

**Accounts Press Conference / Analysts' Conference
on the Annual Financial Statements for 2010
Report by the Chairman of the Executive Board and CEO
Deutsche Lufthansa AG
Christoph Franz
Frankfurt, 17 March 2010**

**Embargo: Beginn of speech
To be checked against delivery**

Ladies and Gentlemen,

Welcome to our conference, my first as Chairman and CEO of Lufthansa. Stephan Gemkow has been up here more often and has a little more 'experience' in that respect. Together, we shall today be presenting you with the report for the past business year. As always, we shall also be casting a glance into the future, and giving you our forecast for Group's development in 2011.

There are surely many adjectives that come to mind when referring to the past year, but 'boring' certainly is not one of them. The earlier part of the year was still affected by the after-effects of the global financial and economic crisis. The hard winter, costly pilots' strike and volcano eruption on Iceland, with the subsequent airspace lockdown, then did the rest to dampen any hopes we had for a positive development of our business.

But the business environment changed and we seized the opportunities offered to us by the recovery of the economy. Today we are able to present you with figures that no one could have expected at the beginning of the year.

Not even my predecessor, Wolfgang Mayrhuber, who I would like to specially thank. It was him who was largely responsible for driving the Group forward and steering its steep climb during the second half of the year.

Ladies and Gentlemen,

And now to some of the **key figures** for the **2010** business year:

- The operating profit was posted at 876 million euros and marks a more than fivefold increase in comparison to the previous year's figure.
- The development of the Group result was also extremely positive. After the previous year's negative result, we were able to close 2010 with a positive result of around 1.1 billion euros (also owing to a positive one-off tax effect of 400 million euros).
- The number of passengers during the past year rose to a new record level, with over 91 million passengers being flown by the Group's airlines. Those are record figures even without the consolidation effects.
- We also set new records with our revenue growth and operating result in the Cargo business segment.
- We of course also continued to invest in the future of our company: In total, the Group invested 2.3 billion euros, most of which – around two billion euros – was invested in aircraft.

The fact that we continued to consistently implement our fleet strategy paid off.

We were able to take our **first four A380s** into service in time to cope with the increased demand in passenger traffic. And as things currently stand, we will be receiving the next four A380s during the course of the year (two in March).

In summary, we can conclude that Lufthansa ended the past year on a far better note than initially expected, which can essentially also be attributed to the major improvements in the results of the Passenger Airline Group and the Cargo business segment. Of course the noticeable recovery of the market also provided us with favourable tailwinds that helped us.

However, we also helped ourselves with:

- Our experience as a crisis tested and proven airline;
- Our ability to react to market changes quickly and flexibly;
- Our solid strategic, financial and operational positioning and;
- Our excellently functioning and highly motivated team of employees and management staff.

Ladies and Gentlemen,

The upward trend at Lufthansa in 2010 was also visible in the development of the share price. The value of the **Lufthansa share** recorded a rise of around 39 % during the past year and increased almost twice as much as the DAX in what was a good year at the stock exchanges. That is the first piece of good news for our shareholders; the second is that the Executive and Supervisory Board of Lufthansa shall be proposing a **dividend** of 60 **cents (eurocent)** per share at the annual general meeting on 3 May.

As you are aware, this step could not have been justified economically a year earlier; however, we are pleased that the overall economic situation and the largely positive development of our business, places us in an altogether different position this time around.

Ladies and Gentlemen,

What do the figures and developments of the past year tell us?

- Lufthansa has emerged from the crisis even stronger. We have proven that we are able to grow and widen the gap to our competitors even during and after times of crises.
- Lufthansa has significantly improved its market position and developed a far greater earning power during the upswing.
- Lufthansa has equipped itself well to deal with the industry's future growth: We have saved costs, invested in the future and made provisions all at the same time.

Our business model with five business segments, and the passenger and cargo airlines as our core business, has proven very robust and solid. That is also confirmed by the development of the **Group's individual business segments**, which all closed the 2010 business year with a positive result and contributed to our very good overall result.

The altogether positive development of **Lufthansa Passenger Airlines** first had to overcome the obstacles that lay waiting for it at the start of the year. The airspace lockdown alone resulted in revenue and profit losses in the triple-digit millions.

The impressive climb that followed was therefore all the more pleasing. A total of 59 million passengers flew with Lufthansa Passenger Airlines in 2010. The recovery of the market was especially noticeable in the premium segment. The operating result enjoyed a marked improvement compared to the previous year, and the same could be said for the development in revenue, which was supported by the development in the global network.

The cornerstones of this success were:

1. The focus on the management of corporate customers;
2. The systematic expansion of high-value market segments;
3. The continued development of growth markets, such as the USA, China and India and;
4. The realization of sales synergies within the Airline Group.

On the whole, Lufthansa continued to expand its position in intercontinental traffic and secured new market shares.

- One milestone here is the **expansion of the route network** to North America, which has gained substantially in momentum since the launch of our **Atlantic++ transatlantic joint venture**. The close cooperation of Lufthansa Passenger Airlines with its partners Air Canada, Continental and United Airlines, means that we are together currently able to offer around 280 transatlantic flights to 61 destinations per day. Atlantic++ already has a market share of 29 %. This figure will increase further with the full integration of all of our Group partners (SWISS, AUA, bmi) in this joint venture. It should be completed by the end of the year.
- Following the very successful start of Atlantic++, we will now also become active in other regions: The preparation for a joint venture with our Japanese Star Alliance partner, All Nippon Airways (**ANA**), were going according to plan. We intend to maximize market shares in traffic between Europe and

Japan through joint capacity planning and coordinated sales strategies. The approval of the competition authorities in Japan was expected around the middle of the year. This might change due to the current developments.

(Current Developments in Japan – Earthquake / Tsunami)

The natural disaster in Japan has left us all in deep shock. We are in touch with our employees there and our partner ANA, and we have offered our help. We are grateful that – according to the latest reports – no Lufthansa staff were among victims of the catastrophe. But as everybody else we are extremely worried about the situation and the magnitude of this tragedy. We have – for now up until the weekend – put together a special flight schedule. We will be redirecting all Tokyo flights from Frankfurt and Munich to Osaka and Nagoya via Seoul. As a precautionary measure, we have also been having the aircraft returning from Japan scanned for radioactivity by experts – so far all results are negative.

I beg your pardon, but there can be no elegant bridge here for me to continue. We were on the subject of capacity / route network expansions:

- We have also been able to expand capacities in Asia.
- The offer to South America (Bogota) and Africa (PNR = Pointe Noire) has also been expanded.

However, we did not only invest in the expansion of our fleet and route network. Lufthansa Passenger Airlines also continued to consistently improve its **on-board and ground products**, by investing in quality that benefits the customer directly – in our Economy, Business and First Class products - in the improvement of our cabin fittings and furnishings, and our lounges.

The **highlights** during the past year included:

- The re-introduction of **Flynet**, our on-board Internet system, means that our customers are now online again above the clouds (Flynet has just been distinguished as the “Product of the Year 2011”).

- The **new First Class**, which accompanied the introduction of the Airbus A380, is a significantly upgraded product and now even more exclusive.
- The **Economy Class** product has also been developed further and now offers a personal in-seat screen on the A380 with an extensive entertainment programme.
- The remainder of the fleet has also been being successively refitted since 2010.
- The ground product has witnessed the number of Senator Lounges in Munich double and the largest Senator Lounge to date opened in Frankfurt (with the very first integrated Jet Friends area for children), to name but two examples.

And up to date: The Supervisory Board yesterday gave its approval for an order of 30 aircraft of the Airbus A320neo family for Lufthansa Passenger Airlines and 5 Boeing 777 freighters for the business segment Logistics.

We have of course also saved and are continuing to review, and where necessary, correct our processes and cost basis, despite, or rather, especially in order to secure the financing of our considerable investments. The **CLIMB 2011** programme to safeguard earnings at Lufthansa Passenger Airlines continues to be implemented and, as it stands today, will achieve the projected sustainable reduction of costs by one billion euros as of 2012.

The phasing out of the 50-seater segment is essentially completed and the realignment of the regional airlines at Lufthansa Passenger Airlines (CityLine, Eurowings and Air Dolomiti) shall also result in a sustained reduction of the unit costs. These steps will allow us to considerably improve our competitiveness in the especially hard-fought continental segment. In addition, the personnel unit costs will be reduced by 10 %. The joint projects with external and internal suppliers to optimize processes and reduce costs will also realize the planned savings by the end of 2011.

Ladies and Gentlemen,

The development of business at the Group airlines varied as expected. **SWISS** can look back on a successful business year: Over 14 million passengers and the tripling of operating profit represent a very strong performance:

- The increase in demand and significant upward trends in the intercontinental and freight segments,
- effective cost management and
- the strong domestic market in Switzerland,
- including its recovery as a financial centre,

played decisive roles in recording this success. The success story at SWISS continues and that is of course especially pleasing to me.

Austrian Airlines is continuing to work intensively on the restructuring and reorganization of the airline. The early successes are already visible and reflected in the result. In the meantime they are also able to benefit more from the synergies. The significant recovery in long-haul traffic and the improving corporate customer business have contributed to a positive development. The airline has also succeeded in further consolidating its market position at the Vienna hub.

On 1 April 2011, Thierry Antinori will assume the position of Chairman of the Executive Board at Austrian Airlines. He takes over after spending more than a decade in charge of marketing and sales at Lufthansa Passenger Airlines. He is going to set the future course of the airline together with Dr. Malanik and Dr. Bierwirth, and steer it towards profitable growth. Austrian Airlines is in the air, but it has not yet reached its destination.

The restructuring measures are also starting to show early successes at **British Midland**. The implementation of all of the staff-related measures was already completed during the course of the past year. In total, we reduced over 800 jobs, a bitter and painful step, but one that was economically necessary.

A further measure on the cost side was the adjustment of the fleet's capacity, which has resulted in a significant increase in its productivity. On the whole, bmi was

however not able to profit from the global upswing in intercontinental traffic as its route network is limited to the short and medium-haul routes. We were however able to significantly reduce the losses (as with AUA).

Germanwings, the Group's low-cost subsidiary, remains on its successful course. This is also reflected in the countless awards that it received in different categories. Although it was able to continue on its course of growth, it did however post a negative result due to certain one-time special effects, such as the pilots' strike and airspace lockdown that both hit Germanwings especially hard. Despite implementing the necessary measures to safeguard earnings, the airline was unable to fully compensate the losses.

Inner-European traffic continues to be especially hard-fought and only generate low average yields. The market remains a difficult one and we are therefore also looking at solutions across the airline boundaries and increasing cooperation with the other airlines in the Group. One such solution is that customers at Germanwings have now been able to collect miles for the Miles & More programme on all Germanwings flights since 1 September 2010. The same conditions apply for miles as on Lufthansa flights.

Ladies and Gentlemen,

Lufthansa Cargo had to work especially hard to hold the course during the financial and economic crisis and showed great foresight in doing so. The structures remained intact and Lufthansa Cargo mastered the market changes successfully with cost and capacity flexibility. Our freight business segment was consequently able to post a record operating result for the 2010 business year. Lufthansa Cargo has therefore succeeded in realizing an impressive turnaround following the crisis-related loss in 2009.

Of course this result was to a large extent also due to the rapid recovery of the global air freight market; however, it remains a strong performance nonetheless. One major cornerstone of the past year's success was the integration of the Austrian Airlines freight segment into the Lufthansa Cargo Group; this enabled Lufthansa Cargo to

expand its capacities further, particularly with regard to Eastern Europe. Our customers there have been able to benefit from an even denser network since the summer of 2010.

Lufthansa MRO had to sustain some revenue losses during the first half of 2010. It was the last business segment of the Lufthansa Group to be hit by the global economic crisis and was hit very late. As expected, Lufthansa MRO was not able to maintain its operating result at the high level of the previous year, but it remains a distinctly positive one. Lufthansa MRO caught up more and more during the second half of the year and continued on its path to growth with a strong fourth quarter.

Lufthansa Systems was faced with a difficult economic environment in 2010.

It was a year marked by declining sales figures at airlines and great restraint when it came to investments. Despite the decline in revenue, Lufthansa Systems still managed to again contribute a positive operating result to the Group result in 2010. During the second half of the year, the company launched "LSY JETZT!", an extensive restructuring and cost reduction programme, with which it plans to achieve a short to medium term improvement of its revenue and result. On the whole, our IT business segment intends to accomplish a leaner corporate structure and secure its long-term competitiveness.

LSG Sky Chefs has now been the world's market leader for airline catering for over a decade. Its customers include more than 300 airlines from around the world. The acceleration in demand in the aviation industry has also seen the demand for catering services rise again. The LSG Sky Chefs Group was consequently able to not only increase its revenue during the 2010 business year, but also more than double its operating profit in comparison to the previous year. This is a highly pleasing development, especially as the previous year's result also included a positive one-time effect.

(Closing Remarks / Outlook)

Ladies and Gentlemen,

The year 2010 showed that Lufthansa can successfully master bad weather and is immediately ready to profit when the weather turns around again.

Our finances are in order, our quality fulfils the high Lufthansa standards and our customer satisfaction levels remains very high. Lufthansa is a driving force of innovation and a company focussed on long-term success and profitable growth.

The new Management crew has now been at the helm for almost 100 days. Carsten Spohr, who previously headed Lufthansa Cargo, is the newest member of the Lufthansa Group's Executive Board and responsible for Lufthansa Passenger Airlines. Together, we have all set ourselves some major objectives for the future, for we are aware that 2011 will be no walk in the park.

Many **uncertainties** lie ahead in **2011**.

Competition in Europe will remain extremely hard-fought and price pressure shall continue to increase. This will also be the case in long-haul traffic, particularly to Asia and Africa.

The unbridled growth of the state-owned **Gulf carriers** is another aspect that should be viewed with a very critical eye. They are currently building the largest long-haul fleet in the world and their aim is to shift the global passenger flows to their own hubs and replace the European hubs as economically important centres.

Europe is therefore in danger of losing its role as one of the logistics centres of the world. Tens of thousands of jobs could be lost with the corresponding consequences for the economy, but also major consequences for the environment. Detours would have to be flown on many routes, resulting in significantly longer flight times and up to 40 % more emissions, for example, on the routes from Europe to Asia.

The **German air traffic tax**, which was introduced in January, only in Germany and not EU-wide, is another uncertain factor whose true implications we are currently not yet able to assess. How this tax will affect the booking figures for the entire year remains to be seen; however, it is a fact that it will hit our customers where it hurts. The tax will naturally also hit us hard, as we are of course unable to pass it all on to

our customers and must bear a significant portion of it ourselves in our company's result.

A further aspect is the fact that the tax affects European airlines that fly to the EU in a much more serious way than non-European airlines. As a result, European air traffic could become even more detached from global developments. Another point of criticism is the fact that the planned integration of European air traffic in emissions trading as of 2012 is not occurring within a global context. And the air traffic controllers' **Single European Sky**, the largest environmental project in the EU, continues to progress far too slowly.

Ladies and Gentlemen,

Among the many uncertainties that we will face this year are the catastrophe in Japan as well as the political unrest in North Africa. A different topic, but also on our "list of uncertainties" for 2011 are of course the **kerosene costs**. Oil prices are currently extremely volatile. Lufthansa continues to implement its fuel hedging measures and they enable us to compensate increasing prices, at least as they peak; but I will let Stephan Gemkow tell you more about that later.

With these developments in view, our strategy, to also not make any compromises in our fleet modernization programme during times of crises, has been proven right.

That is also the case when we look ahead and at the environment. Our industry has set itself ambitious goals when it comes to lowering the burden on the **environment** and **Lufthansa** also assumes a **pioneering role** in this area, where the use of the latest technologies is our most effective weapon. Only they have allowed us to reduce the specific kerosene consumption by over a third during the past two decades and consequently not only lower the burden on the environment, but also on our budget.

When we see the volatile environment in which we find ourselves in the aviation industry, a reliable political framework is all the more important. I am therefore especially pleased that we have been able to secure an internationally renowned media expert in Klaus Peter Siegloch as the President of the Bundesverband der

Deutschen Luftverkehrswirtschaft (Federal Association of the German Air Transport Industry). He should give the immense significance of the air transport industry greater weight, not only in Germany.

Ladies and Gentlemen,

It is still far too early to attempt a sound **forecast**; however, we remain confident despite the mentioned uncertainties and the economic forecasts remain pleasing. Our confidence is also motivated by the medium-term growth forecasts:

- The number of passengers should increase by 5.9 % per year until 2014, whereby the growth is especially based on the strong demand in China.
- According to the latest forecasts, air freight will increase by 6.4 % per year until 2014 and we of course also want to benefit from this development.

For Lufthansa and the 2011 business year we expect our revenue to continue to grow and our **operating result to increase further**. That is also why we plan to employ 4,000 new staff as announced at the beginning of the year.

And, we also want to create value again in 2011. We do not want to grow for the mere purpose of being a giant, but rather to achieve profitable growth in an industry that is marked by price pressure, losses and crises – particularly in Europe.

Ladies and Gentlemen, let me now conclude my report and pass you on to Stephan Gemkow, who will provide you with some more detailed figures on the 2010 business year. I thank you for your time and look forward to answering your questions afterwards.