Lufthansa Annual General Meeting 2015

Report of the Executive Board to the AGM on item 7 of the agenda pursuant to secs. 71(1), no. 8, sent. 5, 186(4), sent. 2 *AktG*

Supplementing agenda item 6, on item 7 of the agenda the AGM is requested to authorise the Company, to acquire its own shares, also using derivatives, and to perform corresponding derivative transactions.

For the Company, it may be an advantage to sell put options, to acquire call options or to conclude forward purchases (each a "derivative" or "derivative transaction"), rather than directly buying the Company's shares. More flexibility is opened up for the Company in designing its buy-back strategy. This authorisation is not only to be used by the Company itself, but also by Group companies and by third parties acting for the account of the Company or of a Group company. These possibilities merely supplement the authorisation proposed under agenda item 6, so that this additional authorisation is not associated with any expansion of the overall scope of the buy-back possibility.

In a sale of put options, the Company grants the buyer the right to sell shares to the Company at a price defined in the put option (the strike) during the contractual term. As consideration, the Company receives an option premium which corresponds to the value of the put option, taking account of the strike, the term of the option and the volatility of the share. If the put option is exercised, the option premium paid by the buyer of the put option reduces the overall countervalue spent by the Company on acquiring the share. Exercising the put option makes sense in business terms for the option owner wherever the share price at the time of exercise is below the preferential price because he can then sell the share at a higher preferential price. From the Company's standpoint, share buy-backs using put options have the advantage that the strike is defined upon conclusion of the option transaction already, while a liquidity outflow only takes place on the day of the exercise. In addition, the purchase price of the shares for the Company, taking account of the option premium earned, is always below the share price upon conclusion of the option transaction. If the option owner does not exercise the option, because the share price on the exercise day is above the strike, the Company cannot purchase its own shares in this way, but the option premium earned does remain with the Company.

In the acquisition of a call option, the Company receives the right against payment of an option premium to buy a pre-defined number of shares at a pre-defined price (the strike) from the seller of the option, the writer, during the agreed contractual term. Exercising the call option makes sense in business terms for the Company wherever the share price is above the strike since it can then buy the shares at a lower strike from the writer. In this way, the Company hedges its risk of having to buy its own shares at a higher price. In addition, the Company's liquidity is initially spared since the defined purchase price need only be paid when the call options are exercised.

In forward purchases, the Company acquires the shares pursuant to the agreement with the forward seller at a purchase price, defined when the forward purchase was concluded, on a certain date in the future. Concluding forward purchases may make sense for the Company if it wishes to underpin its need for own shares on the date at a certain price level.

The Company may combine the deployment of derivatives, ie it is not confined to making use of only one of the types of derivatives described.

The stipulations contained in the authorisation for the design of the derivatives are to ensure that the equal-treatment principle is preserved also when derivative transactions are used in the purchase of own shares, and shareholders sustain no financial disadvantage.

The price agreed in the derivative (without transfer costs, though taking account of the included and/or paid option premium) for the acquisition of a share when put options are exercised and/or in meeting a forward purchase may not be 10% higher and 30% lower than the Company's share price established by the opening auction in the Xetra trading system of the Frankfurt stock exchange (or any comparable successor system) on the day of conclusion of the derivative transaction. The purchase price per share agreed in the derivative concerned when a call option is exercised may not be 10% higher or lower than the average closing price of the share in the Xetra trading system of the Frankfurt stock exchange (or any comparable successor system) on the fourth, third and second trading day preceding the exercise of the call option.

Thanks to the determination of option premium and exercise and/or purchase price made in the derivative conditions and to the obligation to be included in the derivative conditions to service options and forward purchases with shares that were purchased on the stockmarket only while preserving the equal-treatment principle, it can be ruled out that shareholders are financially disadvantaged by such share buy-backs. Since the Company earns and/or pays a fair market price, the shareholders not involved in the derivative transactions do not sustain any material disadvantage in terms of value. This is equivalent, to that extent, to the shareholders' position when shares are bought back via the stockmarket in which, again, not all shareholders can, in fact, sell shares to the Company. Both the stipulations for the design of the derivatives and the stipulations for the delivery of suitable shares ensure that comprehensive justice is done to the equal-treatment principle of shareholders in this purchase form as well. To that extent, also in line with the legal concept underlying sec. 186(3), sent. 4 *AktG*, it is justified that the shareholders are not to be entitled to conclude such derivative transactions with the Company. Nor does a right of shareholders exist to conclude derivative transactions wherever – in any purchase of own shares using derivatives – a preferential offer for the conclusion of derivative transactions based on the low number of shares is envisaged. For the rest, without the exclusion of any subscription right and a right to offer, it would hardly be possible to conclude financially meaningful derivative transactions with counterparties suitable for such derivatives or at short notice. In the purchase of own shares using derivatives, shareholders are only to have a right to offer their shares to the extent that the Company has a duty under the derivatives to purchase their shares. Otherwise, the use of derivatives within the scope of buying back own shares would not be possible and, hence, the associated advantages would not be attainable for the Company. The Executive Board believes the non-grant and/or the restriction of the right to offer is justified following careful weighing of the interests of the shareholders and the interests of the Company thanks to the advantages that the Company may enjoy from using derivatives.

The term of the derivatives must be chosen in such a manner that the shares, as set forth in the derivative conditions, are not purchased after 28 April 2020. This ensures that the Company, after expiry of the authorisation to purchase own shares valid until 28 April 2020, no longer buys back own shares based on this authorisation. In addition, the term of the various derivatives is limited to max. 18 months. The entire purchase volume via derivatives is limited to max. 5% of the share capital, viz. relative both to this authorisation taking effect and to its exercise by using derivatives. Moreover, the share purchases must also count toward the 10%-limit of the authorisation to be resolved in accordance with agenda item 6 to purchase and utilise own shares.

The Executive Board will report on any use made of the authorisation to purchase own shares and also on the utilisation of derivatives.

Frankfurt, 11 March 2015
The Executive Board