Accounts Press Conference and Analysts' Conference on the Annual Financial Statements for 2011

Speech not to be released before: March 15th, 2012 – beginning of speech (Christoph Franz)

Speech by
Christoph Franz
Chairman of the Executive Board and CEO
Deutsche Lufthansa AG

Frankfurt, March 15th, 2012

- To be checked against delivery -

Press Conference / Analysts' Conference
on the Annual Financial Statements for 2011
Report by the Chairman of the Executive Board and CEO
Deutsche Lufthansa AG
Christoph Franz, Frankfurt, 15 March 2012

Embargo: Beginning of speech

– To be checked against delivery –

I. Welcome Address

Good morning Ladies and Gentlemen,

Welcome to our conference. In addition to providing you with the key figures for the past business year, I will also be focussing on three other areas:

- The elaboration of our strategic orientation
- The cornerstones of SCORE, our new earnings improvement programme
- The current framework conditions governing our industry

Mr. Gemkow will subsequently be presenting you with the more detailed figures for our business segments and Group airlines. And of course, we will also be casting a glance into the future – even if we all know how hard it is to attempt a forecast so early in the year.

II. Key Figures for the Group / Development of the Business Segments

Let me begin with the good news: All of the Lufthansa Group's business segments ended the 2011 business year with a positive operating result. And that is not something that should be taken for granted, as you can see from our competitors, and taking into account the challenging framework conditions of the past year. However, our airlines recorded results significantly below the previous year's figures due to countless external factors.

Let me begin with the most important key figures:

- We have increased the Group's revenue by almost 9%.
- We recorded an operating profit of 820 million euros.

- The Group result with a loss of 13 million euros is less satisfactory – to some extend due to the negative earnings and measurement effects of bmi.
- The number of passengers has again increased: In 2011 we broke through the 100 million passenger barrier for the first time (100.6 million passengers) – an increase of over 8%.
- Lufthansa again made considerable investments in 2011: around 2.6 billion euros – the greatest part of which was invested in fuel-efficient and significantly quieter aircraft.
- Despite these record investments, we were able to post a free cash flow of over 700 million euros.
- Our equity ratio remains at a high level and stands at 28.6%. At the same time however, our net indebtedness has, as expected, increased to 2.3 billion euros. During the long term, we must maintain the development of our net indebtedness at an acceptable level.
- On the whole, the Group's financial profile remains stable. Our earnings power was strong enough to cover our capital costs and create 99 million euros of value (CVA).

We will be proposing a per-share dividend of EUR 0.25 at the Annual General Meeting, as an exception to our dividend policy. In doing so, we would like to allow our loyal, long-term shareholders in particular to share in the operating success of 2011, in an acceptable scope for our financial profile. At the same time, we would like to send out a signal of our gratitude for the confidence and loyalty shown to us during a difficult year at the stock exchanges.

Ladies and Gentlemen,
All the Group's business segments have worked hard. They have all been able to assert themselves in global competition. The **Passenger Airline Group** business segment was able to win back market shares in Germany and Europe, and is also globally well-equipped with commercial joint ventures such as Atlantic++ or Japan+. The development of business at the Group's different airlines was varied, which comes as no surprise.

Lufthansa Passenger Airlines has successfully completed the Climb 2011 project.

The number of passengers is 11% above the previous year's figure. Revenue has also increased; however, the result has been halved as a result of the countless additional burdens, such as the German air traffic tax and the skyrocketing oil price.

The costs for fuel alone increased by over 25% in the passenger segment in comparison to the previous year.

- *Overall costs for fuel in the Passenger Airline Group: 5.8 billion euros.*
- *Additional costs for the Passenger Airline Group: 1.2 billion euros.*
- *Additional costs for the entire Group: 1.3 billion euros.*

The results in European traffic have improved – that is the good news; however, this progress has been overshadowed by the increased pressure and competition in intercontinental traffic *(and the resulting drop in revenue)*.

SWISS again ended the business year on a very successful note in 2011. The result was however below the previous year's figure, due to the negative effects of the strong Swiss Franc.

Austrian Airlines faces further drastic restructuring measures. The operating result improved slightly compared to the previous year; however, it remains a distinctly negative one. The situation is critical. Jaan Albrecht, who took over as CEO and Chairman of the Executive Board in November of last year, is in tough negotiations with the collective bargaining partners and all the other stakeholders to ensure the survival of AUA. Within this context, the Supervisory Board of the Lufthansa Group yesterday approved a measure to increase the equity of Austrian Airlines by up to 140 million euros; however, the condition for this is that the promising restructuring measures be implemented. The Supervisory Board also approved the lease of seven aircraft from the A320 family by Austrian Airlines in order to harmonize AUA's medium-haul fleet; in return, all 11 aircraft from the Boeing 737 family will be removed from the fleet and sold. The aim of these decisions is to send a clear signal of support for the restructuring programme being implemented by Austrian Airlines. In return, we expect an indispensable contribution from works councils and trade unions; and a significant step in our direction to accommodate market-oriented, competitive employment conditions on board the aircraft. We also appeal to the Austrian Government to create the necessary framework conditions for us to operate our airline and to honour the promises made to us when buying AUA. Above all, we expect the abolishment of the Austrian air traffic tax, because this tax was only introduced after the purchase of AUA; and it has made the conditions for AUA even more difficult in international competition.

But let me get back to our accounts 2011:

Germanwings optimized its route network and offloaded its unprofitable routes in 2011. It has also continued to expand its commercial cooperation with Lufthansa. The introduction of the German air traffic tax has seen our low-cost carrier record considerable losses during the 2011 business year. The 5.4% share of sales that was taken up by the German air traffic tax meant that Germanwings was the worst hit airline. The operating result was a clearly negative one.

A particular focus last year was on **British Midland**. Management and staff put up a tough battle, but unfortunately, it was not enough. Despite extensive restructuring measures, the turnaround could not be achieved and there was and is unfortunately no alternative to the sale.

Lufthansa Cargo was able to achieve the second best result in its history, despite a slowdown in growth momentum. The night flight ban, which has been in place since the end of October 2011, has however already resulted in considerable burdens.

Lufthansa Technik made another substantial contribution to the Group’s profit. Our MRO business segment was able to almost equal the previous year’s result, despite some additional burdens caused by certain long-term contracts.

The operating profit at **Lufthansa Systems** improved significantly. The restructuring measures are taking effect; however, on the whole, the conditions remain difficult for our IT subsidiary.

LSG SkyChefs can look back on a successful 2011 business year. The Group’s catering business segment was yet again able to increase revenue and profit.

And finally – the business development at our service and financial companies is pleasing too, and revenue and results have been significantly improved.

<u>In summary, we can conclude:</u>

- We have delivered an acceptable result – nothing more and nothing less.
- The structure of our Group (as a group of companies related to air traffic) again had a stabilizing effect.
- We have made considerable investments in the future of the company: in an energy-efficient and quiet fleet – a step of existential importance. The very high investments in innovative on-board products and products on the ground are also of crucial significance in order to keep up in the hard-fought competition for our customers. [ITB: Presentation of the new Business Class and new private travel marketing concept] We are determined to succeed by providing the very best quality.
- We have continued to expand our market position in all of our business segments.
- During the past year, we also re-adjusted and elaborated our strategic orientation, because in the future we need better results in order to maintain our position of industry leadership and secure the future of Lufthansa.

III. Strategic Objectives and SCORE

We are aware that there are still an ample number of things that we can improve (even further). The focus here is on more than quality targets and customer promises; what we are talking about here is structural change.

Our market conditions have changed drastically, and they will continue to change further. In order to stay ahead in this hard-fought competition, we too must continue to change. After all, we all know the saying: “He who does not move with the times, will be removed over time.”

We have already initiated or implemented a number of changes during the past year.
We need higher earnings, because we will be adding 170 new aircraft with a list price of around 17 billion euros to our fleet during the next six to seven years alone. These

are sums that have to be earned and financed; and that is what we are working to achieve. We must do so by offloading our foreseeable permanent loss-makers, as we have already done by closing down Lufthansa Italia and the intended selling of bmi.

We need financial latitude.

- The volatility of our industry
- The constantly rising fuel prices
- The high location and employee-related costs in Germany and in Europe
- The absolutely necessary investments in a modern fleet and product innovations
- The crises that we experience regularly
- The significant additional costs as a result of the German/Austrian introduction of the air traffic tax and Europe's unilateral move to introduce emissions trading

...There is no way that we can sustain all these burdens in the long term without earning higher profits.

We intend to achieve them with **SCORE**, our new Group earnings improvement programme that was announced at the beginning of February. All of our business segments and airlines, as well as all of the administrative departments, are involved. They will all make their contributions to achieve a sustainable improvement of at least 1.5 billion euros in the overall result by the end of 2014.

Why now?

Because we are now still fortunate enough to be able to bring about the necessary changes from a strong position.

- Our company is built on solid financial foundations.
- All of our business segments are global leaders in their sectors.
- Our airline group is the largest in Europe in terms of passenger and revenue figures.

This is a sound basis for the further development and future growth of our company. After all, despite its vulnerability to cyclical fluctuations, the aviation industry will remain a growth industry and an engine of the global economy in the future. If we want to maintain our position in global competition and not get left behind, then we must at least grow with the market. With average annual growth rates in our industry at 3-5% during the past years, these are by no means exaggerated growth and expansion fantasies. However, in order to be able to achieve this goal, we need the financial resources to invest in our business segments, most importantly, in aircraft, and in on-board and ground products for our customers.

We expect that the pressure from the Gulf region and the low-cost carriers shall continue to increase. And we can only encounter it with a blend of the highest available quality combined with improved competitiveness and cost structures.

That takes me to the initial measures that we have already approved as part of **SCORE**. They include internal measures in the business segments, measures that apply throughout the business segments and measures that apply throughout the Group. The SCORE targets for each business segment were agreed upon at our last Executive Board meeting.

The initial Group-wide projects include:

1. Group Procurement: We will consistently optimize the purchasing structures within the Group, in order to also tap synergy effects in this area. A crucial lever here is the joint ‘cultivation’ of procurement markets. We already expect a contribution of 200 million euros towards the improvement of the result during the ongoing year.
2. A significant reduction in the complexity of neighbourhood traffic: The keywords here are:
   - The further optimization of capacities and schedules – *between the hubs, as well as between the hubs and decentralized destinations*.
3. The reduction of costs in the entire administration area – including the business segments and Management – for example with:
   - The targeted merging of overhead functions to ensure leaner administrative departments (avoiding the duplication of efforts) and the

bundling of Group-wide service functions. In total, we intend to achieve a 25% reduction in costs here, 80% of which in personnel costs.

Last month, we already introduced immediate measures, by ordering a halt in the employment of new staff in administrative areas and the immediate reduction of costs for material, consultants and travel. The halt in investments that we already introduced at the end of last year will remain in effect until further notice.

All of the Group's airlines and business segments are already rigorous hard to implement concrete measures to achieve the set targets.

It is going to be hard work, because in order to structurally and sustainably strengthen the Group's earning power, we are going to have to rebuild the Group itself and we have to be willing to make some unpopular decisions.

<u>Our aim is clear:</u> We want to remain the number one in Europe in the long term and we also want to remain one of the top airlines worldwide. This is not an end in itself, but a matter of securing the future of Lufthansa, protecting the jobs of our employees for the future, and safeguarding the future of Germany as a hub of aviation. That is why we shall also be calling on our system partners, the airports and air traffic managers, to make contributions within the scope of SCORE.

IV. POLITICAL Framework / Requirements

To have a stake in the future Germany - as every other successful economy – needs a healthy and competitive aviation sector.

It is therefore important that the political decision makers place a far greater focus on the importance of a healthy aviation industry, as an engine of growth and prosperity; because understanding and promises alone are not going to be enough.

- About 800,000 people in Germany are either directly or indirectly employed by the aviation industry and tourism.

- The tourists who fly to Germany also make a significant contribution to value creation in the country: In 2009, they spent over 15 billion euros, securing yet another 330,000 jobs.
- 30% of the overall value of all German exports are transported by air freight.

We want to be successful in competition, but the structures and conditions in our home market of Europe must be right and not work against us. There is an urgent need for action here: (A few examples)

1. The unilateral German air traffic tax must be abolished.

2. Under no circumstances can we have both the German air traffic tax and EU emissions trading (ETS) at the same time.

3. If we must have ETS, then it must be introduced worldwide, and not distort competition for Europe alone. That was what the German Government agreed and repeatedly promised. If this cannot be ensured, then ETS must be suspended until we can find a conclusive solution. The introduction of ETS now threatens to result in exactly what we had feared: a double penalization of the EU airlines with (possible) retaliatory acts in non-European countries.

And 4. It is time to finally lay down some rules for industrial action on the part of mini trade unions; we need options to minimize escalations and third party claims, and to make it more difficult to blackmail a large, export-oriented economy like we are.

None of this is new and none of it is impossible. It does not cost the world, merely the will to remain reliable. If nothing changes here, then we will be lacking the funds to invest in modern aircraft and future-oriented jobs, and that, in a very bad way.

Allow me at this time to quickly say a thing or two about the new runway. On the positive side we can say that there has been a significant improvement in punctuality here in Frankfurt. The new runway is a political sign of hope that infrastructure measures are still possible in Germany; a thank you to all that made it possible.

Bottlenecks have been eliminated and there are fewer holding patterns over the Frankfurt region. That has allowed us to already reduce daily CO_2 emissions by over 17 tons during the first three months. On the negative side, we have the strict ban on night flights after 23:00 hours in Frankfurt that was implemented with the opening of the new runway. This has not only been a major problem for the freight flights, but also for smooth passenger traffic. During the first three months alone, 19 flights operated by different airlines had to be delayed onto the next day. The result was thousands of stranded passengers who ended up in hotels that we had to pay for and not reliably at their destinations.

The hearings before the Federal Administrative Court on the night flight ban in Frankfurt have been underway for a couple of days now. We are not even going to be heard there, as our appeal was not granted. We nevertheless hope for a decision that will at least allow us to operate the originally planned night flights – which were already reduced by two thirds – from the “old” runways here at Europe’s largest freight airport and one of the largest hubs in the world. Germany needs air freight. And air freight needs the night.

IV. Outlook for 2012

And finally, Ladies and Gentlemen,
Allow me to offer you a brief outlook for 2012: The first 10 weeks have already been anything but boring and no one can say how much further the oil price shall continue to rise.

The recent strike at Frankfurt Airport meant not only a major burden for flight operations, but also for many of our customers. The mere threat of the strike already resulted in a significant drop in bookings.

However, we are also expecting many good things during 2012, particularly on the product side, where it will be felt by our customers:

- The new Boeing 747-8i is on its way and will enter service in May with our new Business Class that was just presented at the ITB. (with a completely flat 1.98 m long bed)

- The opening of the new airport in the capital – and our tailor-made offer – will see us open a new chapter in Lufthansa's history with Berlin.
- We are also strengthening our private travel segment and increasing the focus on our online customers at Lufthansaholidays.com.
- In October, we will be opening our new (A+) Terminal in Frankfurt.
- And we will this year be laying the foundations for the terminal expansion at our Munich hub.

All in all these will offer good growth opportunities in Germany. That gives us an advantage over Paris, London and Madrid. Incidentally, they do not have to deal with night flight bans.

Those are the positive and good things that we can look forward to during the coming year. Unfortunately, the situation in the global economy means that the outlook is currently rather subdued. The unresolved debt problems of certain countries and the resulting implications for the banking sector, as well as the dramatic rise in the oil price during recent weeks, are contributing to the uncertainty, which we are also feeling in our business.

We are therefore prepared for inconsistent and difficult framework conditions. A well-founded forecast for 2012 is not yet possible from today's standpoint; however, based on the development of the framework conditions, our estimates currently suggest an operating profit in the mid three-digit million euro range.

Let me make the message clear: We are determined to face the competition and also remain the industry leaders in the future. We are in a position to do so by our own means; we have prepared corresponding measures; and already achieved the first results.

The Executive Board is fully determined to maintain its course towards success and I would be pleased if you accompany us with your benevolence. I thank you for your time and attention and now pass on to Stephan Gemkow.