

Information on Item 11 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 11 of the
Annual General Meeting on the reasons for authorizing the Management Board
to disapply the pre-emption right when issuing bonds with warrants and/or
convertible bonds*

For agenda item 11, the Management Board and the Supervisory Board propose to the Annual General Meeting the authorization to issue bonds with warrants and/or convertible bonds (referred to collectively as "bonds") with a total nominal value of EUR 200,000,000.00 as well as the creation of related contingent capital of up to EUR 4,899,309.00 by issuing up to 4,899,309 new no-par value bearer shares. If this authorization is fully utilized, it would be possible to issue bonds that would grant pre-emption rights (or obligations) for up to 20% of the current share capital. The option of disapplying pre-emption rights upon the issue of bonds will be limited to a total of 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.

The proposed authorization to issue bonds against a cash payment is intended to provide the Company with the option, in addition to the traditional options of raising equity or debt capital, of taking advantage of attractive financing alternatives on the capital market depending on the market situation. Issuing bonds will enable to the Company to raise debt capital that can be classified, depending on the bond conditions, as equity capital or equity-equivalent for both rating and accounting purposes. The option and conversion premiums as well as the equity credit will benefit the Company's capital basis. The plans to establish option and conversion obligations in addition to granting option and conversion rights will expand the Company's flexibility to structure these financial instruments. The authorization is intended to enable the Company to issue bonds itself or through Group companies headquartered in Germany or abroad in which the Company holds a direct or indirect 100% interest, and to make use of the German or international capital by being able to issue the bonds in the legal currency of an OECD country in addition to euros.

The option or conversion price for the shares obtained upon the exercise of option or conversion rights must – with the exception of cases in which an option or conversion obligation, a right to substitution or a pre-emptive tender right on the part of the issuer of the bond for delivery of the shares is planned – amount to at least 80% of the exchange price of the bearer shares in the Company on or near the date that the bonds with the option or conversion rights are issued. The option of adding a premium (that can be increased depending on the term of the bond) will make it possible for the bond conditions to take account of the capital market situation when the bond is issued. In the case of an option or conversion obligation, a right to substitution or a pre-emptive tender right on the part of the issuer of the bond for delivery of the shares, the option or conversion price of the new shares must, in accordance with the more detailed provisions of the terms and conditions of the bonds, be at least the above-mentioned minimum price or the volume-weighted average exchange price of the shares in the Company in the Xetra closing auction (or a comparable successor system) on the Frankfurt Stock Exchange for the ten trading days before or after the final maturity of the bonds, even if the latter average price is less than the above-mentioned minimum price.

Shareholders generally have statutory pre-emption rights to the bonds (Section 221, para. 4 in conjunction with Section 186, para. 1 AktG). In order to make processing easier, it is planned that 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 is authorized, with the approval of the Supervisory Board, to disapply the pre-emption rights of shareholders for the following purposes:

- to exclude fractional amounts from shareholders' pre-emption rights;
- if the bonds are issued against a cash payment and the issue price of the bonds is not significantly lower than theoretical market value of the bonds as calculated using recognized financial mathematical methods. The number of shares to be issued to service the bonds that are issued while 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. 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 or conversion rights or option or conversion obligations from convertible bonds and/or bonds with warrants and/or profit participation rights are also to be counted toward this limit if such bonds or profit participation rights are issued during the term of this authorization while disapplying shareholders' pre-emption rights in corresponding application of Section 186, para. 3, sentence 4 AktG;

- if it is necessary to grant pre-emption rights to new 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 were issued by the Company or Group 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 or conversion rights or after the option or conversion obligations are fulfilled;

The Management Board provides the following report pursuant to Sections 221, para. 4, 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 the authorization is utilized using round amounts and a practical pre-emption ratio. Without the disapplication of the pre-emption right for fractional amounts, technical implementation of the bonds would be significantly more difficult. In these cases, disapplication of the pre-emption right makes the processing of the issue easier. The fractions of shares disappplied 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 price is not significantly lower than the theoretical market value 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 will also be disappplied if the bonds are issued against a cash payment and the bonds are issued at a price that is not significantly lower than theoretical market value of the bonds as calculated using recognized financial mathematical methods.

This gives the Company the opportunity to take advantage of favorable market situations quickly and at short notice, and to achieve better terms for the coupon and option or conversion price of the bond by setting market-based conditions. This would not be possible if the statutory pre-emption right were maintained. Section 186, para. 2 AktG stipulates that the subscription price (and in the case of bonds, the conditions) must be published at least three days before the end of the subscription period. However, in view of the volatility on the stock markets the market risk over the course of several days would lead to security discounts when setting the conditions of the bond and thus to less market-based conditions. Furthermore, in safeguarding the statutory pre-emption right the uncertainty regarding the extent to which this right will be exercised jeopardizes the successful placement of the bonds with third parties or imposes additional effort. Finally, the length of the minimum period of two weeks that must be maintained to safeguard the statutory pre-emption right makes it impossible to respond to favorable or unfavorable market conditions, which can lead to less than optimal capital procurement.

The interests of shareholders is safeguarded as a result of the planned disapplication of pre-emption rights in application of Section 186, para. 3, sentence 4 AktG because the bonds may not be issued at a price that is significantly lower than their theoretical market value, as a result of which the mathematical value of the pre-emption right falls almost to zero. Shareholders who wish to maintain their percentage of the share capital can do so by purchasing additional shares on the market. In assessing the question of which issue price corresponds to the theoretical market value of the bond and guarantees that the issue of the bonds does not lead to an appreciable dilution of the value of the existing shares, the Management Board can turn to experts, such as the banks assisting with the issue or specialists, when it views this as necessary in the relevant situation. When necessary, the issue price can also be set as part of a book building process.

This type of disapplication of pre-emption rights is also limited in terms of volume: The number of shares issued to service the bonds that are issued during the period of this authorization while disapplying shareholders' pre-emption rights (whether on the basis of this authorization or another authorization) may not exceed a total of 10% of the share capital, either when this authorization enters into effect or, if this amount is to be lower, when it is exercised. The proportionate amount of share capital from shares that are issued during the period in which this authorization is in effect, either on the basis of an authorization of the Management Board disapplying shareholders' pre-emption rights in direct or corresponding application of Section 186, para. 3, sentence 4 AktG or as acquired treasury shares in corresponding application of Section 186, para. 3, sentence 4 AktG, are to be counted toward this upper limit of 10% of the share capital. Doing so ensures that no bonds are issued if such issues would result in the disapplication of the pre-emption rights for more than 10% of the share capital of shareholders in direct or corresponding application of Section 186, para. 3, sentence 4 AktG.

(3) Disapplication of the pre-emption right, if it is necessary to grant pre-emption 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 after exercising the option or conversion rights or after the option or conversion obligations are fulfilled

Ultimately, it shall be possible when utilizing the authorization to disapply the pre-emption right, if necessary, to give bearers or creditors of bonds with warrants and/or convertible bonds issued by the Company or companies a pre-emption right to bonds 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. To make it easier to place bonds on the capital market, the corresponding bond conditions generally include protection against dilution. One option for protecting against dilution is to grant the bearers or creditors of bonds a pre-emption right to bonds during 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' pre-emption right to bonds must be disapplied. This makes it easier to place bonds and profit 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 bond 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 the fulfillment of option or conversion obligations. It would also be feasible to issue bonds without dilution protection. But this would be substantially less attractive for the market.

Shareholders also have the option of maintaining their percentage of the Company's share capital after the exercise of option or conversion rights or obligations by purchasing additional shares on the stock exchange at any time. By contrast, the authorization to disapply pre-emption rights enables the

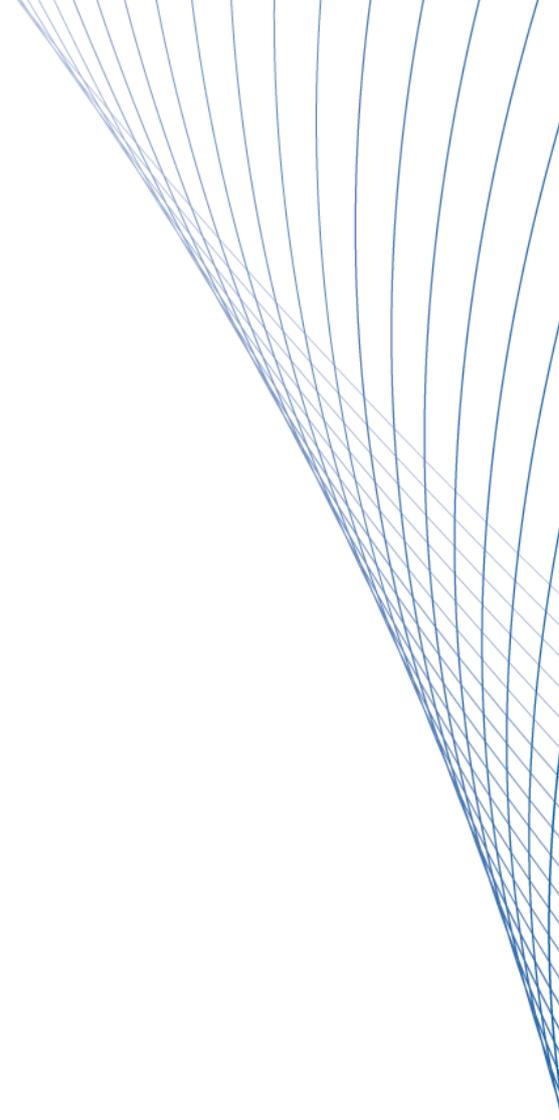
Company to set market-based conditions and ensures the greatest possible security in terms of placement with third parties and the short-term utilization of favorable market situations.

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

In addition, in the interest of shareholders the authorizations to disapply pre-emptive rights specified under (1) to (3) above and also taking account of all other authorizations are limited to a total share volume of 10% of the Company's share capital when this authorization enters into effect or, if lower, when it is exercised. This capital limit protects shareholders against the dilution of their shareholdings. In calculating this capital limit, the Management will also take account of the issue or sale of new treasury shares as well as of bonds or profit participation certificates with option or conversion rights or option or conversion obligations on the basis of another authorization granted to the Management Board, while disapplying the pre-emption rights of shareholders during the period of this authorization.

There are currently no concrete plans to exercise the authorization to issue bonds. Corresponding advance resolutions with the option of disapplying pre-emption rights are customary in Germany and internationally. In each individual case, the Management Board and Supervisory Board will carefully review whether they need to make use of the authorizations to issue bonds 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.

In each case, 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