



Lufthansa Annual General Meeting 2015

Report of the Executive Board to the AGM on agenda item 5, pursuant to secs. 203(2), sent. 2, 186(4), sent. 2 AktG

On item 5 of the agenda, a proposal is being submitted to the AGM to authorise the Executive Board, with the consent of the Supervisory Board, to raise the share capital of the Company in one or more stages by up to € 561,160,092 through the issue of new no-par value registered shares for a cash or non-cash contribution (Authorised Capital A).

The Authorised Capital A is intended to replace the current Authorised Capital A, which expires as per 28 April 2015 and of which the Company has made no use to date. The Authorised Capital A is to be available both for cash and non-cash capital increases and may also be used in part-amounts. The total amount of a nominal €561,160,092 may not be exceeded. The authorisation is to be granted for the term of five years permitted by statute, ie until expiry of 28.04.2020.

The amount of the Authorised Capital A of a nominal €561,160,092 proposed under agenda item 5 is equivalent to some 47.4% of the current share capital. The absolute amount of the new Authorised Capital A is therefore exactly equivalent to the Authorised Capital A expiring on 28 April 2015. The maximum amount of 50% stipulated by sec. 202(3) AktG of the share capital existing at the time of the authorisation is not being exhausted in full – even if the currently extant Authorised Capital B (employee shares) is added. The assessment of the level of the Authorised Capital A is to ensure, eg, that major company acquisitions, too, can be financed, be it for cash or for shares.

The Authorised Capital A is intended to enable the Company to take quick and flexible action without having to wait for the annual or an extraordinary general meeting. The availability of financing instruments independent of the timing of the AGM is of special importance, since the point in time when the required funding must be obtained cannot always be determined in advance. Moreover, any transactions to be performed in competition with other companies can often only be made successfully if there are assured financing instruments available when negotiations commence already. Legislators have done justice to companies' resulting needs and given incorporated companies the possibility of authorising management – time-limited and limited in amount – to increase their share capital without a further AGM resolution.

It should be possible to use the Authorised Capital A both for general purposes and for separate purposes not yet foreseeable in concrete terms at the time of the authorising AGM. Hence, the creation of the new Authorised Capital A is designed to retain the Company's flexibility to deploy this type of financing and to increase its share capital.

In the utilisation of the Authorised Capital A, shareholders must as a general rule be granted a subscription right. However, the Company is to be given a possibility of excluding shareholders' subscription rights when issuing new shares, specifically in the following cases:

- If the shares are issued against cash payment and at an issue price that is not significantly below the market price, provided that the increase amount does not exceed 10% of the existing share capital neither at the time of the authorisation taking effect nor at the time of its exercise.

This authorisation enables the Company to make quick and flexible use of any market opportunities in its various business fields and cover capital needs for this at very short notice, for instance in the issue of new shares to one or more institutional investors or in order to tap new circles of investors. By dispensing with the time-consuming and costly handling of subscription rights, any equity-capital needs in market opportunities that arise at short notice could be covered in very near-real time, higher issue proceeds could be obtained for the benefit of the Company and additional new shareholder groups won inside and outside Germany. When making use of the authorisation, the Executive Board will fix the markdown from the market price as low as is possible in the light of the market conditions prevailing at the time of placement. The markdown from the market price at the time of using the Authorised Capital must not be significant. Furthermore, the subscription-right exclusion must not exceed 10% of the share capital at the time of the grant of the authorisation, at the time of its taking effect or at the time of its being exercised. Thanks to these stipulations, shareholders' protection needs are taken into account in harmony with the provisions of statute regarding any dilution of their shareholding. With the issue price of the new shares being close to the market price and with the limits to the volume of subscription-right-free capital increase, every shareholder can, in principle, acquire the shares necessary to maintain his percentage holding on virtually the same conditions via the stockmarket. This being so, it is ensured that – in compliance with the statutory evaluation under sec. 186(3), sent. 4 AktG – both the asset and the voting-right interests are adequately safeguarded in any use made of the Authorised Capital in exclusion of subscription rights, while opening up for the Company further scope for action in the interest of all shareholders.

- To exclude fractional amounts from subscription rights in the issue of shares. In this way, fractional amounts arising from the subscription ratio can be excluded to facilitate processing.

This exclusion of subscription rights is general and usual, but also objectively justified, since the costs of trading subscription rights in the case of fractional amounts is in no reasonable ratio to the advantage for the shareholders, and a dilution effect is hardly noticeable owing to the limitation to such fractional amounts. The new shares excluded from shareholders' subscription rights as free fractions are either sold via the stock exchange or realised in the best-possible manner for the Company.

- In the issue of shares in favour of holders of bonds with warrant or conversion rights/obligations issued by the Company or its Group companies.

The object in this case is to avoid having to reduce the price of the bonds with warrants attached or convertible bonds in line with the so-called dilution-protection clauses of the warrant/convertible-bond conditions. Rather, the holders of bonds with warrant or conversion rights/obligations, too, are to be granted a subscription right on the scale that would be due to them after exercising their warrant or conversion rights and/or after meeting their conversion obligations.

- In the case of shares issued against non-cash contributions, specifically to acquire companies, business units, interests in companies or other assets or claims to the

acquisition of assets, incl receivables from the Company or its Group companies or for the purpose of mergers.

This possibility of excluding subscription rights permits shares to be issued also as consideration for company acquisition projects or other assets and for mergers. National and international competition is increasingly calling for this form of financing acquisitions or mergers, all the more so since the seller is frequently also interested in receiving shares in the acquiring company as consideration, since this may be more advantageous for him. In many cases, very high consideration must be paid for such measures. Such consideration often cannot, or is not to, be made in money – especially from the standpoint of an optimal financing structure. Thus, the possibility of offering own shares as consideration creates an advantage in the competition for interesting acquisition targets and attractive assets. In addition, it may be in the Company's and, hence also the shareholders', strategic interest to win over the seller of an acquisition target as shareholder. Finally, such a financing measure may also spare the Company's liquidity.

Hence, the proposed authorisation is intended to enable the Company to make flexible and low-cost use of opportunities for acquiring companies or other assets in the shareholders' and the Company's interest. Since a capital increase in the case of such measures must often be made at short notice, it is not usually possible to have it adopted by the Annual General Meeting. Rather, Authorised Capital for this reason is needed which the Executive Board can access quickly.

- Where shares are issued to pay a so-called scrip dividend whereby shareholders are offered the alternative of contributing their claim to a dividend as an (either complete or partial) non-cash contribution to the Company in return for being granted new shares under the Authorised Capital A.

A scrip dividend may, of course, be paid as genuine subscription-right issue, specifically where the provisions of sec. 186(1) *AktG* (minimum subscription period of two weeks) and sec. 186(2) *AktG* (announcement of the issue amount no later than three days before expiry of the subscription period) are heeded. Here, shareholders are offered complete shares for subscription in each case; as regards the portion of the dividend claim that does not reach the subscription price for a complete share (and/or exceeds it), shareholders are referred to the subscription of a cash dividend and cannot subscribe to shares to that extent; no offer of partial rights is envisaged, nor is the setting up of any trade in subscription rights or fractions thereof. Since shareholders receive a cash dividend to that extent instead of a subscription to new shares, this appears justified and reasonable.

In a specific case, depending on the capital-market situation, it may be preferable to offer and prepare the grant of a scrip dividend without being bound to that extent by the restrictions of sec. 186(1) *AktG* (minimum subscription period of two weeks) and sec. 186(2) *AktG* (announcement of the issue amount no later than three days before expiry of the subscription period). Hence, the Executive Board is also to be authorised to offer all shareholders eligible for dividends – while safeguarding the general equal-treatment principle (sec. 53a *AktG*) – new shares for subscription against contribution of their dividend claim, but, at the same time, to formally exclude shareholders' overall subscription right with the consent of the Supervisory Board. Paying a scrip dividend while formally excluding the subscription right enables a capital increase to be implemented under more flexible conditions. In view of the circumstance that all shareholders are offered the new shares and excess dividend part-amounts are

settled by paying a cash dividend, the exclusion of the subscription right appears to that extent, too, justified and reasonable.

The sum of the shares issued against cash and non-cash contributions with subscription rights excluded may not exceed 20% of the share capital at the time of the authorisation taking effect or – if this value is lower – at the time of its exercise.

Counting toward the 10%-limit in a capital increase against cash contribution with subscription rights excluded pursuant to sec. 186(3), sent. 4 *AktG* and toward the above 20%-limit of the sum of all subscription-right exclusions are such shares as were, or may still have to be, issued to service warrant or conversion rights or to meet conversion obligations under bonds with warrants attached or convertible bonds, provided that the bonds are issued after 29 April 2015 by analogous application of sec. 186(3), sent. 4 *AktG* with subscription rights excluded. Likewise counting toward the above limits are shares that were issued after 29 April 2015 on the basis of an authorisation to utilise own shares pursuant to secs. 71(1), no. 8, sent. 5, 186(3), sent. 4 *AktG* with subscription rights excluded. Finally, shares must be counted that were issued or sold during the term of this authorisation until the time of its exercise in a direct or analogous application of sec. 186(3), sent. 4 *AktG*. This further-going restriction is in the interest of shareholders who wish to maintain their percentage holding in any capital measures wherever possible.

There are currently no concrete plans to utilise the Authorised Capital A. Corresponding anticipatory resolutions with an option to exclude subscription rights are usual nationally and internationally. The Executive Board will carefully examine in each case whether use of the Authorised Capital A and the exclusion of shareholders' subscription rights are in the interest of the Company and its shareholders. The Executive Board will report to the AGM on any utilisation of the Authorised Capital A.

Frankfurt, 11 March 2015

The Executive Board

Translation for convenience only;

In case of any discrepancy or ambiguity the German version shall prevail.