



Information on Item 3 and 4 of the agenda of the Annual General Meeting of LPKF Laser & Electronics AG on June 6, 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) similar to the partial utilization of the 2018 authorized capital in exchange for contributions in cash, excluding shareholders' subscription rights***

On the basis of the authorized capital adopted by the Annual General Meeting of LPKF Laser & Electronics Aktiengesellschaft ("Company") on May 31, 2018, and entered on June 27, 2018, in the Commercial Register, in accordance with Section 4 Para. 6 of the Articles of Association of the Company, the Management Board was authorized to increase the share capital once or several times until May 30, 2023, with the approval of the Supervisory Board by up to a total of EUR 5,567,397.00 by issuing up to 5,567,397 new, no-par value bearer shares in return for contributions in cash and/or in kind (2018 authorized capital).

The Management Board was also authorized, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders, including in the event that 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 should not exceed a total of 10% of the share capital, neither at the time when this authorization takes effect nor when it is exercised.

### **(1) Utilization of the authorization**

Based on the authorization in accordance with Section 4 Para. 6 of the Articles of Association of the Company, the Management Board resolved on August 16, 2018, with the approval of the Supervisory Board of the same day, to increase the share capital of the Company of EUR 22,269,588.00, divided into 22,269,588 no-par value bearer shares, by EUR 2,226,958.00 through the issue of 2,226,958 new no-par value bearer shares with a pro rata amount of the share capital of EUR 1.00 each ("New Shares") to EUR 24,496,546.00 through the partial utilization of the 2018 authorized capital as part of the capital increase in exchange for contributions in cash. The Management Board also resolved on August 16, 2018, with the approval of the Supervisory Board of the same day, that the subscription rights of the shareholders are excluded due to the authorization in Section 4 Para. 6 of the Articles of Association of the Company in accordance with Sections 203 Para. 1 and 186 Para. 3 Sentence 4 AktG.

The volume of the capital increase from the approved capital under exclusion of the subscription rights is equivalent to a pro rata amount of the share capital of the Company of 10% of the share capital – both in relation to the time of the entry into effect of the 2018 authorized capital on June 27, 2018, and in relation to the time of the utilization of the available share capital of the Company. The volume limitation for shares issued in exchange for contributions in cash under exclusion of subscription rights provided for in the 2018 authorized capital is thus complied with. The other measures imputable to this volume limitation were not previously carried out by the Company.

Mr. Jörg Bantleon was approved for the subscription and takeover of the New Shares in exchange for a contribution in cash; at that time, this gentleman already held 20% of the voting rights to the company, directly and indirectly. This was preceded by negotiations between the Company and Mr. Bantleon. On August 16, 2018, Mr. Bantleon made a binding commitment to the Company to subscribe new shares from a capital increase for a volume of maximum 10% of the share capital, up to a maximum overall placement price of approximately EUR 16.2 million. Furthermore, he granted the Company additional external financing approval for EUR 20 million at standard market conditions in the event of the successful execution of such a capital increase, pending the approval of his person for subscription.

The issue price set by the Management Board on August 16, 2018, with the approval of the Supervisory Board of the same day, equivalent to the placement price, was EUR 7.275 per New Share. The gross issue proceeds from the capital increase were therefore around EUR 16.2 million. Thanks to the cash inflow, the Company gained sufficient financial leeway, including for investments in profitable growth. Furthermore, the Company has used the issue proceeds for debt reduction.

The Management Board also resolved on August 16, 2018, with the approval of the Supervisory Board of the same day, that the New Shares will pay dividends as of January 1, 2018. Accordingly, upon being issued, the New Shares were equipped with the same profit-sharing rights as the existing shares.

On August 31, 2018, the execution of the capital increase was entered in the Commercial Registry and on September 4, 2018, the New Shares were authorized to the regulated market of the Frankfurt Securities Exchange and to the section of the regulated market with other authorization obligations (Prime Standard) of the Frankfurt Securities Exchange and, on September 5, 2018, added to the existing listing of listed shares of the Company (ISIN: DE0006450000).

## **(2) Price determination**

For price determination, the requirements of Sections 203 Para. 1 and 186 Para. 3 Sentence 4 AktG were taken into account, compliance with which is required by the 2018 authorized capital for the exclusion of subscription rights for a capital increase in exchange for contributions in cash of a scope of up to 10% of the share capital. Therefore, the price for New Shares may not be significantly lower than the stock exchange price of Company shares.

The determined issue and placement price amount for each New Share of EUR 7.275 included a discount of approximately 3.5% on the XETRA closing price of the LPKF share as of August 15, 2018, which is the day prior to the announcement of the capital increase.

XETRA trading is essentially where the highest trading revenues of the Company share are generated; for this price determination, the closing price in XETRA trading on the day before the announcement of the capital increase thus represents a timely representative price and is therefore a suitable reference point for price determination. Accordingly, the discount was significantly under 5% and thus within the framework generally recognized as permissible.

## **(3) Reasons for the exclusion of the subscription right**

In their decision to exclude the subscription right of shareholders and approve Mr. Jörg Bantleon for subscription of the New Shares during the partial utilization of the 2018 authorized capital or its approval, the Management Board and the Supervisory Board have also taken in account the principle of equal treatment of shareholders in accordance with Section 53a AktG in addition to the requirements of Sections 203 Para. 1 and 186 Para. 3 Sentence 4 AktG. The unequal treatment of shareholders in the form of an allocation of New Shares to an existing shareholder is only permissible if it is justified by reasonable, objective reasons in the corporate interest of the company and if said allocation is not done in an arbitrary or abusive manner.

After in-depth examination, the Management Board and the Supervisory Board are convinced that strong, objective reasons in the corporate interest of LPKF Laser & Electronics AG justified the allocation to Mr. Bantleon and made the executed exclusion of the subscription of shareholders necessary:

In August 2018, the Company had existing debt financing through a bank consortium that included loan contracts for around EUR 10 million and lines of credit for around EUR 31 million. The existing debt financing was guaranteed through a collateral pooling agreement, on the basis of which many measures of the Company could be subject to the approval of the banks. As part of the ongoing credit relationships, confidential negotiations between the Company and the bank consortium took place, during the course of which the banks demanded the external support of certain, from the point of view of the Company, necessary and time-critical operational measures through a corporate consultancy to be selected in coordination and agreement with the banks. After a consensual selection of the corporate consultancy, the Management Board was unexpectedly faced with, from

its point of view, inappropriate fee demands, which were presented as non-negotiable, for this project support. This was deemed unacceptable for the company – especially since it had itself the necessary operational expertise that was required. In this situation, the Management Board had to examine alternative financing options on very short notice in order to strengthen the negotiating position of the Company overall, also in light of existing deadlines, to expand the existing financial room for maneuver and to ensure that the timely implementation of operational measures deemed necessary was not in any way compromised.

Through the full acquisition of all shares from a potentially cash capital increase of maximum 10% to be concluded with issue proceeds of approximately EUR 16.2 million by Mr. Bantleon, combined with his debt financing approval for another EUR 20 million, the Company received the necessary financial leeway to be able to reorganize and optimize the financing structure in the interest of the Company, if necessary. Due to this, the negotiating position of the Company toward the bank consortium was strengthened to such an extent that both significant additional financial burdens for the commissioning of a corporate consultancy for the support of upcoming measures could be avoided and, in particular, operational measures deemed necessary from the point of view of the company could be implemented faster. The allocation to Mr. Bantleon without incurring a placement risk served transaction security, was necessary from the point of view of the Management Board for the successful and short-term implementability of the capital increase and was overall necessary in order to give the Company the required financial leeway quickly with alternative financing options (issue proceeds from the capital increase plus debt financing approval).

In their decision regarding the exclusion of the subscription right of shareholders and the exclusive allocation to Mr. Bantleon, the Management Board and the Supervisory Board have critically and carefully weighed that Mr. Bantleon, through a full subscription of the New Shares from the capital increase, would hold a probable share of approximately 28.8% of the voting rights to the company and would, in the future, most likely have a quorum presence majority at the Annual General Meeting. In light of the facts above, the Management Board and the Supervisory Board deemed the company interest in the successful execution of the capital measure to be overriding as part of its considerations.

Incidentally, with the exclusion of the subscription right of shareholders, the Company has made use of the legally provided possibility of subscription right exclusion for cash capital increases of listed companies as per Sections 203 Para. 1 and 186 Para. 3 Sentence 4 AktG. Through a market-consistent price determination, the market situation at the time of the partial utilization of the 2018 authorized capital, favorable from the point of view of the Management Board and the Supervisory Board, could be used at short notice and the highest possible issue proceeds achieved. In contrast, the subscription period of at least two weeks required when granting a subscription right (Section 186 Para. 1 Sentence 2 AktG) would not have permitted a short-term reaction to current market conditions. Added to that is the fact that, when granting a subscription right, the final subscription price must be announced, at the latest, three days before the expiration of the subscription period (Section 186 Para. 2 Sentence 2 AktG). Due to the longer period between price determination and the processing of the capital increase, along with the volatility of the equity markets, there is therefore a higher market risk, and especially price development risk, than with an allocation without subscription rights. For the price determination, successful placement in the context of a capital increase with subscription right would therefore have required a corresponding security discount on the current stock exchange price and thus likely would not have led to market-consistent conditions.

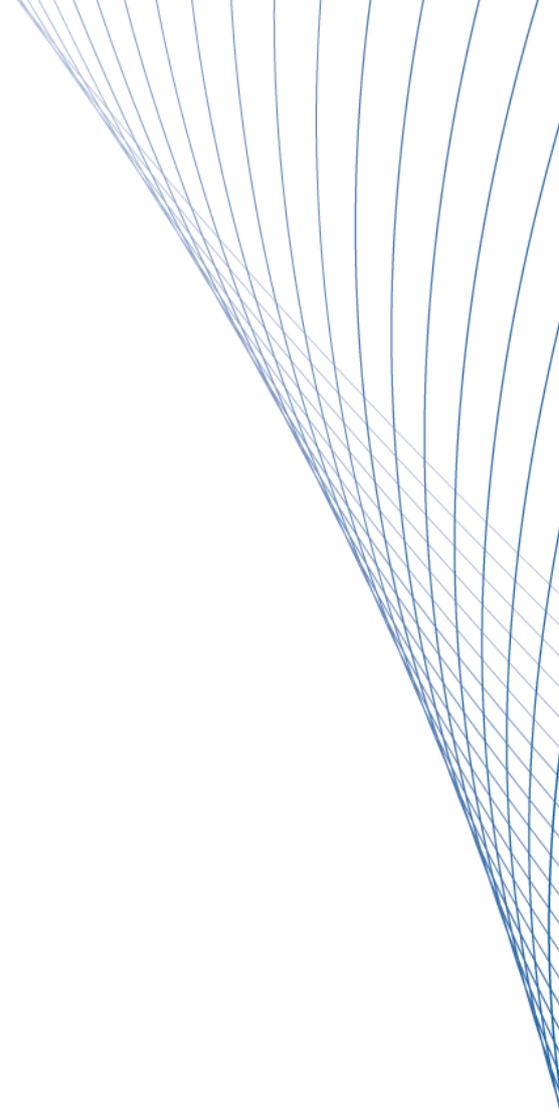
Using the price determination close to the current stock exchange price and the limitation to 10% of the share capital of the shares issued under exclusion of the subscription right, the interests of the shareholders were also suitably protected. Due to the liquid stock exchange trade, shareholders fundamentally have the opportunity to maintain their relative participation in the company with an additional purchase on the stock exchange at similar conditions.

Given the considerations above, the exclusion of the subscription right carried out in compliance with 2018 authorized capital requirements and statutory requirements was, overall, objectively justified.

Garbsen, in April 2019

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