion of shareholders' subscription rights in corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz);
- to the extent it is necessary to grant subscription rights for bonds to the bearers or creditors of bonds with warrants and/or convertible bonds with option rights or conversion rights or option or conversion obligations that have previously been issued by the Company or Group companies in which the Company directly or indirectly owns 100% of the shares in the volume to which they would be entitled as shareholders after exercising the option rights or conversion rights or after the option or conversion obligations are fulfilled.

The Management Board has submitted the following report in accordance with Sections 221 (4) 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 the authorization can be utilized for round sums and that a practicable subscription ratio can be shown. Without excluding subscription rights with regard to fractional amounts, the technical implementation of bond issues would become considerably more difficult. Excluding subscription rights makes it easier in these cases to carry out issues. The Company will do its best to sell fractional amounts to which shareholders' subscription rights are excluded, 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 is not significantly lower than the theoretical market value of the bonds and the shares issued in this way with exclusion of subscription rights do not exceed 10% of the share capital in total

Furthermore, it shall be possible to exclude subscription rights if the bonds are issued in exchange for cash payments and at a price that is not significantly lower than the theoretical market value of the bonds, calculated in accordance with recognized actuarial methods.

This allows the Company to take advantage of favorable market situations very quickly and at very short notice and to obtain better conditions in terms of interest rates and option/conversion prices for bonds, by stipulating conditions that are close to the market. This would not be possible if statutory subscription rights were maintained. Section 186 (2) German Stock Corporation Act (Aktiengesetz) allows the subscription price (and, in the case of bonds, the conditions) to be published up to the third-last day of the subscription period. In view of volatility on the stock markets, however, the market risk over several days would cause safety margins to be deducted when determining the conditions for bonds, and would thus result in conditions that are less close to the market. Furthermore, maintaining statutory subscription rights would jeopardize the successful placement of the bonds with third parties or would involve additional expenses, as the extent to which these rights would be exercised would be uncertain. Ultimately, the length of the minimum subscription period of two weeks that must be observed if statutory subscription rights are maintained would prevent the Company in responding to favorable or unfavorable market conditions, which could prevent it from raising capital in the optimum way.

The interests of shareholders are protected when subscription rights are excluded in this way in corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz) by ensuring that the bonds may not be issued significantly below their theoretical market value, whereby the notional value of subscription rights drops to almost zero. Shareholders who wish to maintain their stake in the share capital can achieve this by making additional purchases via the market. In assessing the question of what issue price would correspond to the theoretical market value of the bond and would guarantee that the issue of the bonds would not lead to any significant dilution of the value of existing shares, the Management Board can obtain support from experts, e.g. by consulting the syndicate banks overseeing the issue or an expert, if it believes this is appropriate in the given situation. The issue price can also be set in a book building process if necessary.

This method of excluding subscription rights is also limited in terms of volume: the number of shares issued in order to service bonds issued in this way during the period in which this authorization is in effect with exclusion of shareholders’ subscription rights (whether on the basis of this authorization or another authorization) may not exceed a total of 10% of the share capital, neither at the time when this authorization takes effect nor, if lower, when it is exercised. The proportionate amount of the share capital attributable to shares that, during the period in which this authorization is in effect, are either issued on the basis of an authorization for the Management Board to exclude shareholders’ subscription rights in direct or corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz) or sold as purchased treasury shares in corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz), is to be counted toward the aforementioned upper limit of 10% of the share capital. By counting these shares toward the limit, it shall be ensured that no bonds are issued if this would cause shareholders' subscription rights to be excluded in direct or corresponding application of Section 186 (3) sentence 4 German Stock Corporation Act (Aktiengesetz) for more than 10% of the share capital in total.

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

Finally, it shall be possible to exclude subscription rights to the extent it is necessary in order to grant subscription rights for bonds to bearers or creditors of bonds with warrants and/or convertible bonds issued by the Company or its Group companies upon utilization of the authorization, in the volume to which they would be entitled after exercising the option rights or conversion rights or after an option or conversion obligation is fulfilled. To make it easier to place bonds on the capital market, the corresponding bond conditions shall generally include protection against dilution. One option for protecting against dilution is to grant the bearers or creditors of bonds a subscription right to bonds in subsequent 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 with such protection against dilution, shareholders' subscription rights must be excluded for the bonds. This serves to make it easier to place bonds, 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 bond 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/or conversion rights or the fulfillment of option and/or conversion obligations. It would also be possible to issue bonds without protection against dilution. However, these would be considerably less attractive to the market.

Shareholders have the option to maintain their stake in the Company's share capital by making additional purchases of shares via the stock market at any time, even after option or conversion rights or obligations have been exercised. On the other hand, the authorization to exclude subscription rights allows the Company to stipulate conditions that are close to the market, gives it maximum certainty with regard to placements with third parties and enables it to take advantage of favorable market situations at short notice.

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

In addition, in the interests of shareholders the authorizations to exclude subscription rights outlined under (1) to (3) above are limited to a total of 10% of the Company's share capital at the time this authorization takes effect or, if lower, when it is exercised, taking into account all other authorizations to exclude subscription rights. This capital limit provides shareholders with additional protection against dilution of their shareholdings. In calculating this capital limit, the Management Board shall also take into account any issues of new shares or sales of treasury shares and of bonds or profit participation rights with option or conversion rights and/or option or conversion obligations that take place on the basis of other authorizations granted to the Management Board with exclusion of subscription rights of shareholders during the period in which this authorization is in effect.

There are no specific plans at present to exercise the authorization to issue bonds. Corresponding anticipatory resolutions granting the option to exclude subscription rights are usual in Germany and other countries. The Management Board and Supervisory Board will consider carefully in each individual case whether to utilize one of the authorizations to issue bonds 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 in each case of any utilization of the above authorizations to exclude subscription rights.

Garbsen, in April 2018

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