



Lufthansa Annual General Meeting 2015

Report of the Executive Board to the AGM on agenda item 6 pursuant to secs. 71(1), no. 8, sent. 5, 186(4), sent. 2 AktG

On agenda item 6, the AGM is being asked to authorise the Company, pursuant to sec. 71(1), no. 8 AktG, to acquire its own shares until 28 April 2020 in a pro-rated amount not exceeding 10% of the Company's share capital at the time of the AGM resolution or – if this value is lower – at the time of exercise of this authorisation. The proposed authorisation to purchase own shares renews the previous authorisation which was granted by the AGM on 29 April 2010 for the max. permissible five-year term and which expires on 28 April 2015. The authorisation is designed to enable the Company to use the instrument of share buy-backs until 28 April 2020. In this respect, the authorisation is again to be granted for the legally permissible max. five-year term. The shares acquired on the basis of this authorisation, together with other Company shares which the Company has already purchased and still owns or which have to be allocated to it under secs. 71d and 71e AktG, must at no point in time exceed 10% of the share capital concerned. Moreover, a purchase is only permissible if the Company at the time of the purchase could form a reserve in the amount of the outlays for the purchase without lowering its share capital or any reserve to be formed by operation of law or the Articles of Association which must not be used for paying shareholders, and if the issue amount on the shares to be purchased has been paid in full. The authorisation must not be used to trade own shares. The authorisation may be used, in one single amount or in part-amounts, in one or more stages, by the Company, by its Group companies or – for its own or their account – by third parties. Under the proposed resolution, the Company is enabled – on the basis of this authorisation – to buy its own shares while excluding any right to offer and – on the basis of this or another authorisation – to sell or issue its own shares purchased subject to a partial exclusion of shareholders' subscription rights.

Acquisition procedure and exclusion of any rights to offer

The shares may be purchased via the stock exchange or by means of a public offer to purchase made to all shareholders or by means of a public call for the submission of offers to sell or by granting shareholders a right to offer. This gives all shareholders in the same manner an opportunity to sell shares to the Company wherever it makes use of its authorisation to purchase own shares. In a public offer to purchase and the public call for submission of offers to sell, the addressees of the offer to purchase and/or the call can decide how many shares and – where a price range is set – at what price they wish to add them to the offer to purchase and/or to offer them to the Company. Here, it may happen that the quantity of Company shares offered by the shareholders exceeds the quantity of shares required by the Company. In such a case, they must be allocated by quota, so that – wherever the offer to purchase is oversubscribed or if, in a call for submission of offers to sell, not all of several, same-value offers can be accepted – the purchase may be on the basis of the ratio of the shares offered ("offering quota") instead of the ratio of the shares in the Company of the offering shareholders ("participation quota"). In addition, provision may be made for preferential acceptance of low numbers of up to 100 shares for purchase of

offered shares per shareholder. To that extent, any further-going right to offer of the shareholders is excluded in each case. This possibility serves to avoid fractional amounts when defining the quotas to be purchased and small residual holdings and, hence, to facilitate technical processing. Any de facto disadvantaging of small shareholders, too, can thus be avoided. Provision is also to be made for commercial rounding to avoid arithmetic fractions of shares. To that extent, the purchase quota and the number of shares to be purchased by the individual offering shareholders can be rounded in a way that is necessary to represent the purchase of whole shares in terms of processing technicalities. The authorisation also provides for the purchase to be implemented using the rights to offer made available to the shareholders. These rights to offer may be designed in such a way that the Company only has a duty to purchase whole shares and that the allocation of fractions of rights to offer is excluded. Wherever rights to offer cannot be exercised, they lapse. This procedure treats shareholders equally and facilitates the technical processing of the share buy-back. The Executive Board believes the exclusion of any further-going right to offer of the shareholders this procedure contains in each case to be objectively justified and justified in dealings with the shareholders.

The countervalue for the purchase of such shares (without transfer costs) must not be more than 10% higher or lower than the market price. The crucial market price is the Company's share price established on the trading day concerned at the opening auction in the Xetra trading system of the Frankfurt stock exchange (or any comparable successor system).

In the event of a purchase by means of an offer to purchase made to all shareholders or by means of a call for submission of offers to sell, or by granting a right to offer, the market price is to be the average price of the Company's share in the closing auction in Xetra trading of the Frankfurt stock exchange (or any comparable successor system) on the last five trading days prior to publication of the decision to submit this offer. In the event of substantial deviations in the crucial share price after publication of an offer to purchase or the public call for submission of offers to sell, or the grant of a right to offer, the offer or the call for submission of offers to sell may be adjusted accordingly. In this case, the average price on the three trading days prior to publication of any adjustment is used as basis; the 10%-limit for a higher or lower price must be applied to this amount. The offer to purchase or the call for submission of offers to sell or the grant of a right to offer may provide for further conditions.

Utilisation of acquired shares and exclusion of subscription rights

Own shares purchased by the Company may be resold on the stock exchange or by means of a public offer made to all shareholders. This safeguards shareholders' right to equal treatment when shares purchased on the basis of the authorisation are sold.

In addition, the proposed resolution provides for the Company to be enabled to sell own shares purchased on the basis of the authorisation in another manner as well than on the stock exchange or by means of an offer made to all shareholders, if its own shares are sold at a price which is not significantly below the market price of the Company's share. This authorisation, which is equivalent to an exclusion of subscription rights, makes use of the possibility permitted by sec. 71(1), no. 8 *AktG*, by analogous application of sec. 186(3), sent. 4 *AktG*, of easier exclusion of subscription rights. In the Company's interest, the object is specifically to permit an offer of the Company's shares to institutional investors and/or to expand the circle of shareholders. The object is to enable the Company to respond quickly and flexibly to favourable stockmarket situations. Compared with selling the shares on the stockmarket spread over time, this approach translates into an immediate inflow of funds and

avoids the uncertainty of future developments in the stockmarket for the whole purchase price obtained. Shareholder interests are taken into account by providing that the shares may only be sold at a price which is not significantly below the market price for the Company share when they are sold. When making use of the authorisation, the Executive Board will set the markdown from the share price as low as is possible in accordance with the predominant market conditions at the time of placement. Interested shareholders may maintain their participation quota by making additional purchases subject to largely equal conditions.

The authorisation for this form of sale only applies, however, where the shares sold with subscription rights excluded pursuant to sec. 186(3), sent. 4 *AktG* must not exceed a total of 10% of the share capital, viz. neither at the time of the authorisation taking effect nor at the time of its exercise. Counting toward this 10%-limit of the share capital are shares that are issued after the legal effect of this authorisation, while utilising an authorisation valid at the time of this authorisation taking effect and/or an authorisation taking its place to issue new shares under Authorised Capital pursuant to sec. 186(3), sent. 4 *AktG* with subscription rights excluded. Also counting toward this 10%-limit of the share capital are shares that were and/or must be issued to service convertible bonds and/or bonds with warrants attached wherever the bonds were issued after the legal effect of this authorisation on the basis of an authorisation valid at the time of the authorisation taking effect and/or taking its place, by analogous application of sec. 186(3), sent. 4 *AktG* with subscription rights excluded. Counting this way, it is ensured that own shares purchased are not sold with subscription rights excluded pursuant to sec. 186(3), sent. 4 *AktG* if this means that the shareholders' subscription rights in respect of more than 10% of the share capital would be excluded without any factual reason by direct or indirect 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 wherever possible.

The Company is also to be authorised to utilise own shares purchased on the basis of the proposed authorisation as consideration specifically within the scope of (also indirect) purchases of companies, business units, or interests in companies, for company mergers and the purchase of assets, incl receivables from the Company. 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. The proposed authorisation is intended to give the Company the necessary leeway for taking action to make quick and flexible use of any market opportunities. The proposed exclusion of subscription rights takes this into account. In defining the valuation ratios, the Executive Board will ensure that shareholders' interests are adequately safeguarded. In this respect, the Executive Board will take account of the market price of Company's share. However, planning does not call for a rigid link-up to a market price since, in particular, it should be ensured that any negotiation results once obtained cannot be called into question again owing to fluctuations in the market price. The Company will also have at its disposal the Authorised Capital A for the acquisition of companies, business units, or interests in companies, for company mergers and for the purchase of assets, incl Company receivables. If corresponding projects begin to take shape, the

Executive Board will make a careful check of whether it should make use of the authorisation to grant own shares or of the Authorised Capital A. In the decision on the form of share purchase or a combination of different forms of share purchase, the Executive Board will be guided solely by the interests of the Company and the shareholders. The additionally envisaged possibility of using available own Company shares instead of resorting to a capital increase or a cash payment may make sense in business terms and, to that extent, the purpose of the authorisation is to increase flexibility.

In addition, the Company is to have the option of using own shares purchased on the basis of the proposed authorisation to meet rights of holders and/or creditors and to meet conversion obligations under conversion or warrant rights and/or conversion obligations granted and/or established by the Company or by the Company's direct or indirect majority interest when issuing bonds. To the extent that the Company makes use of this option, no conditional capital increase need be made, so that the shareholders' interests are not affected by the additional option.

The Company is to be authorised to offer its own shares purchased as employee shares to the Company's and affiliated companies' workforce (incl members of governing bodies) for purchase. This is to enable the Company to offer shares to such employees even without needing to have recourse to Authorised Capital B. In the decision on the form of share purchase for issuing staff shares, the Executive Board will be guided solely by the interests of the Company and the shareholders. The additionally envisaged possibility of using own available Company shares instead of resorting to a capital increase or a cash payment may make sense in business terms and, to that extent, the purpose of the authorisation is to increase flexibility. Issuing own shares to employees, usually subject to the specification of a reasonable lock-up period of several years, is in the interest of the Company and of the shareholders, because this enhances identification with the Company and, hence, the Company value. In calculating the purchase price payable by staff, a discount may be granted that is customary in the case of staff shares and is a reasonable amount geared to the Company's success. To the extent that the issue of own shares to executives requires the consent of the supervisory board of the company concerned, own shares are only offered for purchase with the prior consent of the supervisory boards concerned. The Company's Executive Board members, too, are to be given an option of being offered a share-based remuneration by the Supervisory Board using own shares. The decision on this is taken exclusively by the Company's Supervisory Board as the governing body in charge of defining the remuneration of the Executive Board, taking account of the provisions of statute, in particular as regards the appropriateness of the overall remuneration of Executive Board members (sec. 87 *AktG*).

Finally, the Company is to be enabled to use the shares purchased in any payment of 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 a grant of new shares under Authorised Capital A. A scrip dividend using own shares may be implemented, eg, in the form of an offer made to all shareholders while safeguarding their subscription rights and safeguarding the equal-treatment principle (sec. 53a *AktG*). Here, the shareholders are only offered whole shares in each case; as regards that part in the claim to a dividend that does not reach the subscription price for a whole share (and/or exceeds same), the shareholders are referred to the purchase of the cash dividend and cannot receive shares to that extent; no offer of partial rights is envisaged, nor the set-up of trading in subscription rights or fractions thereof. Since the shareholders receive a pro-rated cash dividend instead of a purchase of own shares, this appears justified and reasonable. It is also feasible that some foreign investors, owing to capital-market

stipulations, are not offered a scrip dividend, but merely receive a cash dividend. In a specific case, it may be preferable, depending on the capital-market situation, to design the implementation of a scrip dividend using own shares in such a way that the Executive Board, though offering all shareholders who are entitled to a dividend own shares for purchase in return for assigning their dividend claim, while safeguarding the general equal-treatment principle (sec. 53a *AktG*), it formally excludes shareholders' subscription right overall, however. Implementing a scrip dividend while formally excluding the subscription right enables the scrip dividend to be implemented under more flexible conditions. In view of the circumstance that all shareholders are offered own shares and excess dividend part-amounts are settled by paying a cash dividend, the subscription-right exclusion to that extent as well appears justified and reasonable. In addition, the Company will also have at its disposal Authorised Capital A for this purpose. In the decision on the form of share purchase or a combination of different forms of share purchase to finance such measures, the Executive Board will be guided solely by the interests of the Company and the shareholders. The additionally envisaged possibility of using available own Company shares instead of resorting to a capital increase or a cash payment may make sense in business terms and, to that extent, the purpose of the authorisation is to increase flexibility.

Shareholders' subscription rights to own shares purchased is excluded in any utilisation set forth in the paragraphs above. In addition, if the shares are sold via an offer to sell made to all shareholders, shareholders' subscription rights are excluded for fractional amounts. This exclusion of subscription rights is necessary in order to implement the permissible utilisation options and to restrict the outlays incurred by the Company in the case of fractional amounts to a meaningful degree.

Finally, the Executive Board is to be authorised, with the consent of the Supervisory Board, to call in own shares acquired on the basis of this authorisation even without a renewed AGM resolution. As a general rule, this involves a decrease in the share capital. In a departure from this, however, the Executive Board is also to be authorised to implement the call-in pursuant to sec. 237(3), no. 3 *AktG* without a change in the share capital. In such a case, the call-in leads to an increase in the percentage of the remaining shares in the capital pursuant to sec. 8(3) *AktG*. The Company is also to be authorised in this case to amend the number of shares specified in the Articles of Association.

The Executive Board will report on any use made of the authorisation to purchase own shares at the next AGM in each case.

Frankfurt, 11 March 2015

The Executive Board

Translation for convenience only;

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