

REMUNERATION REPORT

Basic features of the remuneration system

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.

The amount of the remuneration of the members of the Management Board is contingent on the Company's size and activities, its economic and financial situation as well as the responsibilities of each individual member of the Management Board. 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 overall remuneration comprises a 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 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.

Furthermore, for the 2013 financial year the Chairman of the Management Board and the other members of the Management Board are also paid variable performance-based remuneration that gives them 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.

Remuneration of the Management Board in 2013

The current members of the Management Board were paid total remuneration of EUR 2,098 thousand (2012: EUR 1,653 thousand) for their activities in the 2013 financial year.

EUR thsd.		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek	Total
Fixed remuneration	2013	250	215	165	200	830
(Non-performance-based fixed salary)	2012	250	210	160	17	637
Benefits*	2013	32	23	18	16	89
	2012	32	22	17	1	72
One-year variable remuneration	2013	375	322	248	220	1,165
(Provision for performance-based	(Min.)	0	0	0	150	150
remuneration)	(Max.)	375	322	248	300	1,245
	2012	375	315	240	0	930
Performance-based remuneration	2013	0	0	0	0	0
(Supplementary payments/ reversals of provisions)	2012	0	0	0	0	0
Cost of benefits	2013	0	7	7	0	14
	2012	0	7	7	0	14
Total remuneration	2013	657	567	438	436	2,098
	2012	657	554	424	18	1,653

* In particular, the benefits comprise the use of a company car for official and private purposes, as well as insurance contributions, especially in connection with health insurance.

THE OVERALL REMUNERATION
COMPRISES A FIXED COMPONENT
AND VARIABLE PERFORMANCE-
BASED COMPONENTS.

New remuneration system for the Management Board from 2014

Since 1 January 2014, Management Board members Kai Bentz, Dr.-Ing. Christian Bieniek, and Bernd Lange have received variable remuneration components in accordance with the new remuneration system developed by the Supervisory Board, which is designed partly as a long-term incentive (LTI) and partly as a short-term incentive (STI). With effect from 1 January 2015, this remuneration system will also be agreed with the Chief Executive Officer.

The quality (LTI 1) and options (LTI 2) remuneration components are designed as a long-term incentive.

The EBIT (STI 1) and EBIT per employee (STI 2) remuneration components are designed as a short-term incentive. 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.

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

For 2014, the table below shows the maximum and minimum values as well as the expected value of the variable remuneration components for the Management Board members already participating in the new remuneration system:

EUR thsd.		Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek
Fixed remuneration (Non-performance-based fixed salary)		250	200	205
STI 1 (EBIT)	Expected value	94	75	77
	Maximum	156	125	128
	Minimum	0	0	0
STI 2 (EBIT per employee)	Expected value	38	30	31
	Maximum	63	50	51
	Minimum	0	0	0
LTI 1 (quality)	Expected value	56	45	46
	Maximum	94	75	77
	Minimum	0	0	0
LTI 2 (options)	Amount to be granted	25	25	25
	Maximum	75	75	75
	Minimum	0	0	0
Total	Expected value	463	375	384
	Maximum	638	525	536
	Minimum	250	200	205

STI 1 and 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 expected value shown in the table and, under the defensive scenario, a target achievement of 0%. 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 LASER & ELECTRONICS AG.**

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. 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.

Fictitious shares, known as phantom stocks, will be granted to the regular Management Board members 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 contingent on 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. 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. This is capped at three times the amount to be granted, the maximum shown in the table. 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.

At the end of a given financial year, the Company will make advance payments towards LTI 1 (quality) and LTI 2 (options) based, respectively, on the level of target achievement of the error rate and the amount paid out at the end of the financial year in accordance with the terms and conditions of the long-term bonus plan. If the advance payments exceed the entitlement to variable remuneration under LTI 1 and LTI 2, the Management Board members will be required to pay the excess.

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 pension commitments to the current members of its Management Board. Pension contracts were closed with the members of the Management Board, Kai Bentz and Bernd Lange; the Company makes contributions toward these contracts that are part of their fixed remuneration. 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 449 thousand (previous year: EUR 438 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 15 thousand) in pensions was paid to a former member of the Management Board in 2013.

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. 2013 ____ 30 Sept. 2013 ____ 30 June 2013 _ 31 March 2013*

Management Board

Dr. Ingo Bretthauer	52,000	52,000	52,000	25,000
Bernd Lange	75,000	75,000	95,020	47,510
Kai Bentz	14,600	14,600	21,600	10,300
Dr.-Ing. Christian Bieniek	0	0	0	0

Supervisory Board

Dr. Heino Büsching	10,000	10,000	10,000	5,000
Bernd Hackmann	125,600	125,600	125,600	62,800
Prof. Dr.-Ing. Erich Barke	2,000	2,000	2,000	1,000

* Figures before capital increase

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. The Supervisory Board is also paid variable remuneration based on the dividend for the respective financial year just ended. The variable component cannot be specified at this time because it has not been determined to date whether a dividend will be paid for the 2013 financial year and in what amount. A dividend of EUR 0.50 per share was paid in 2013 for the 2012 financial year, resulting in variable remuneration of EUR 138 thousand for the Supervisory Board (previous year: EUR 108 thousand).

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

EUR thsd.		Bernd Hildebrandt (Chairman until 31 May 2012)	Dr. Heino Büsching (Chairman from 31 May 2012)	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2013	0	80	60	40	180
	2012	33	72	35	40	180
Variable remuneration	2013	19	46	27	46	138
	2012	36	36	0	36	108
Total remuneration	2013	19	126	87	86	318
	2012	69	108	35	76	288

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
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

Chairman of the Supervisory Board of TEWISS – Technik
und Wissen GmbH, Garbsen, 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

Metropolregion Hannover Braunschweig Göttingen

Wolfsburg GmbH, Hannover, Germany

Solvay GmbH, Hannover, Germany