

Information on Item 10 of the agenda of the Annual
General Meeting of LPKF Laser & Electronics AG on May
20, 2021

*Written report by the Management Board regarding agenda item 10 of the
Annual General Meeting on the reasons for authorizing the Management Board
to disapply the pre-emption right for capital increases from the authorized
capital*

The Annual General Meeting on May 31, 2018, authorized the Management Board, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions by up to EUR 5,567,397.00 by issuing new bearer shares in return for contributions in cash or in kind. To date, EUR 2,226,958.00 of this authorization has been utilized. The current authorization, which runs through May 30, 2023, will be repealed and replaced with a new authorization. The new authorized capital will largely be in line with the previous authorized capital in terms of content, and the volume will be limited to 20% of the share capital. The option of disapplying pre-emption rights from the authorized capital during capital increases will once again be limited to 10% of the share capital, taking account of shares that are to be issued or sold on the basis of a different authorization while disapplying pre-emption rights.

Therefore, for agenda item 10 the Management Board and the Supervisory Board propose to the Annual General Management the creation of new authorized capital of up to EUR 4,899,309.00. For reasons of flexibility, the authorized capital should be utilized for both cash and in-kind capital increases.

Company shareholders generally have a right of pre-emption for capital increases from the authorized capital. The shares can also be acquired by one or more banks or companies determined by the Management Board as defined in Section 186, para. 5, sentence 1 AktG with a commitment to offer them to shareholders for subscription (so-called indirect pre-emption right).

However, the Management Board shall also be authorized, with the approval of the Supervisory Board, to disapply the pre-emption rights of shareholders

- to exclude fractional amounts from shareholders' pre-emption 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 while thus disapplying shareholders' pre-emption rights may not exceed a total of 10% of the share capital, either when this authorization enters into effect or when it is exercised. Other shares that are issued or were sold during the period in which this authorization is in effect while disapplying shareholders' pre-emption rights in direct or corresponding application of Section 186, para. 3, sentence 4 AktG 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 while disapplying shareholders' pre-emption rights in corresponding application of Section 186, para. 3, sentence 4 AktG;
- if the capital increase is carried out in exchange 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 expertise or rights to use such rights;
- if it is necessary to grant subscription rights for new shares to the bearers or creditors of bonds with warrants and/or 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 holds a direct or indirect 100% interest in the volume to which they would be entitled after exercising the option rights or conversion rights or after conversion obligations are fulfilled;
- if the new shares are issued to individuals who are in an employment relationship with the Company or its affiliated companies (employee shares). The number of shares issued while disapplying shareholders' pre-emption rights may not exceed a pro-rata interest in the share capital in the total amount of EUR 200,000.00.

The authorization to disapply shareholders' pre-emption rights shall be limited insofar as after exercising the authorization the sum of shares issued while disapplying shareholders' pre-emption rights in exchange for contributions in cash or in kind under this authorized capital may not exceed a total of 10% of the share capital, either when this authorization enters into effect or when it is exercised. The following count toward the aforementioned 10% limit:

- own shares that are sold during the period in which this authorization is in effect while disapplying shareholders' pre-emption rights, as well as
- new shares that are to be issued on the basis of convertible bonds or bonds with warrants or profit participation rights issued during the period in which this authorization is in effect while disapplying shareholders' pre-emption rights and
- new shares issued during the period in which this authorization is in effect on the basis of other permitted authorized capital while disapplying shareholders' pre-emption rights.

The Management Board provides the following report pursuant to Sections 203, para. 2, sentence 2, 186, para. 4, sentence 2 AktG on this authorization to disapply shareholders' pre-emption rights with the approval of the Supervisory Board:

(1) Disapplication of the pre-emption right for fractional amounts

It shall initially be possible to disapply the pre-emption right for fractional amounts. The aim of this authorization is to ensure that a practical pre-emption ratio can be presented in terms of the amount of the respective capital increase. Without the disapplication of the pre-emption right for fractional amounts, technical implementation of the capital increase would be significantly more difficult, especially for a capital increase involving round amounts. The fractions of new shares disapplying from shareholders' pre-emption rights will be sold to the Company's greatest possible advantage either via the stock exchange or in some other way. For this reason, the Management Board and the Supervisory Board view the authorization to disapply pre-emption rights as appropriate.

(2) Disapplication of the pre-emption right when the issue amount of the new shares is not significantly lower than the stock exchange price and shares issued in this way, disapplying the pre-emption right, do not amount to a total of more than 10% of the share capital

The pre-emption right shall also be disapplying when the new shares, pursuant to Sections 203, para. 1, 186, para. 3, sentence 4 AktG, are issued in exchange for contributions in cash that are not significantly lower than the stock exchange price, and when the total proportionate amount of the share capital is not less than 10% of the share capital, either when the authorization enters into effect or when it is exercised. The authorization enables the Company to meet its capital needs even at short notice and in this way to take advantage of market opportunities quickly and flexibly. The disapplication of the pre-emption right enables it to act very quickly without the costly and time-consuming process involved in issues with pre-emption rights and makes it possible to issue the shares close to the stock exchange price, i.e. without the discount that is standard for pre-emption issues. In addition, such capital increases will also enable the Company to attract new investors in Germany and abroad. 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 possible based on the prevailing market conditions when the issue price is set definitively. The discount on the stock exchange price shall on no account exceed 5% of the stock exchange price.

The scope of the cash capital increase, disapplying the pre-emption right pursuant to Section 186, para. 3, sentence 4 AktG, is also limited to 10% of the share capital when the authorization enters into effect or, if this amount is to be lower, when the authorization to disapply the pre-emption right is exercised. Shares, such as treasury shares, that are issued or were sold during the period in which

this authorization is in effect while disapplying shareholders' pre-emption rights in direct or corresponding application of Section 186, para. 3, sentence 4 AktG 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 while disapplying shareholders' pre-emption rights in corresponding application of Section 186, para. 3, sentence 4 AktG. This limit takes account of the shareholder need for dilution protection for their shareholdings. Since the new shares are issued close to the stock exchange price, each shareholder can purchase shares on the market at almost the same conditions in order to maintain his or her ownership interest.

(3) Disapplication of the pre-emption right for capital increases in exchange for contributions in kind

The pre-emption right of shareholders may also be disappplied if the capital increase in exchange for contributions in kind is carried out for the purpose of acquiring companies, parts of companies, shareholdings in companies or other assets in connection with a planned acquisition or as part of corporate mergers. This provides the Company with the necessary flexibility to act quickly, flexibly and in a way that protects liquidity in order to take advantage of opportunities to acquire other companies, shareholdings in companies or parts of companies as well as corporate mergers, as well as to acquire other major assets for the company and assets in connection with a planned acquisition in order to improve its competitive position and strengthen its profitability. It will also be possible to disapply shareholders' pre-emption rights if the capital increase in exchange for 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.

Often, such transactions involve very high payments that no longer can or should be made in cash. The owners of attractive companies or other attractive acquisition targets (including the aforementioned rights) often request shares in the purchasing company with voting rights as a payment. The Company must be able to offer shares as payment in order to be able to acquire such companies and other acquisition targets. As such acquisitions are frequently carried out at short notice, it is generally not possible to have them approved by the Annual General Meeting, which usually only takes place once a year. This requires the creation of authorized capital, which the Management Board – with the approval of the Supervisory Board – can access quickly. In such cases, the Management Board ensures that shareholder interests are adequately protected when determining the valuation ratios. In doing so, the Management Board takes account of the stock exchange price of the Company's shares. The Management Board shall only make use of this authorization when the disapplication of the pre-emption right is in the best interests of the Company. There are currently no specific acquisitions planned that would involve the use of the option under the proposed authorization to carry out in-kind capital increases while disapplying the pre-emption right.

(4) Disapplication of the pre-emption right, if it is necessary to grant pre-emption 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 or obligations in the volume to which they would be entitled after exercising the option rights or conversion rights or after conversion obligations are fulfilled

In addition, it shall also be possible to disapply the pre-emption right, if necessary, to give bearers or creditors of bonds with warrants and convertible bonds or profit participation certificates issued by the Company or its 100% subsidiaries or sub-subsidiaries a pre-emption right to new shares such as they would be entitled to upon exercising their option or conversion rights or fulfilling their obligation to exercise their option or conversion rights based on the bonds when the authorized

capital is utilized. To make it easier to place bonds and profit participation certificates on the capital market, the corresponding option and 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 certificates a pre-emption right to new shares during 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 certificates with such protection against dilution shareholders' pre-emption right to new shares must be disapplied. This makes it easier to place bonds and profit participation certificates and thus serves the shareholders' interests in ensuring an optimum financing structure for the Company.

Alternatively, in order to protect against dilution the option or conversion price could be reduced if permitted by the option or bond and profit participation conditions. However, this is more complicated and costlier to carry out for the Company. Furthermore, it would reduce the capital inflows from the exercise of option and conversion rights or obligations. It would also be feasible to issue bonds or profit participation rights without dilution protection. But this would be substantially less attractive for the market. At the time the Annual General Meeting was convened on May 20, 2021, LPKF Laser & Electronics AG had not issued any warrant bonds and/or convertible bonds and/or profit participation certificates.

(5) Disapplication of the pre-emption right if the new shares are issued to individuals who are in an employment relationship with the Company or its affiliated (employee shares)

The pre-emption right will also be disapplied if the new shares are issued to individuals who are in an employment relationship with the Company or its affiliated companies (employee shares). The number of shares issued while disapplying shareholders' pre-emption rights may not exceed a pro-rata interest in the share capital in the total amount of EUR 200,000.00. This will enable shares to be used as a component of compensation for employees of the Company or its affiliated companies and encourage employees to participate in the Company's share capital, thus strengthening employee identification with the Company, which is in the interest of the Company and its shareholders. Issuing employee shares is therefore intended to be used in individual cases as a means of rewarding and motivating employees. The limit of a proportional amount of share capital totaling EUR 200,000.00 takes account of the shareholder need for dilution protection for their shareholdings.

(6) Utilization of the authorizations while limiting the disapplication of the pre-emption right to a total of 10% of share capital

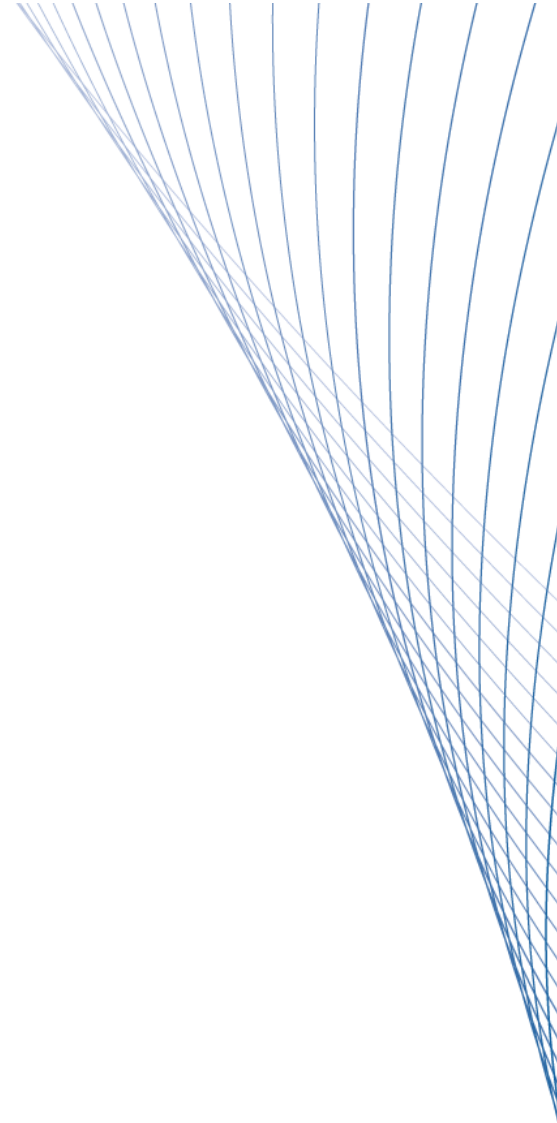
When utilizing the authorized capital, the Management Board is only authorized to disapply the pre-emption right pursuant to (1) to (5) above insofar as the proportionate amount of the share capital of the shares issued while disapplying the pre-emption right on the basis of this authorization does not exceed a total of 10% of the share capital, either when the authorization enters into effect or when it is exercised. The following count toward the aforementioned 10% limit:

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

This capital limit will restrict the total volume of shares issued with no pre-emption rights. In this way, shareholders received additional protection against the dilution of their shareholdings.

In each individual case, the Management Board and Supervisory Board will carefully review whether they need to make use of the authorizations to increase capital while disapplying shareholders' pre-emption rights. This option will only be exercised if in the view of the Management Board and the Supervisory Board doing so 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 authorization to disapply pre-emption rights.



LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Deutschland

Telefon: +49 5131 7095-0
Telefax: +49 5131 7095-90

www.lpkf.com