



Lufthansa Extraordinary General Meeting of Shareholders 2020

Report of the Executive Board on the agenda item, in particular report on the exclusion of subscription rights pursuant to Section 186(4) sentence 2 AktG

As a result of the recapitalisation provided for as part of the stabilisation measures and the resolution to be adopted, the Economic Stabilisation Fund is initially to acquire a 20% shareholding in the Company's share capital.

The Company and thus also its shareholders have a very considerable interest in a capital increase with the Economic Stabilisation Fund as subscriber to the new shares. The net assets, financial position and results of operations of Deutsche Lufthansa Aktiengesellschaft were significantly impaired by the COVID 19 pandemic. To ensure that the Company continues to have a sufficient equity base, the Company has examined alternatives to strengthen its equity base. As the Company's additional capital requirements cannot be covered on the capital market, the Company has entered into intensive discussions with the Federal Republic of Germany with the aim of obtaining stabilisation measures including recapitalisation measures through the Economic Stabilisation Fund established in accordance with the Stabilisation Fund Act.

On 25 May 2020, the Economic Stabilisation Fund Committee resolved in accordance with Section 20(1) sentence 2 StFG to grant the Company stabilisation measures through the Economic Stabilisation Fund in a total amount of approximately EUR 6 billion. In addition, the Company will receive a syndicated credit facility of up to EUR 3 billion, which will be granted with the participation of the KfW from the KfW Programme 855 "Direct Participation for Syndicated Financing". In a framework agreement between the Economic Stabilisation Fund and the Company dated May 2020, it was agreed that the Company would be granted recapitalisation measures pursuant to Section 22 (1) StFG by making contributions in the form of three Silent Participations of the Economic Stabilisation Fund in a total amount of approx. 5.7 billion euros and the acquisition of a 20% share in the increased share capital of the Company by the Economic Stabilisation Fund as part of a capital increase against contributions. With regard to the capital increase, it was agreed that the issue price for the new shares to be subscribed by the Economic Stabilisation Fund would be EUR 2.56 per share; this price corresponds to the pro-rata amount of the shares in the Company's share capital and thus the lowest issue price pursuant to Section 9 AktG. With regard to Silent Participation II-A, it was also agreed that, in the event of its conversion, the issue price of the new shares would be EUR 2.56. In the event of conversion of Silent Participation II-B, the new shares will be issued, if issued upon exercise of the conversion right for the purpose of Dilution Protection (as defined in the resolution proposal), at the current stock exchange price at the time of conversion less 10%, if issued upon exercise of the conversion right for the purpose of Coupon Protection (as defined in the resolution proposal) at the current stock exchange price at the time of conversion less 5.25%.

The stabilisation measures described above to secure the financing of the Company and to avoid an otherwise necessary motion for insolvency proceedings represent an overall package, particularly from the point of view of the Economic Stabilisation Fund, and are granted in total only sub-

ject to the condition that the General Meeting adopts the proposed resolution on the measures with the required majority. In accordance with the provisions of Section 7(3) sentences 1 and 2 WStBG and Section 10(2) sentences 3 and 4 WStBG, the resolution requires (notwithstanding the provision of Section 7a(1) sentence 2 WStBG) a majority of at least two thirds of the votes cast or the share capital represented, with a simple majority being sufficient if half of the subscribed capital is represented.

Under item 1., the resolution proposed by the Executive Board and the Supervisory Board provides for the implementation of a capital increase with the exclusion of the subscription rights of the shareholders, in which only the Economic Stabilisation Fund will be admitted to subscribe to the 119,548,565 new shares; after this capital increase takes effect, the Economic Stabilisation Fund will therefore hold a 20% share in the Company's share capital (increased as a result of the capital increase).

The number of new shares to be subscribed by the Economic Stabilisation Fund is calculated as follows: Once the capital increase takes effect, the Economic Stabilisation Fund is to hold 20% of the Company's share capital, and the current shareholders 80%. Prior to the implementation of this capital increase, the share capital amounts to EUR 1,224,177,297.92, divided into 478,194,257 no-par value shares, each with a notional pro rata amount of the share capital of EUR 2.56. In order for the current shareholders to hold 80% of the then increased share capital after the capital increase takes effect, 597,742,822 shares must be issued (calculation: 478,194,257 divided by 80%, rounded up). The number of shares to be subscribed by the Economic Stabilisation Fund is the difference between 597,742,822 (the new number of shares) and 478,194,257 (the current number of shares) and amounts to 119,548,565 shares.

The new shares will be issued to the Economic Stabilisation Fund at the lowest issue price of EUR 2.56 per share. This amount is lower than the current market price of the Company's shares at the time of the resolution of the Executive Board and Supervisory Board on the resolution proposal to the Extraordinary General Meeting of the Company on 25 June 2020. In the view of the Executive Board of the Company, this issue price is nevertheless appropriate, as the current market price of the shares already reflects a premium on the intrinsic value of the Company in the event that stabilisation measures do not materialise. As a result of the COVID 19 pandemic, the airlines within Lufthansa Group had to almost completely discontinue their operations in response. There was a massive year-on-year decline in new bookings and a cancellation of a substantial portion of all flights already booked. Lufthansa Group's revenue from passenger traffic has slumped massively since the outbreak of the crisis and there is no sign of a rapid recovery. Until the end of the 2020 financial year, the Company will therefore have a liquidity requirement that can no longer be covered by own funds. Without the stabilisation measures of the Economic Stabilisation Fund, the Company would therefore in all probability be insolvent within a few days after the planned Extraordinary General Meeting. The capital requirement of up to EUR 9 billion required for the solvency of the Company cannot be covered on the capital market or by other forms of external financing. There is therefore no alternative to the stabilisation measures of the Economic Stabilisation Fund. Without the stabilisation measures, the Executive Board believes that insolvency is unavoidable and, if the stabilisation measures cannot be implemented, the Executive Board will attempt to apply for so-called protective shield proceedings, provided that the legal requirements for this are still met at the time.

In the negotiations with the Economic Stabilisation Fund, the Company proposed various alternative models with a higher issue amount and a lower shareholding, but these could not be implemented.

The alternative to the participation of the Economic Stabilisation Fund by way of a capital increase at the lowest issue price of EUR 2.56 per share would therefore solely be the insolvency of the Company, with the probable consequence of an almost complete loss for the shareholders of the Company. Against this background, the Company's Executive Board considers the issue price of EUR 2.56 per share to be appropriate.

Pursuant to Section 7(3) sentence 4 WStBG, the exclusion of subscription rights for the admission of the Economic Stabilisation Fund to take up the shares is permissible and appropriate in all cases. The Executive Board also believes that the exclusion of the subscription rights of the shareholders is suitable and necessary in order to achieve the purpose that is in the interest of the Company.

The exclusion of subscription rights is suitable if the intended purpose can be achieved by it. This is to be affirmed in the present case, as the subscription to the capital increase by the Economic Stabilisation Fund and the further stabilisation measures will provide the Company with the financial resources necessary for its continued existence. The exclusion of subscription rights is also necessary, because the Economic Stabilisation Fund has made the granting of the stabilisation measures conditional on initially acquiring a 20% share in the increased share capital of the Company. Without this capital participation, the Economic Stabilisation Fund would not grant the stabilisation measures in a total amount of EUR 6 billion. The Company has proposed various alternative models to the Economic Stabilisation Fund which would have provided for a lower capital participation of the Economic Stabilisation Fund or the granting of subscription rights in favour of the shareholders in the course of a utilisation of the existing Authorised Capital A or the conditional capital (including the Conditional Capital 2020/II and 2020/III which is still to be created) of the Company. However, these alternative models could not be implemented. The exclusion of subscription rights is therefore mandatory for the Company in order to receive the support measures.

The exclusion of subscription rights is also proportionate, since in the specific case the Company's interest is to be assessed to outweigh the shareholders' interest in maintaining their legal position. As already explained, the alternative to the capital participation of the Economic Stabilisation Fund would be the insolvency of the Company. Therefore, the Company has a very considerable interest in implementing the capital increase. The insolvency of the Company, which is imminent without the capital increase, would probably lead to an almost complete loss of the legal position and economic participation of the shareholders. Thus, the capital increase is still the best way to maintain the legal and economic position of the shareholders. At the same time, those shareholders who wish to maintain their participation quota have the opportunity to acquire additional shares via the stock exchange due to the high liquidity of the Company's shares.

As part of their proportionality assessment, the Executive Board and Supervisory Board also considered the further consequences for the Company of the stabilisation measures and the participation of the Economic Stabilisation Fund. In principle, the Company is critical of strong "political influence", such as that which could be conveyed by the Economic Stabilisation Fund. However, in the Framework Agreement, the Economic Stabilisation Fund has undertaken vis-à-vis the Company not to exercise the voting rights from the shares created by way of the capital increase with regard to the following resolution items: Election of the auditor, election of Supervisory Board members (except for representatives of the Federal Government), adoption of the annual financial statements (if such adoption is left to the General Meeting), dividend distributions and other resolutions on the appropriation of balance sheet profits (except for measures not in compliance with

state aid law requirements), discharge of the Executive Board and Supervisory Board, approval of the remuneration system and remuneration report, decisions on measures requiring approval where the Supervisory Board has refused its approval and the Executive Board submits the measure to the General Meeting for approval, decisions on the approval of related party transactions where the Supervisory Board has refused its approval and the Executive Board submits the measure to the General Meeting for approval, management measures which the Executive Board submits to the General Meeting for decision (with the exception of matters falling within the scope of the Holz Müller/Gelatine case-law), approval of purely intra-group transformations (provided that this does not involve or serves as preparation for the transfer of shares to third parties), unless the measure which is the subject matter of the resolution is not in compliance with state aid law requirements or a contractual reservation of approval by the Economic Stabilisation Fund or in the case of resolution items which are related to a Takeover Event; the Economic Stabilisation Fund therefore, in particular, reserves the right to exercise voting rights in the case of resolutions pursuant to Section 33(2) WpÜG. This reduces the potential "political influence".

In addition, the Economic Stabilisation Fund has given an assurance that it will sell on all shares in the Company by the end of 2023 if Silent Participation I (including all coupons, if any, and any additional remuneration) and Silent Participation II-A and II-B (including all coupons, if any) have been repaid by the Company and a sale of the shares can take place at the market price, but at least EUR 2.56 plus 12% p.a., calculated for the period between acquisition and sale, whichever is higher ("Minimum Sale Price"), in compliance with the principle of transparency and non-discrimination; subject to this condition, the Company can demand that the Economic Stabilisation Fund sell all shares also after 2023. The Minimum Sale Price is to be adjusted in the event of capital and/or restructuring measures in order to achieve an economically equivalent result. To the extent that the Economic Stabilisation Fund does not succeed in selling the shares by 31 December 2023, the Company is entitled, after the repayment of Silent Participations I and II-A and II-B (including all coupons, if any, and any additional remuneration) in the period from 1 January 2024, to demand that the Economic Stabilisation Fund sell the remaining shares at the Minimum Sale Price to investors nominated by it. This also limits the "state influence" in terms of time, which, on the other hand, can be exercised during the participation by filling two seats of the shareholder representatives on the supervisory board (with one of these members, provided he/she has sufficient professional qualifications, at the same time being a member of the Audit Committee).

Further, in deviation from its system of Executive Board remuneration resolved at the General Meeting on 5 May 2020, pursuant to the Framework Agreement the Company must in future restrict the remuneration of the Executive Board and Supervisory Board during the term of the stabilisation measure in accordance with the detailed provisions of the Framework Agreement. Furthermore, the Company must ensure, to the extent permitted by law, that the bonuses, other variable or comparable remuneration components (including any group remuneration in the event of double employment) of the board members of the subsidiaries Austrian, Brussels, Eurowings, LH Cargo, LH Technik, LSG and Swiss are discontinued during the term of the stabilisation measure of the Economic Stabilisation Fund; furthermore, with the same objective the Company must work towards achieving identical agreements with the employees of the first and second management levels of the Company.

Finally, in accordance with the Framework Agreement, the payment of dividends, the repurchase of shares or other capital instruments and the performance of coupon payments or other profit distributions to recipients other than the Economic Stabilisation Fund, to which the Company is not obliged, are excluded until the stabilisation measure has been fully terminated.

On aggregate, in view of the special situation the Executive Board and Supervisory Board therefore consider the exclusion of subscription rights to be in the Company's interest, to be suitable and necessary and also proportionate. The same applies to the proposed issue price of EUR 2.56 per share.

In addition to the capital increase with an exclusion of subscription rights, the Economic Stabilisation Fund is to be granted a conversion right to shares in the Company for its Silent Participation II-A and Silent Participation II-B. These parts of the resolution proposal are based on § 10(2) WStBG. According to this provision, an agreement on the contribution of assets by the Economic Stabilisation Fund as a silent partner in a company can also grant a conversion or subscription right to shares, with such conversion or subscription right requiring the approval or authorisation of the general meeting.

On the basis of Section 10(2) sentence 1 WStBG, the Economic Stabilisation Fund is to be granted the right to demand that the Company issue ordinary shares to the Economic Stabilisation Fund in return for the full or partial contribution of the Silent Participation II-A and Silent Participation II-B approved by the Economic Stabilisation Fund Committee pursuant to Section 20(1) sentence 2 StFG at its meeting on 25 May 2020. In this respect, the subscription right of the shareholders is excluded pursuant to § 10(2) sentence 2 WStBG. Pursuant to Section 10(2) sentence 3 WStBG, such a conversion right requires the approval or authorisation of the General Meeting. The resolution to be adopted is intended to issue such consent or to grant a corresponding authorisation.

In this regard, the scope of the conversion right for the Silent Participation II-A is to be limited to the extent that the silent participation can only be converted to the extent necessary to obtain new shares in the amount of 39,849,522 shares after conversion. Therefore, the conversion right is limited to up to 39,849,522 shares. The conversion right in respect of Silent Participation II-A exists only if a Takeover Event (as defined in the resolution of the General Meeting) occurs. If the Economic Stabilisation Fund were to make full use of its conversion right, it would receive a further participation of up to 39,849,522 shares. However, the condition that the Economic Stabilisation Fund can only exercise the conversion right in the case of a Takeover Event does not apply if the Economic Stabilisation Fund assigns the Silent Participation II-A to a Third Party (the scope of the conversion right is, however, limited to up to 39,849,522 shares).

In this context, the scope of the conversion right for the Silent Participation II-B is to comprise up to 350,775,478 shares. The conversion right for Silent Participation II-B exists only for the purpose of Dilution Protection (as defined in the proposed resolution) and/or for the purpose of Coupon Protection (as defined in the proposed resolution).

Finally, the resolution to be adopted therefore provides for the creation of two conditional capitals to secure the conversion right of the Economic Stabilisation Fund. Pursuant to Section 7a WStBG, a conditional capital increase in connection with a recapitalisation pursuant to Section 22 StFG may also be resolved, in addition to the purposes provided for in Section 192(2) AktG, to grant conversion or subscription rights to the Economic Stabilisation Fund as a silent partner. Pursuant to Section 7a(1) sentence 3 WStBG, this conditional capital is not credited to other contingent capitals existing. Contingent Capital 2020/II serves to secure the conversion right of the Economic Stabilisation Fund as silent partner in Silent Participation II-A, Contingent Capital 2020/III serves to secure the conversion right of the Economic Stabilisation Fund as silent partner in Silent Participation II-B.

With regard to the exercise of the conversion right by the Economic Stabilisation Fund and the granting of shares of the Company to the Economic Stabilisation Fund, it was agreed for the new shares arising from the conversion of Silent Participation II-A that the issue price be EUR 2.56 per share; this price corresponds to the pro-rata amount of the shares in the Company's share capital and thus the lowest issue price pursuant to Section 9 AktG. This amount is lower than the current market price of the Company's shares at the time of the resolution of the Executive Board and the Supervisory Board on the resolution proposal to the Extraordinary General Meeting of the Company on 25 June 2020. With regard to the exercise of the conversion right by the Economic Stabilisation Fund and the granting of shares of the Company to the Economic Stabilisation Fund, it was agreed for the new shares arising from the conversion of Silent Participation II-B that the issue price of the new shares upon exercise of the conversion right for the purpose of dilution protection (as defined in the proposed resolution) will be the current stock exchange price at the time of conversion less 10%, and in an issue upon exercise of the conversion right for the purpose of Coupon Protection (as defined in the proposed resolution), the current stock exchange price at the time of conversion less 5.25%.

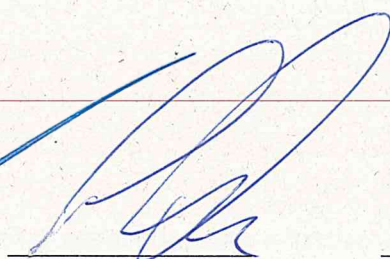
In the view of the Company's Executive Board, the issue amounts agreed in each case are appropriate for the reasons already outlined above with regard to the capital increase. In the opinion of the Executive Board and Supervisory Board, these reasons apply not only in the event of a direct capital increase, but also to the granting of a conversion right to additional new shares. As already explained, the capital increase as well as the granting of conversion rights and the creation of conditional capital are part of the overall package of the recapitalisation agreed with the Economic Stabilisation Fund. Without one measure, the Economic Stabilisation Fund is not obliged to implement the other measure. In this regard, the alternative to granting a conversion right at the lowest issue price of EUR 2.56 per share or at the current stock exchange price at the time of conversion less 10% or 5.25% would therefore solely be the insolvency of the Company, with the probable consequence of an almost complete loss for the shareholders of the Company. Against this background, the Executive Board of the Company considers the issue price of EUR 2.56 per share or at the current stock exchange price at the time of conversion less 10% or 5.25% to be appropriate, also in connection with the granting of the conversion right.

Frankfurt, June 2020

The Executive Board



Carsten Spohr
Chairman of the Executive Board



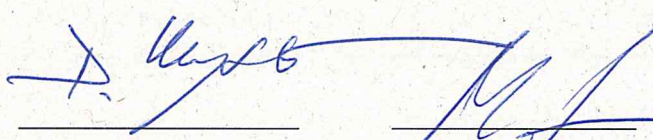
Thorsten Dirks
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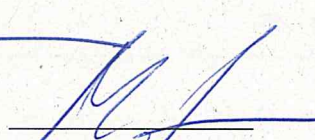
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