LUFTHANSA GROUP

Lufthansa Annual General Meeting 2019

Report of the Executive Board on agenda item 10 in accordance with Section 71(1) no. 8, sentence 5 AktG in conjunction with Section 186(4), sentence 2 AktG

In addition to the ability to acquire treasury shares set out in agenda item 9, a limited use of derivatives shall be permitted. It may be advantageous for the Company to sell put options or acquire call options instead of directly acquiring shares in the Company. It may also be beneficial to acquire shares through forward purchases. In doing so, the Executive Board intends to make use of put and call options and forward purchases (also referred to below as “derivatives”) as a supplement to conventional share buy-backs only. This does not involve an expansion of the scope of the buy-back options. The acquisition of shares using derivatives is to be carried out via a credit institution or another company that meets the requirements of Section 186(5) sentence 1 AktG.

When selling put options, the Company grants the buyer the right to sell Lufthansa shares to the Company at a price defined in the put option (the strike price). As consideration, the Company receives an option premium which corresponds to the value of the put option, taking account of the strike price, the term of the option and the volatility of the Lufthansa 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 is commercially reasonable for the option holder wherever the Lufthansa share price at the time of exercise is below the strike price because the holder can then sell the share at a higher strike price. From the Company's standpoint, share buy-backs using put options have the advantage that the strike price is already defined upon conclusion of the option transaction 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 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 price, the Company cannot purchase treasury shares in this way, but the option premium earned does remain with the Company.

With the acquisition of a call option, the Company receives the right, in return for payment of an option premium, to buy a predefined number of shares at a predefined price (the strike price) from the seller of the option (the writer). Exercising the call option is commercially reasonable for the Company wherever the Lufthansa share price is above the strike price since it can then buy the shares at a lower strike price from the writer. This allows the Company to protect itself against rising share prices. It also spares the Company’s liquidity since the defined purchase price need only be paid when the call option is exercised.

In a forward purchase, the Company agrees with the forward seller to acquire the shares on a fixed date in the future. The acquisition takes place at a forward price determined when the forward purchase is concluded. When the fixed date is reached, the Company pays the forward price to the forward seller, and the forward seller supplies the shares in return.

The Company may combine the use of put options, call options and forward purchases, and is therefore not limited to a single option.

The terms of the derivatives must end no later than 6 May 2024 and must be selected in such a way that the acquisition of the Lufthansa shares in exercise of the options and in fulfilment of forward purchases cannot take place after 6 May 2024. This means that the authorisation will in principle make use of the five-year time frame permitted by law, but with the restriction that the term of each of the individual options and forward purchases may not exceed 18 months. This ensures that obligations arising from the individual derivative transactions are limited to within a reasonable time frame. The total purchase volume through put and call options and forward purchases is limited to 5% of the share capital on the effective date of the authorisation (i.e. 23,760,536 shares). If the share capital at the time of execution of this authorisation is lower, the lower value applies.

The purchase price to be paid by the Company for the shares is the strike price fixed in the relevant put or call option or the forward price fixed in the forward purchase. The price to be paid for a Lufthansa share when exercising put or call options (strike price) or the price to be paid for a Lufthansa share when fulfilling the forward purchase (forward price) may be higher or lower than the market price of the Lufthansa share when selling the put option or acquiring the call option or when concluding the forward purchase. However, the strike price or forward price (without acquisition costs, though taking account of the included and/or paid option premium) may not be more than 10% higher or more than 20% 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 paid by the Company for a derivative (usually a call option) may not significantly exceed, and the purchase price obtained by the Company for a derivative (usually a put option) may not fall significantly below, the theoretical market value of the options in question as determined by recognised methods, particularly actuarial methods. The agreed strike price is to be included in the calculation of this so-called option premium. Similarly, the forward purchases agreed by the Company may not significantly exceed the theoretical forward rate determined using recognised actuarial methods, the calculation of which must include the current stock exchange price and the term of the forward purchase.

The setting of option premiums and strike prices or forward prices described above and the obligation only to operate options and other derivatives with shares acquired in compliance with the principle of equal treatment, particularly via the stock exchange, rules out the risk of financial disadvantage to shareholders when acquiring treasury shares using derivatives. Since the Company earns or pays a fair market price, the shareholders not involved in the derivative transactions do not sustain any disadvantage in terms of value. This is equivalent to the shareholders' position when shares are bought back via the stock exchange, when not all shareholders can, in fact, sell shares to the Company. The specifications for the structure of the derivatives and the requirements for the shares to be delivered ensure that the principle of equal treatment of shareholders is observed even by this method of acquisition.

The exclusion of the claim of shareholders to conclude the above-mentioned derivative transactions with the Company by the analogous application of Section 186(3), sentence 4 AktG is therefore justified. The exclusion of the subscription right allows the company to conclude derivative transactions even at short notice, unlike in the case of an offer to buy the options or an offer to all shareholders to conclude forward purchases. This gives the Company the flexibility it needs to respond quickly to market situations.

When acquiring treasury shares using derivatives, shareholders shall only be entitled to tender their shares to the extent that the Company has a duty under the derivative transactions to purchase their shares. Otherwise, the use of derivatives within the scope of buying back treasury shares would not be possible and, hence, the associated advantages would not be attainable for the Company. The Executive Board believes that the non-granting or the restriction of the tender right is objectively justified and reasonable following careful weighing of the interests of the shareholders and the interests of the Company because of the advantages to the Company of making use of derivative transactions.

With regard to the use of the treasury shares acquired by using derivatives, there are no derogations from the usage options proposed in agenda item 9. With regard to the justification of the exclusion of the subscription right of shareholders when using the shares, reference is made to the report of the Executive Board on agenda item 9.

The Executive Board will report on the use of the authorisation at the following Annual General Meeting.

Frankfurt, March 2019
The Executive Board

Carsten Spohr
Vorstandsvorsitzender

Thorsten Dirks
Mitglied des Vorstands
Eurowings

Harry Hohmeister
Mitglied des Vorstands
Network Airlines

Dr. Detlef Kayser
Mitglied des Vorstands
Airline Resources & Operations Standards

Ulrik Svensson
Mitglied des Vorstands
Finanzen

Dr. Bettina Volkens
Mitglied des Vorstands
Personal und Recht