



Lufthansa Annual General Meeting 2019

Report of the Executive Board on agenda item 7 pursuant to Section 203(2), sentence 2 AktG in conjunction with Section 186(4), sentence 2 AktG

A proposal is being submitted to the AGM under item 7 of the agenda to authorise the Executive Board, with the consent of the Supervisory Board, to increase the share capital of the Company in one or more stages by up to €450,000,000 through the issue of new no-par value shares for a cash or contribution in kind (Authorised Capital A).

The Authorised Capital A is to replace the Authorised Capital A that exists until 28 April 2020, which the Company has used until the convening of this Annual General Meeting in the amount of €13,979,389.44. The new Authorised Capital A is to be available for capital increases against contributions in cash or contributions in kind and may also be used in instalments. The total amount of a nominal €450,000,000 may not be exceeded. The authorisation is to be granted for the term of five years permitted by statute, i.e. until expiry of 6 May 2024.

The amount of the Authorised Capital A of a nominal €450,000,000 proposed under agenda item 7 is equivalent to around 37% of the current share capital. The maximum sum of share capital available at the point of authorisation, specified as 50% in Section 202(3) AktG, will not be fully depleted – even including the Authorised Capital B (staff shares) proposed under agenda item 8, the total scope of both authorisations (totalling around 39.5%) is significantly below the legally stipulated maximum amount. The assessment of the level of the Authorised Capital A is to ensure, e.g. that major company acquisitions can be financed too, 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 irrespective 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 successful if there are hedged financing instruments readily available when negotiations commence. Legislators have done justice to the needs of companies and given stock corporations the possibility to authorise – limited both by time and in amount – their management to increase their share capital without a further AGM resolution. The creation of the new Authorised Capital A is designed to retain the Company's flexibility to be able to deploy this type of financing and to increase its share capital.

When utilising the Authorised Capital A, shareholders shall generally be granted a subscription right. However, the Executive Board shall also be authorised to exclude shareholders' subscription rights when issuing new shares, specifically in the following cases:

- Under agenda item 7 b) aa), the Executive Board shall be authorised to exclude the subscription right of shareholders in accordance with Section 186(3) sentence 4 AktG

for shares up to a maximum of 10 percent of the share capital, whereby the total limit of 10 percent must not be exceeded even when taking into account any other authorisations leading to a direct or indirect application of Section 186(3), sentence 4 AktG. This option to exclude subscription rights enables the management to exploit favourable stock market conditions in the short term and to achieve a higher cash inflow by quickly placing new shares without the time-consuming and costly processing of a subscription right. The proposed exclusion of subscription rights serves the interest of the Company to issue shares to institutional investors, for example. This may attract new additional groups of shareholders.. When making use of the authorisation, the Executive Board will set the discount on the stock market price as low as is possible under the prevailing market conditions at the time of placement. The Executive Board will set the issue amount per new no-par value share in such a way that the discount on the stock market price can be expected to amount to no more than 3 percent, but in any case does not exceed 5 percent of the then current market price of the Company's no-par value share. These requirements reflect the need of shareholders to protect their shareholdings against dilution. With the issue price of the new shares being close to the market price and with the limits to the volumes 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 stock market. It is therefore ensured that both the asset and the voting-right interests are adequately safeguarded in any use made of the Authorised Capital A with subscription rights excluded, while giving the Company additional scope for action in the interest of all shareholders.

- In addition, the subscription right under agenda item 7 b) bb) may be excluded with the consent of the Supervisory Board in order to grant the holders or creditors of option or conversion rights from option or convertible bonds issued or to be issued by the Company or its group companies a subscription right to new shares to the extent that they would be entitled after exercise of these rights or fulfilment of conversion obligations. This allows a standard form of anti-dilution protection to be granted to the creditors of such instruments. They are thus treated as if they were already shareholders. Granting subscription rights to holders of conversion or option rights is an alternative to adjusting the conversion or option price that would otherwise be required. In order to be able to provide the bonds with such anti-dilution protection, shareholders' subscription rights to these shares must be excluded. The possibility of granting shares to holders of option and convertible bonds instead of reducing the conversion or option price may be more economically advantageous for the Company. By granting shares instead of reducing the conversion or option price, the Company may be able to obtain a higher issue price for the shares to be issued in the conversion or exercise of the option.
- The authorisation to exclude subscription rights proposed under agenda item 7 b) cc) enables the Executive Board to have shares in the Company available at short notice as part of mergers or for the purpose of acquiring (also indirectly) companies, business units, interests in companies or other assets. Deutsche Lufthansa AG is in fierce competition with other companies both nationally and internationally and must be able to act quickly and flexibly at all times in the interest of its shareholders. This includes the ability to acquire companies or interests in companies in order to improve the competitive situation. Companies or participations are usually acquired by means of consideration in cash. In certain cases, however, providers are also interested in

consideration in the form of shares (share swap). Buyers who can offer a share swap therefore have a competitive advantage when acquiring companies or interests in companies. It is also conceivable that the consideration for such an acquisition may be made only partially in cash so as not to jeopardise the liquidity of the Company. The consideration is therefore often granted in comparable transactions in shares of the acquiring company. The proposed authorisation is intended to give the Company the flexibility it needs to quickly and flexibly take advantage of opportunities to acquire companies, interests in companies or other assets. This does not disadvantage the Company, since the capital increase against contribution in kind requires that the value of the contribution in kind is in proportion to the value of the shares.

- Finally, the Executive Board is, in accordance with agenda item 7 b) dd), authorised to exclude the subscription right of the shareholders for the execution of a so-called scrip dividend. In the case of a scrip dividend, shareholders are offered the option of investing their dividend claim (in whole or in part) as a contribution in kind into the Company in return for the purchase of new shares in the Company. The execution of a scrip dividend will generally be carried out as a genuine subscription rights issue while respecting the subscription right of shareholders and in compliance with the principle of equal treatment (Section 53a AktG). In specific cases, however, and depending on the capital market situation, it may be preferable to arrange the execution of a scrip dividend in such a way that Executive Board grants all shareholders who are entitled to dividends new shares from the Authorised Capital, subject to the general principle of equal treatment (Section 53a AktG) for the assignment of their dividend entitlement, but which formally excludes shareholders' subscription right as a whole. Executing the scrip dividend with the formal exclusion of subscription rights makes it possible to execute the stock dividend under more flexible terms, in particular without being bound by the minimum subscription period and the statutory time limit for the announcement of the issue amount. In view of the fact that the new shares are offered to all shareholders and excess dividend part-amounts are settled by paying a cash dividend, the exclusion of the subscription right appears, to the extent described under agenda item 7 b) dd), to be justified and reasonable. When deciding on the type 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 authorisation to exclude subscription rights for fractional amounts proposed under agenda item 7 b), third to last paragraph, enables a smooth subscription ratio for the capital increase. This facilitates the settlement of shareholders' subscription rights. 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. Since any exclusion of subscription rights here is limited to fractional amounts only, the potential dilution effect is small.
- The Executive Board may only make use of the authorisations granted to it to exclude subscription rights to such an extent that the proportionate amount of the total number of shares issued under exclusion of subscription rights does not exceed 10 percent of the share capital, neither at the time the authorisation becomes effective nor during their utilisation. This restricts the total amount of subscription-free shares that may be issued from Authorised Capital A. In addition, a deduction of up to the aforementioned 10 percent limit shall be made if, during the term of the Authorised

Capital A until it is utilised, other authorisations to issue or sell shares in the Company or to issue rights that enable or oblige to the subscription of shares of the Company, are exercised for which subscription rights are excluded. In this way, the shareholders are also safeguarded against a dilution of their existing shareholding.

The Executive Board will carefully examine in each individual case whether the use of the authorisation to issue new shares and possibly to exclude subscription rights is in the interests of the Company and its shareholders. The Executive Board will report to the Annual General Meeting on any use of the authorisation.

Frankfurt, March 2019
The Executive Board

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