



July 2014

The Lufthansa Group – The Way Forward

Carsten Spohr, Chairman of the Executive Board & CEO



Agenda

1 Our business and operating environment

2 Our goals and action areas

3 Our actions planned

4 Key takeaways



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Our business and operating environment

Global megatrends affect the aviation sector, too

Economic power shifting to Asia

Global demographic trends

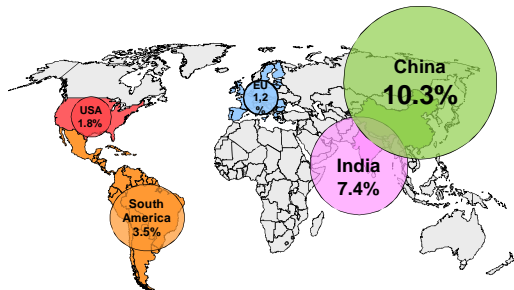
Global digitization

New centers of power and consumer groups

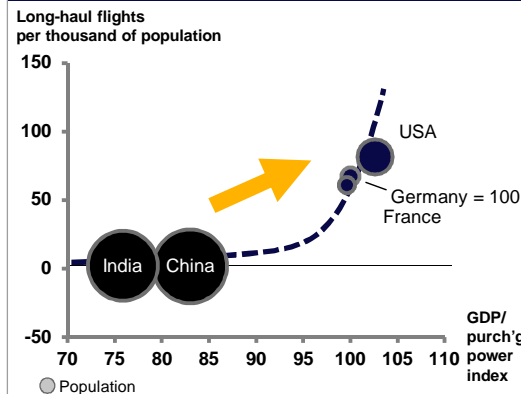
New consumer and mobility patterns

Permanent changes in all areas of life

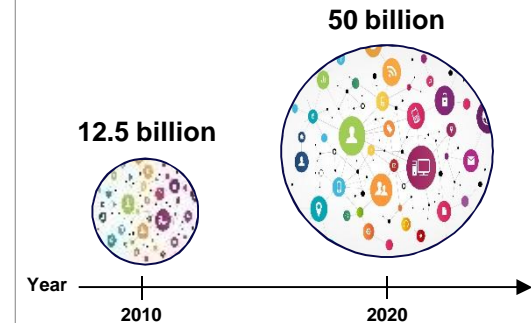
Average annual GDP growth between 2002 and 2012



Long-haul flights vs. purchasing power



Number of devices connected to the Internet



Our changing industry

Partnerships	Bilateral joint ventures gaining in importance
State-owned competitors	Economics of intercontinental air travel business being distorted by state-supported investments in airlines and airports
Low-cost carriers	Point-to-point business model is here to stay and outpacing hub-model growth
Consolidation	Overdue consolidation in Europe still only proceeding slowly
Cargo	Growing cargo capacities exceeding stagnant demand
MRO	Opportunities through global growth in fleet numbers , especially in Asia and South America
Airline catering	Highly consolidated catering market now shifting to Asia



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Our goals and action areas

The Lufthansa Group today



Our goals



... to be the benchmark again – and thus the first choice for customers, employees, shareholders and partners.

Our action areas





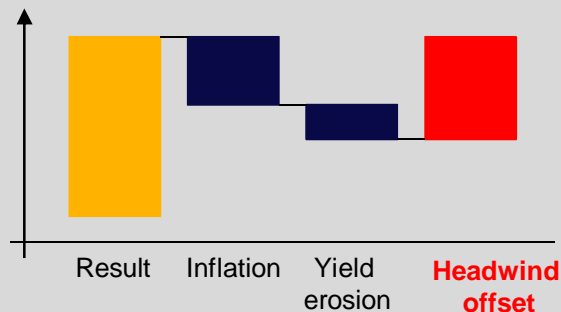
3 Our actions planned



Efficiency-raising through SCORE to be continued and made an ongoing task and concern

Continual headwinds

- Predefine actions to offset **historical 1-2% annual cost inflation**, plus **further need to be able to offset yield erosion of up to 1% a year**



Performance enhancement

- Maintain rigorous **efficiency management** as a **permanent corporate duty and concern**
- Establish and consolidate a groupwide **process** for **generating a constant stream of new ideas** and actions

Short-term measures

- **Reduce** the originally-planned **seat-kilometer capacity growth** at Lufthansa Passenger Airlines by over 50%; **remove five European aircraft and three intercontinental aircraft** in Winter 2014/15
- **Reduce cargo capacity** for Winter 2014/15 by two Boeing MD-11 freighters
- ...



With SCORE we have equipped ourselves with an ability to change, which we now need to use to shape our future. We now aim to continuously devise and develop new ideas for increasing our productivity and safeguarding our competitive credentials.

Standing out through quality leadership

The 5-Star Initiative



- Install the **new First Class** and **new Business Class** and introduce **Premium Economy**
- **Catering upgrade** for Business Class
- **Improved premium check-in** for Frankfurt and Munich
- **Transfer and arrival services**
- More **personalized service** by our cabin crew on board

Further initiatives

- Establish a **Lufthansa Group-wide “Quality Circle”** and make it **one of the Group CEO’s prime focuses and concerns**
- **Consistently continue the fleet rollover** to advanced, cost-effective and fuel-efficient aircraft
- **Further personalize** our products and services to pleasantly surprise our customers (with the aim of tripling revenues from additional services by 2020)



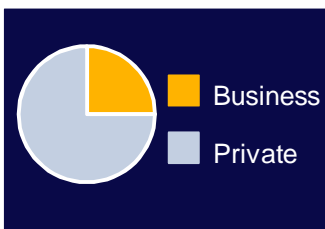
Lufthansa Passenger Airlines will be consistently developed into the first “five-star airline” in the Western Hemisphere. But this is only part of the quality drive. The Lufthansa Group aims to be the quality leader in all its markets and business areas.

Substantial growth potential in the private travel segment

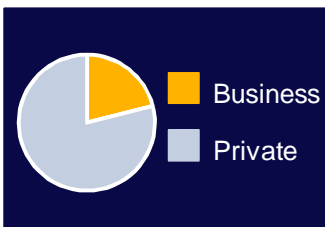
The attractive market segment of private travel from Germany



Private travel is growing faster than the business travel segment



75% of all intercontinental air travel is for private reasons



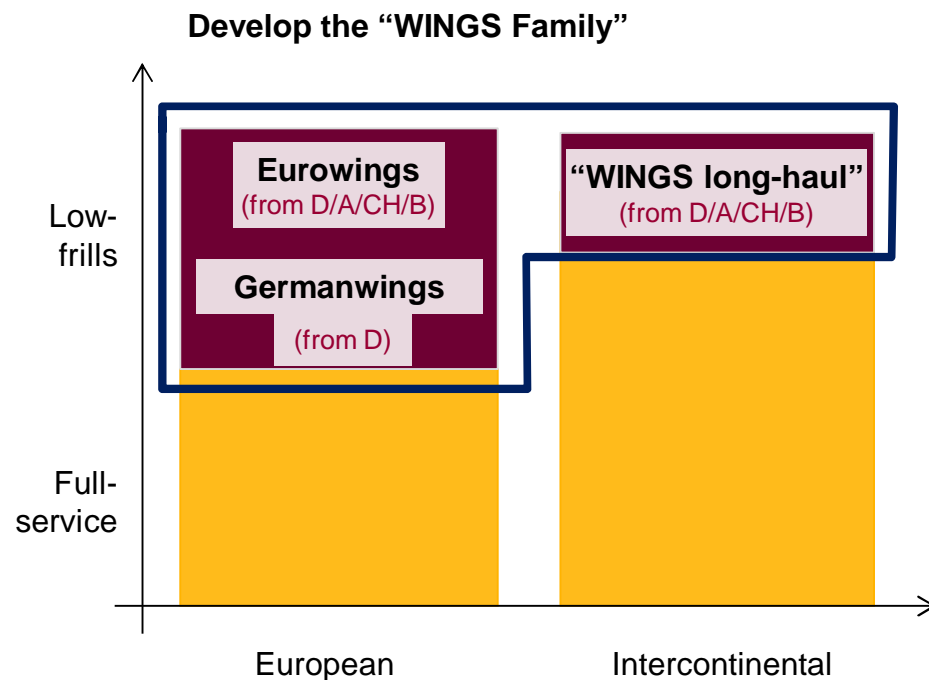
79% of all continental European air travel is for private reasons



Private travel is a highly dynamic segment in both the intercontinental and the European air travel markets. By developing competitive new products and platforms, we aim to gain a greater share of it.

Expanded product for the private travel segment

Market segments from Europe and our product offer



"WINGS" multi-platform for LH Group home markets

Germanwings

- Complete the transfer of non-hub Lufthansa routes as planned by spring 2015
- Expand fleet to up to **60 aircraft**

Eurowings ex-Germany

- Replace Bombardier CRJs with **23 Airbus A320s**
- Services to begin in spring 2015

Eurowings ex-Austria, Switzerland & Belgium

- First base in Basel with **two to four Airbus A320s**, with services to begin in early 2015
- Further locations being studied

"WINGS long-haul"

- Low-frills airline under a new brand name
- **Seven Boeing 767s/Airbus A330s** in initial phase
- Services to begin at the end of 2015



Lufthansa is bundling its point-to-point business initiatives and expanding them with the addition of a new low-frills intercontinental carrier.

Complement to the multi-hub and multi-brand product

Combination



Positioning

Uniform management

- Based on Germanwings' success

Complementary

- Complements the existing multi-hub and multi-brand product

Independent

- Separate multi-platform focusing on price-sensitive private travellers

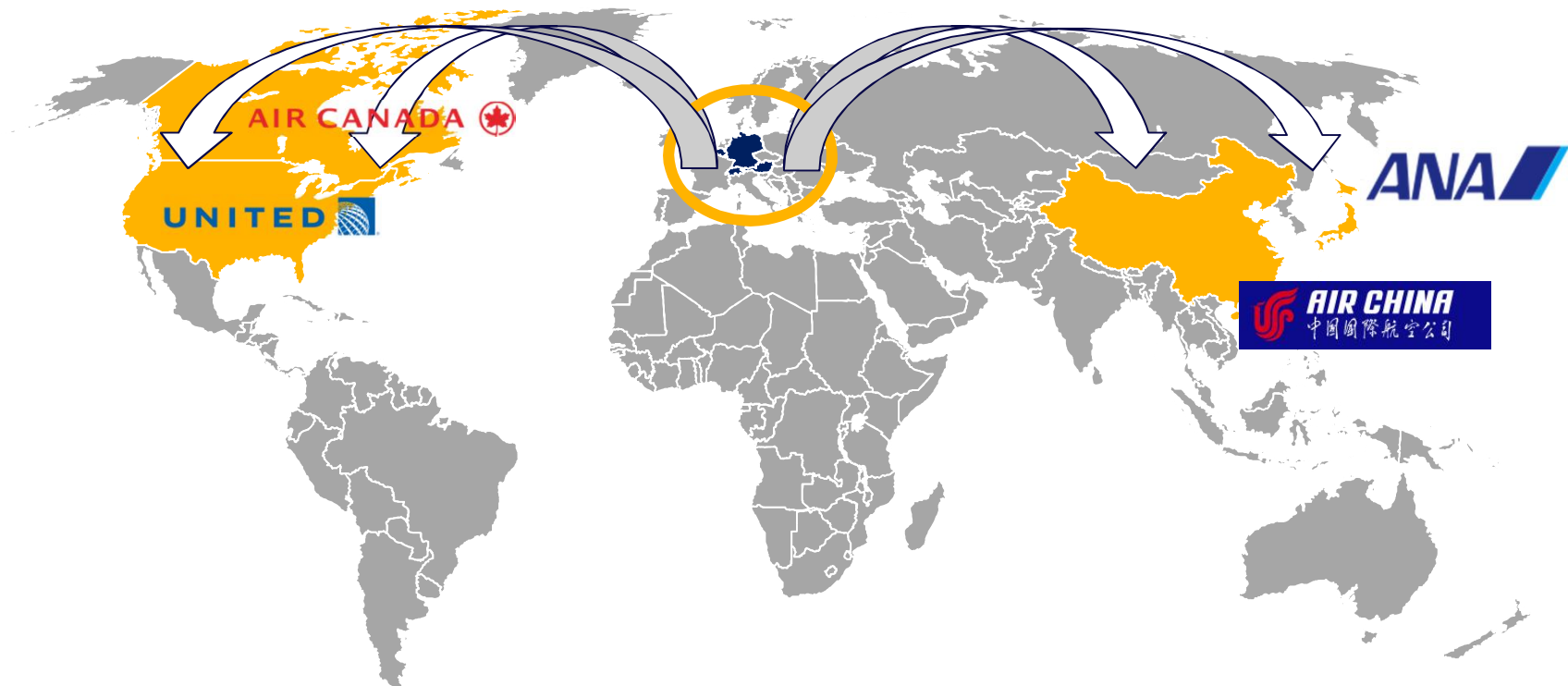


Combination of hub-based and point-to-point products creates omnidirectional service offer from all Lufthansa Group home markets. This will enable us to offer competitive products with which we can play a stronger role in the attractive private travel market.

New concepts
for growth

Intensified joint-venture partnerships with leading airlines

Sharing in the growth of the world's biggest economies



Our joint ventures enable us to **participate in growth beyond our European home markets, exploit synergies** and offer our customers an even **better service** and even **better quality**

Tapping the growth potential of Lufthansa Technik, LSG Sky Chefs, Miles & More and AirPlus

Leading positions

World MRO
market leader

 Lufthansa Technik

World airline catering
market leader

 LSG
Sky Chefs

Leading provider of
business travel
management
solutions

 AirPlus
INTERNATIONAL

Europe's biggest
customer loyalty
program

 Miles & More
Lufthansa

Enhance attractiveness

Expand the product and its customer base, e.g. with Miles & More:

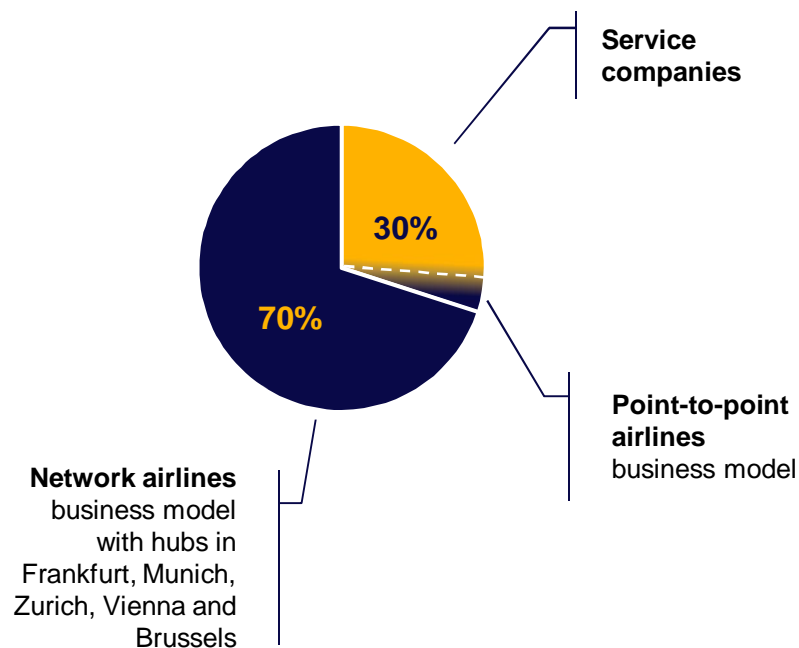
- Enhance the program's appeal for "less frequent flyers"
- Enlist new partner companies, also from beyond the travel sector
- Develop a mileage program for point-to-point travel
- Expand the opportunities for earning and redeeming miles



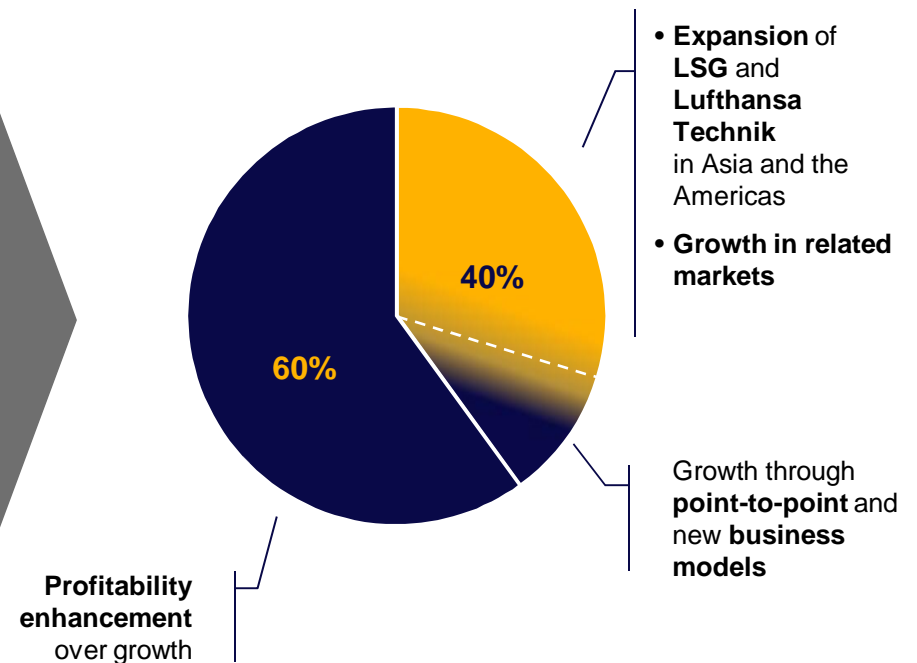
Lufthansa Technik and LSG Sky Chefs both offer attractive development potential. Miles & More is a further valuable Group asset whose growth potential we aim to better exploit. The same applies to our AirPlus subsidiary.

Our growth as an aviation group

Current revenue shares



Target revenue shares for 2020



The global aviation market continues to expand. But the growth prospects are limited in our classic core European business. So we intend to tap new growth segments. By 2020 we aim to have raised the share of total revenue coming from our service companies and new business models from today's 30% to 40%.

Standing out through innovation and digitization

Internally

- Strengthen our **internal innovation culture** by creating a new Group Innovation Unit and giving greater impetus to existing innovative projects
- Establish a double-digit-million **“innovation budget”** to expedite the **development of innovative products and ideas**
- **Consistently promote existing innovative projects within the Lufthansa Group** (Lufthansa Technik Innovation Fund, eCargo, Board Connect, SMILE and similar)



Externally

- Establish a separate **“Innovation Hub”** company in **Berlin**, to get close to the world of start-ups and the digital technology scene
- Develop close collaborations and partnerships with **Silicon Valley** companies, to gain access to disruptive ideas
- Use the benefits and the potential offered by some **300,000 passengers a day** to **develop new products and services** with partners



We aim to invest EUR 500 million in innovations throughout the Lufthansa Group between now and 2020. And, alongside quality, the whole issue of innovation will be firmly anchored with our Group CEO.

Further action areas

Effective & lean organization

Culture & leadership

Value based steering

A lean and more dynamic organization

- A groupwide **program** for stronger **process orientation**
- **Flatter hierarchies** and faster **decision-making processes**



Develop the Group's full **combined strength**

Leadership and culture

- **Rotation principle** and **compensation** based on achieving group-level targets for **management staff**
- Stronger **alignment to performance** and more responsibility for each individual **employee**
- Strengthen the communal notion and spirit of an **aviation group**



Raise **performance and passion**

Value based steering

- Consider replacing the present CVA-based system with a **simpler and more transparent alternative**
- Adopt new KPIs:
 - **return on invested capital**
 - **adjusted EBIT after deduction of capital costs**



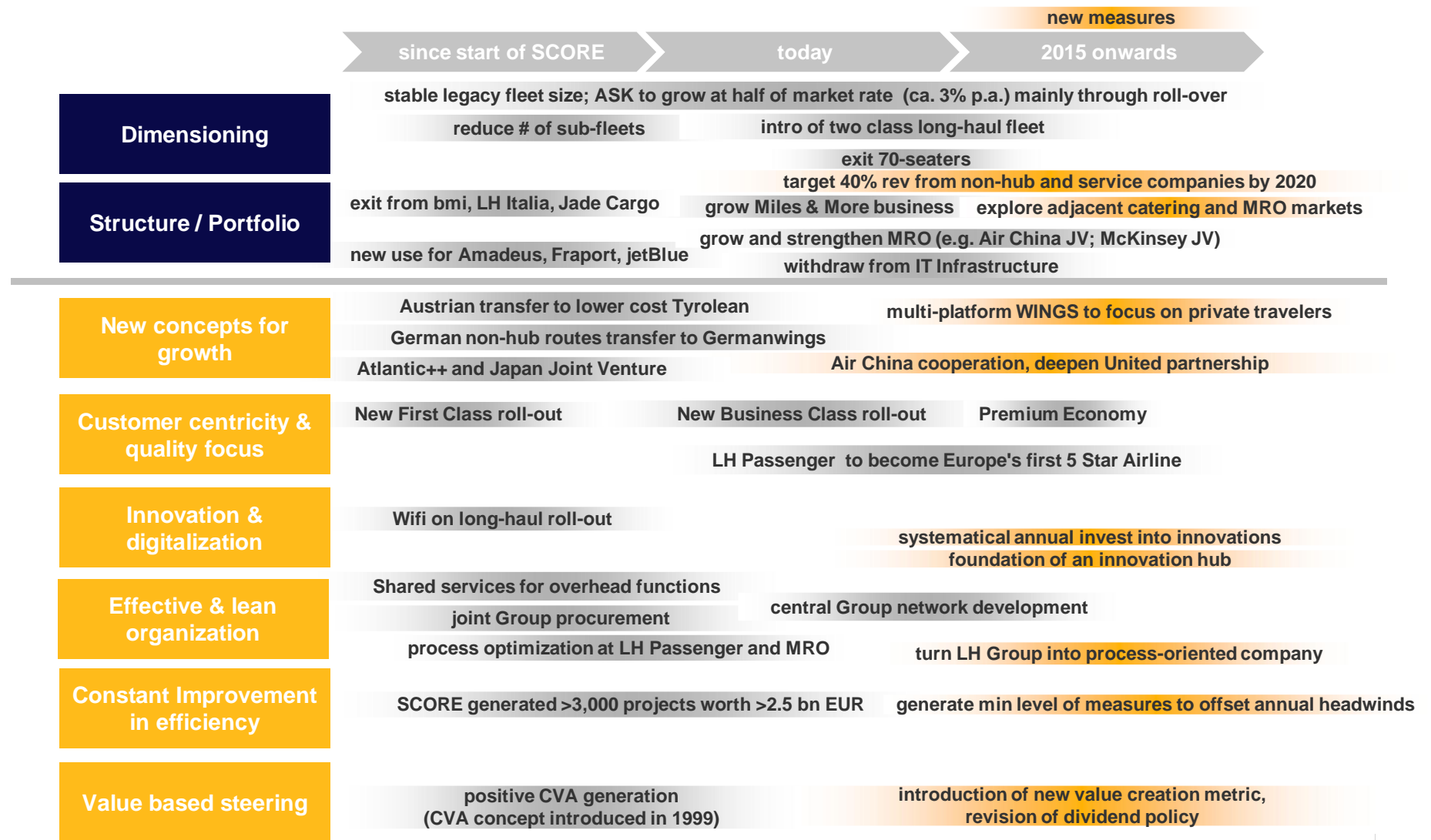
Optimize **comparability and capital allocation**



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Key takeaways

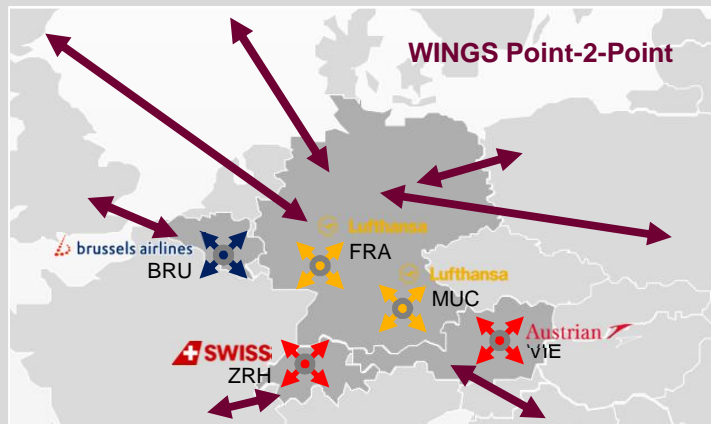
Transformation of Lufthansa Group continues



Securing our home markets and implementing our intercontinental strategy

Sustainably securing our home markets

- Multi-hub and multi-brand system for Frankfurt, Munich, Zurich, Vienna and Brussels complemented with **“WINGS” multi-platform system for point-to-point travel**, to offer customers an omnidirectional product from/to our home markets



Clear responses to intercontinental competition from the Far East

- Consistently further develop Lufthansa into a **premium product and premium brand**
- Joint ventures with leading airlines in the world’s four biggest markets** and economies: the USA, China, Japan and Canada
- Further addition of **“WINGS long-haul”** as a **second brand** for secondary markets geared more to private travel



Enhance viability and competitive credentials through consistent premium focus, by expanding joint ventures and by developing the new “WINGS” platform.

Key takeaways

**Stronger focus on quality leadership in all areas;
further develop Lufthansa into a 5-star brand**

New airline concepts for the intercontinental and European point-to-point segment

Strengthen our service companies and expand into related markets

**More innovation to stand out from our competitors,
including “Lufthansa Innovation Hub” in Berlin**

**Optimize the use of our combined strength as an aviation group
and enhance our intragroup processes**

**The Lufthansa Group:
First choice in aviation
for customers, employees, shareholders and partners**

