



Lufthansa Group



Analyst and Investor Conference Call FY 2016

Carsten Spohr,
CEO and Chairman of the Executive Board

Munich, 16 March 2017

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Lufthansa Group successfully on track with good results in 2016

Highlights Financial Year 2016

Strong financial development

Adj. EBIT with 1.75bn EUR (incl. 100m EUR strike costs)
on previous year's level

Clearly value creating: EACC of 817m EUR

Equity ratio raised to 20.6%



Good operating performance

Successful capacity management
and steering measures

Continuous modernization of fleet

Unit costs reduced by -2.5%



Strategic agenda successfully implemented

New commercial JVs in Asia

Eurowings expansion to >160 aircraft

Group reorganization





Lufthansa Group



Analyst and Investor Conference Call FY 2016

Ulrik Svensson,
CFO and Member of the Executive Board

Munich, 16 March 2017

Adjusted EBIT approximately on previous year's level

FY and Q4 2016 operating KPIs and key profit figures at a glance

Network Airlines			Point-to-Point Airlines			Aviation Services		
	FY '16	Q4 '16		FY '16	Q4 '16	<i>in m EUR</i>	FY '16	Q4 '16
ASK	+4.6%	+6.2%				Adj. EBIT³	225	-46
RASK (constant currency)	-5.8%	-5.9%				Δ year-on-year	-87	-15
CASK¹ (constant currency; ex-fuel)	-2.5%	-6.1%						
Fuel cost benefit (m EUR)² (year-on-year)	899	101						
Strike costs (m EUR)	100	100						

<i>in m EUR</i>	FY '16	vs. PY	Q4 '16	vs. PY
Revenue	31,660	-1.2%	7,790	+0.5%
EBIT	2,275	+35.7%	-55	+55.2%
Adjusted EBIT	1,752	-3.6%	75	-39.5%
Net income	1,776	+4.6%	-75	-50.0%
Dividend per share ⁴	0.50 EUR	unchanged		

¹ CASK incl. pension changes due to tariff agreement with UFO (652m EUR): -5.9% (FY16)

³ Includes Logistics, MRO, Catering, Others and Consolidation

² Including Lufthansa Cargo

⁴ Proposal for dividend payment

Stronger balance sheet and increased value generation

Key balance sheet and cash flow figures at a glance





Network Airlines			Point-to-Point Airlines			Aviation Services			
<u>Balance Sheet</u> <i>in m EUR</i>			FY '16	vs. PY	<u>Cash Flow</u> <i>in m EUR</i>			FY '16	vs. PY
Net financial debt			2,701	-19.3%	Operating cash flow			3,246	-4.3%
Pension provisions			8,364	+26.2%	Net invest			2,108	-17.6%
Equity ratio			20.6%	+2.6pts.	Free cash flow			1,138	+36.5%

<i>in m EUR</i>	FY '16	vs. PY
ROCE¹	9.0%	+1.3pts.
EACC	817	+153.3%

¹ ROCE excl. pension changes due to tariff agreement with UFO (652m EUR): 6.5%

Strong performance of Lufthansa Passenger Airlines

Segment overview FY 2016

<i>in m EUR</i>	Passenger Airline Group				
Revenue vs. PY	23,891 -608	15,409 -657	4,471 -71	2,153 +51	2,060 +151
Adj. EBIT¹ vs. PY	1,527 +22	1,135 +254	414 -15	58 +6	-91 -129
Adj. EBIT Margin¹ vs. PY	6.4% +0.3pts.	7.4% +1.9pts.	9.3% -0.1pts.	2.7% +0.2pts.	-4.4% -6.4pts.

Logistics

Revenue vs. PY	2,084 -271
Adj. EBIT vs. PY	-50 -124
Adj. EBIT Margin vs. PY	-2.4% -5.5pts.

MRO

Revenue vs. PY	5,144 +45
Adj. EBIT vs. PY	411 -43
Adj. EBIT Margin vs. PY	8.0% -0.9pts.

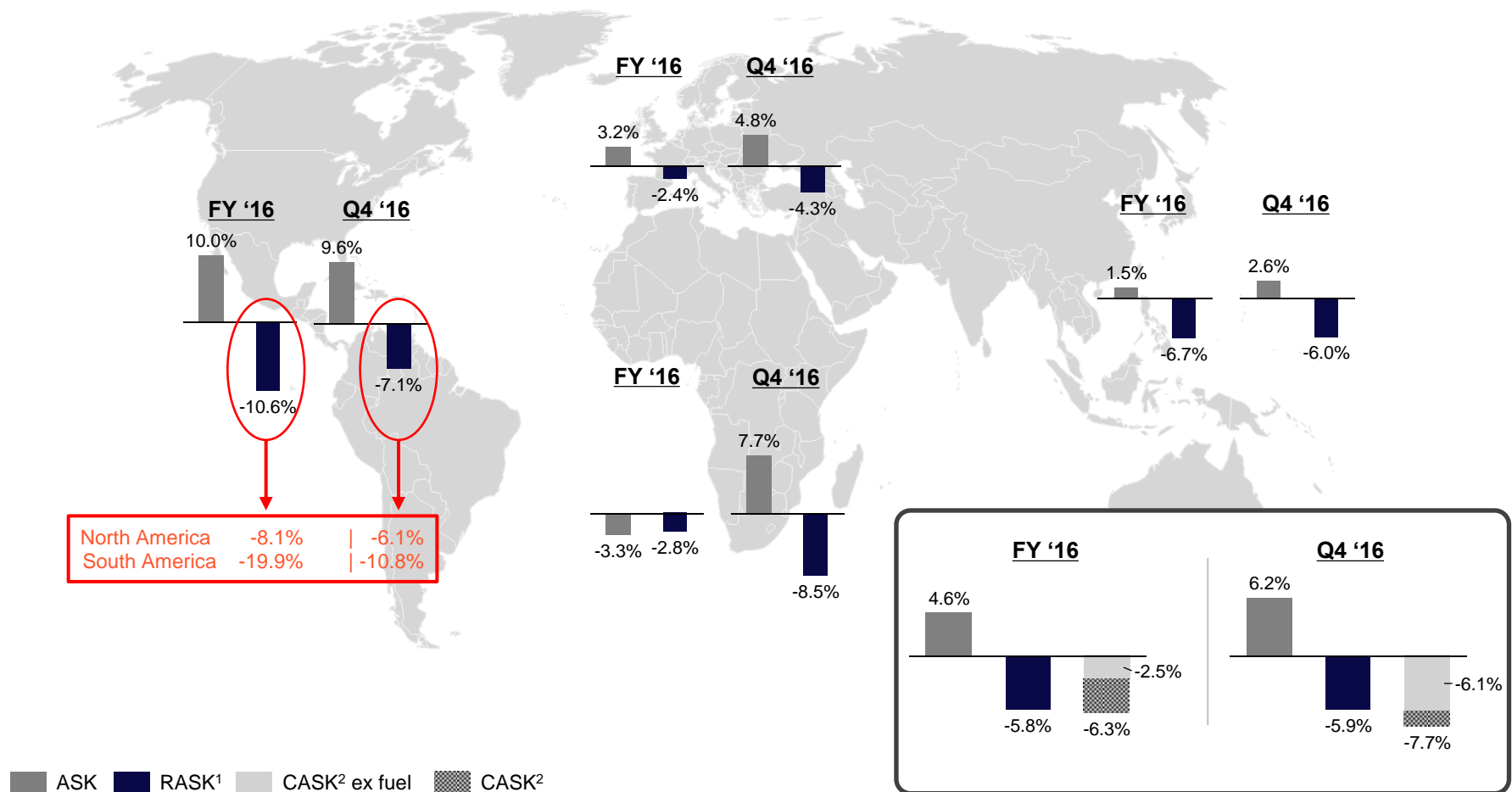
Catering

Revenue vs. PY	3,194 +172
Adj. EBIT vs. PY	104 +5
Adj. EBIT Margin vs. PY	3.3% --

¹ SunExpress und SN Brussels proportionally included in Passenger Airline Group

Pressure on unit revenues, but Q4 better than expected

Operating KPIs Passenger Airline Group

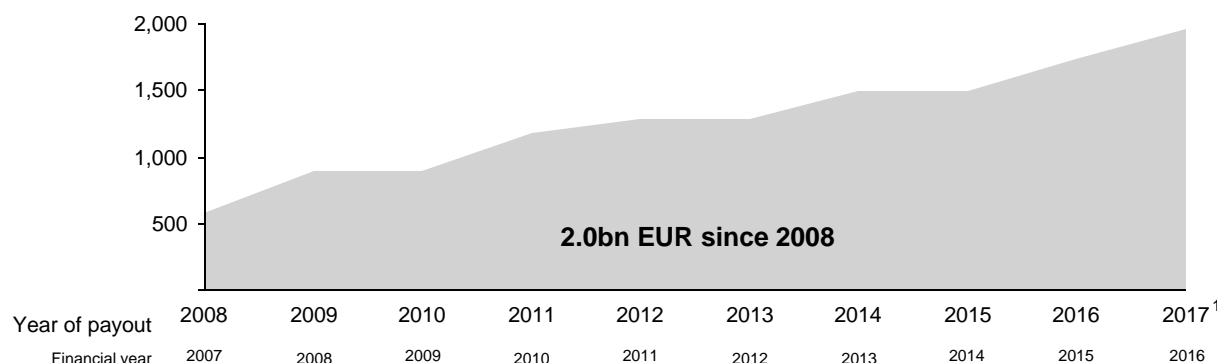


¹ excl. currency; ² excl. currency and UFO effect

Shareholders to participate through established dividend policy

Dividend payment and policy

Cumulative Dividend Payments in m EUR



~ 3%
average
dividend
yield p.a.
since 2008

Source: Annual Reports
Lufthansa Group

Dividend Policy

FY 2016

Target

Base	EBIT	2,275m EUR
Pay-out	10 - 25%	10.3% = 14.4% excl. UFO one-off (0.50 EUR / share ¹ = 234 m EUR)
Restriction	Local GAAP result = max. payout	Local GAAP result allows for payout
		Optional scrip dividend

Continuous
dividend
payments

¹ Proposed dividend

LH Group expects Adj. EBIT 2017 slightly below previous year

Forecast Lufthansa Group 2017

Network Airlines	Point-to-Point Airlines	Aviation Services ¹
<p>ASK +4.5% organic growth²</p> <p>RASK (constant currency) Less negative than last year FX to further support reported figure</p> <p>CASK (constant currency; ex-fuel) Reduction at FY16 level Driven by individual cost reductions and change in mix effect</p>	<p>Additional fuel costs of c. 350m EUR³ thereof c. 150m EUR from stronger USD; expected fuel costs: 5.2bn EUR; (at Brent forward of 57 USD/bbl; 1.06 USD/EUR)</p> <p>Small positive contribution from Brussels Airlines and Air Berlin wet lease</p>	<p>Flat development at other business segments</p> <p>Differing performances among single group companies</p>
<p>No major change in restructuring costs compared to previous year</p>		

¹ Includes Logistics, MRO, Catering, Others and Consolidation

² Organic growth excluding Brussels Airlines and Air Berlin wet lease

³ As of 28 Feb 2017; not including Brussels Airlines; details in appendix of presentation



Lufthansa Group



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Carsten Spohr,
CEO and Chairman of the Executive Board

Munich, 16 March 2017

Our goal: #1 for customers, shareholders, employees and partners

Execution of strategy based on three strategic pillars



¹ Germany, Austria, Switzerland and Belgium



Network Airlines: Implementation of revenue and cost measures

Premium positioning, innovation driver and margin improvement



Increasing revenues

Reducing costs

Strong revenue backbone

Example



One single LH Group revenue management



70% of long-haul revenues covered by commercial JVs

Efficient and modern fleet

Example



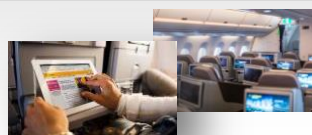
Successful phase-in of C Series, A320neo and A350

-20% cash operating costs

40 new aircraft in 2017

Premium positioning & new products

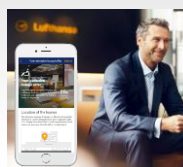
Example



>180 A/C with broadband internet

Innovation & digitalization

Example



500m EUR dedicated funds

Modernizing labor cost structures

Example



New schemes for all employees

Agreement in principle reached with VC

Planning reliability due to industrial peace until 2022



Eurowings: Successful growth with unique market position

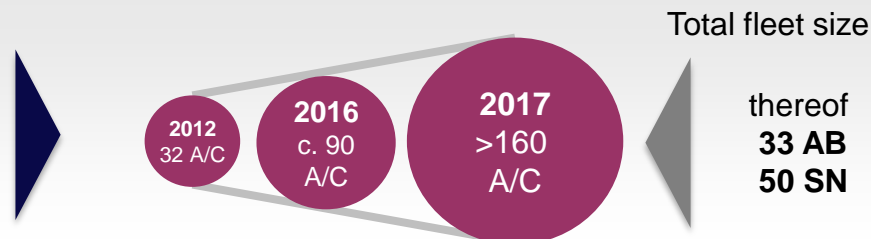
Growth with low unit costs in point-to-point segment



Organic growth and active consolidation

Increasing scale: >160 a/c

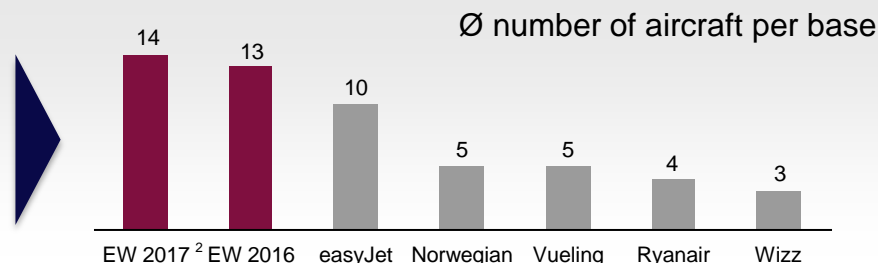
1 out of 3 short-haul aircraft in LH Group



Unrivalled market penetration

#1 in nearly all bases¹

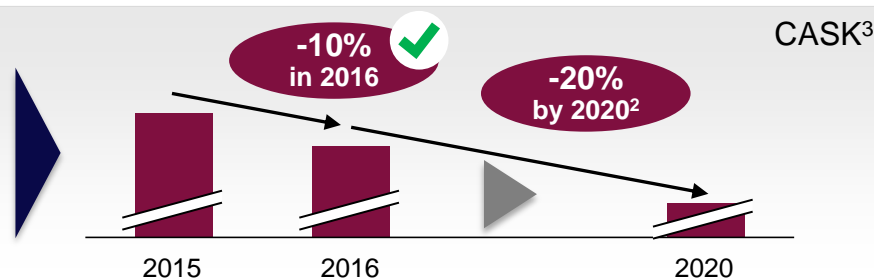
Twelve bases by year-end 2017



Constantly reducing costs: 30% by 2020

c. 10% CASK reduction achieved in 2016

Another 20% will follow until 2020



¹ In some cases jointly with Group Airlines ² Incl. Brussels Airlines and wet leases of 33 a/c from Air Berlin ³ CASK excl. fuel, ETS, FX and project costs



Aviation Services: Optimizing the core and exploring growth options

Innovative growth concepts complement product portfolio

Optimizing existing business



- 80m EUR result program launched
- Cargo fleet reduced by 2 MD11 in 2016 and 1 MD11 planned in 2017



- Result improvement programs launched in all product divisions
- Closure of loss-making unit



- Pilot operation for central production in Eastern Europe
- Reviewing European network

Growth & Exploring New Business

- Extending JV Partnerships, e.g. Cathay Pacific Cargo, ANA Cargo, United Cargo (in 2017), etc.

- Strategic Partnerships with OEMs, e.g. Pratt&Whitney, General Electric, MTU
- Digital MRO services

- Strong growth of buy-on-board business through Retail in Motion
- Growing convenience retail business

Strategic agenda unchanged and consistently implemented

Summary and Outlook

► Lufthansa Group developed strongly in 2016

- Adj. EBIT of 1.75 bn EUR on previous year's level
- Stable margin in demanding environment
- Clearly value creating with EACC of 817m EUR
- Unit cost reduction of 2.5%

► Adjusted EBIT 2017 expected to be slightly below previous year

- Lower unit costs to partly offset higher fuel cost and lower unit revenues at airlines
- Brussels Airlines and Air Berlin wet lease to contribute slightly positively in first year
- Aviation Services with overall stable profit contribution

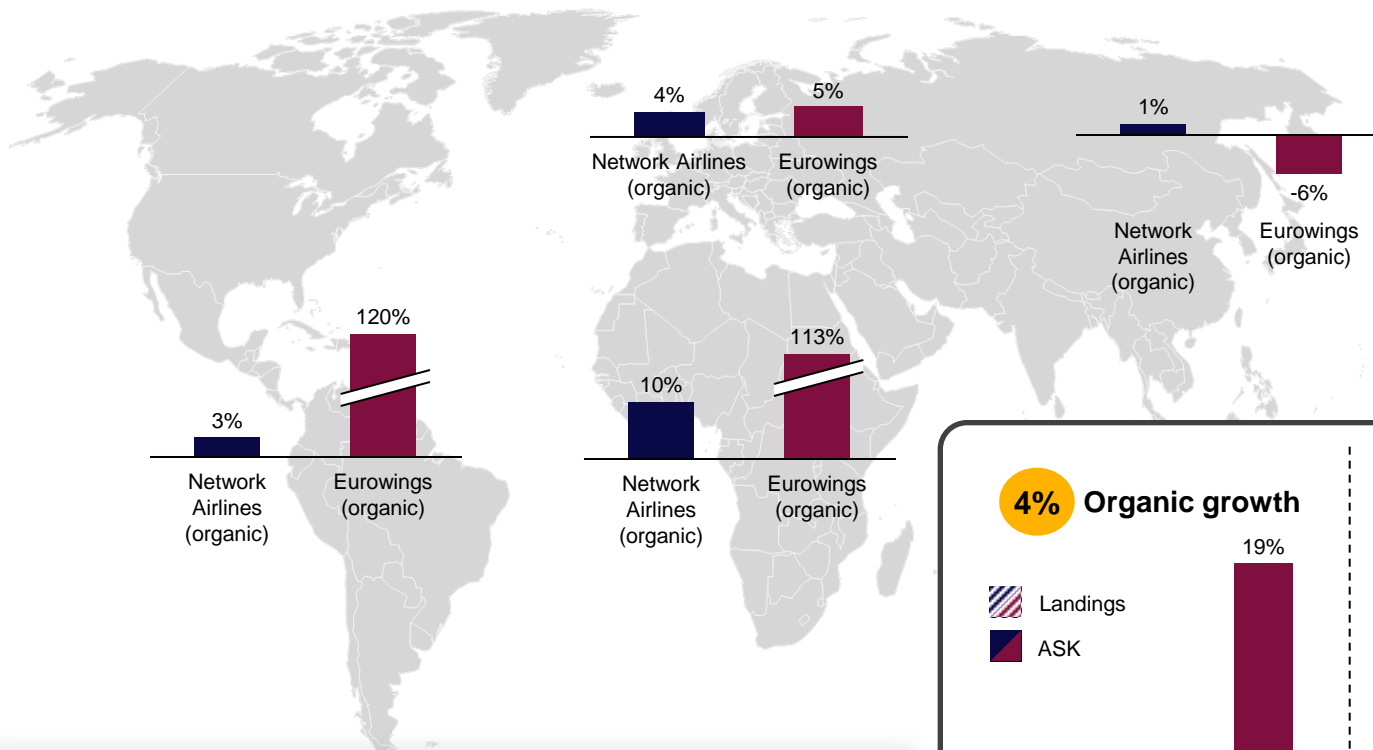
► Focus on implementation: Strategic agenda will be consistently put into action

- Margin improvement and strengthen premium positioning of Network Airlines
- Driving growth and consolidation at Point-to-Point Airlines
- Optimizing the core business and exploring growth options at Aviation Services

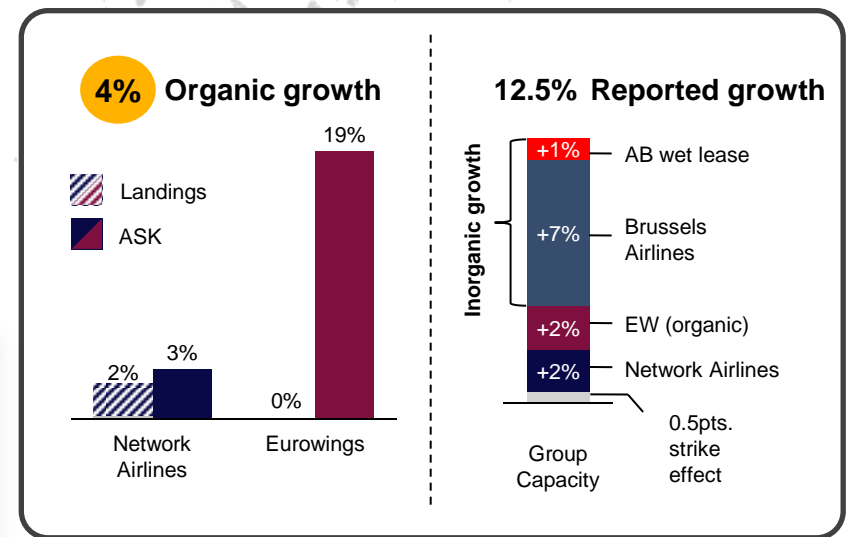
Appendix
– supplementary information –

Focus on capacity discipline, growth driven inorganically

Lufthansa Group capacity growth 2017 per region



- **4% organic, 8% inorganic growth**
- **Reduction of market capacity by up to 20 aircraft**



All capacity plans indicative and subject to change

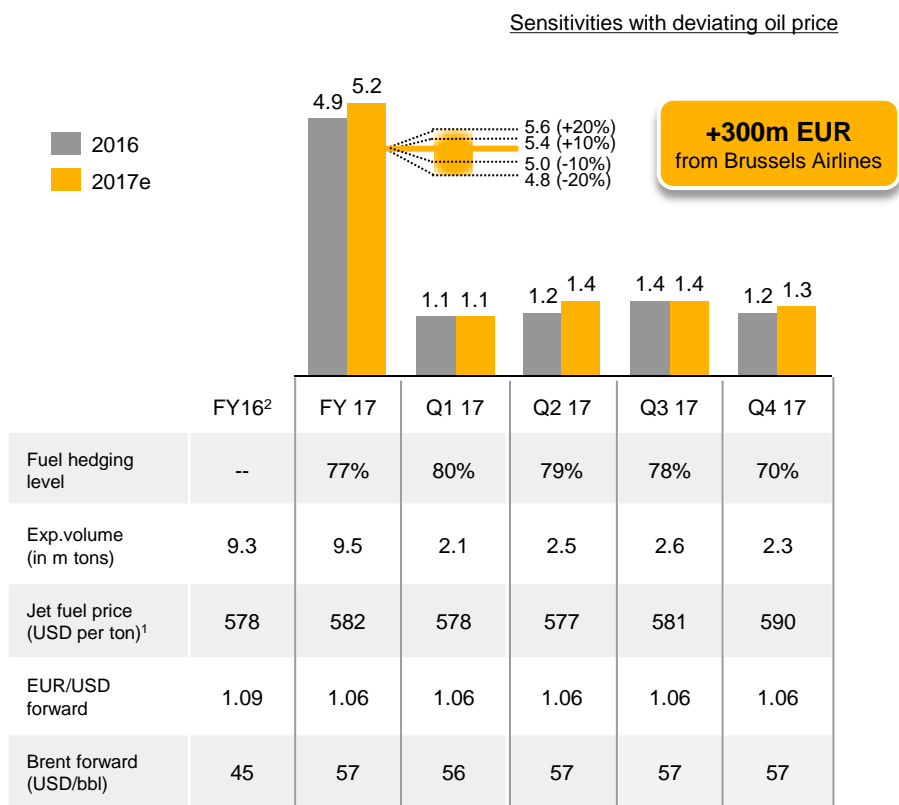
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Appendix
– financial figures FY 2016 –

Fuel costs increase due to stronger USD and higher oil prices

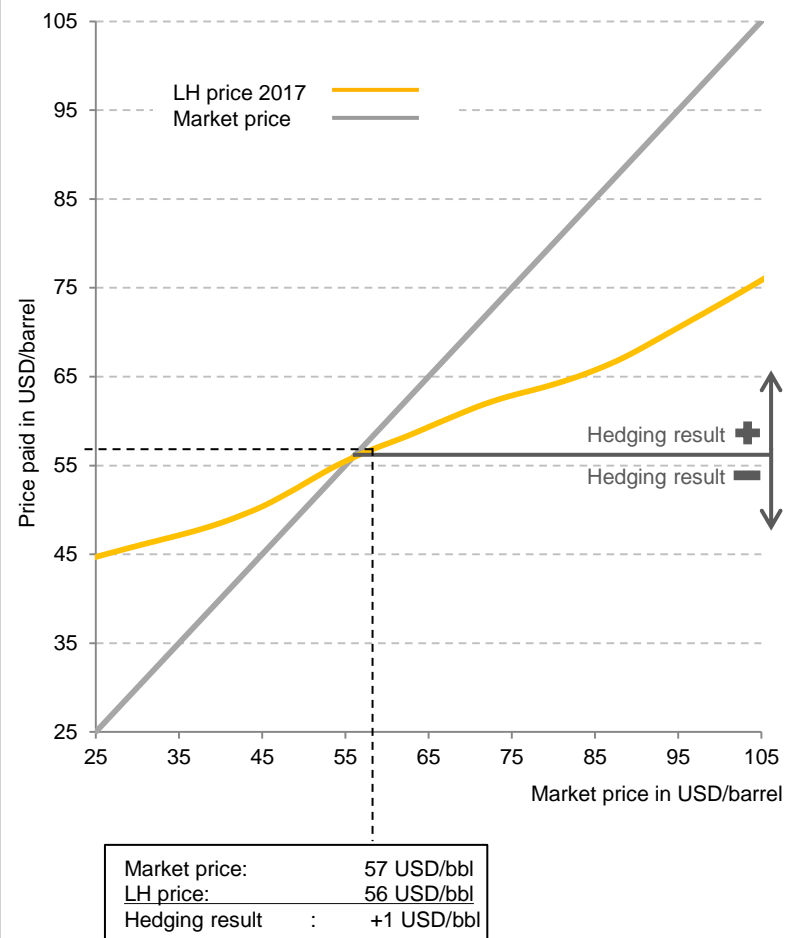
Fuel forecast and sensitivities FY 2017

Lufthansa Group fuel expenses after hedging
(in bn EUR)



As of 28 February 2017 ¹ incl. fuel hedging ² forwards are actual numbers for FY16

Lufthansa Group price curve remainder of 2017



Adj. EBIT expected slightly below the previous year

Forecast 2017 per segment

Segment	Adj. EBIT 2016 (m EUR)	Adj. EBIT Forecast for 2017
Lufthansa German Airlines	1,090	slightly below previous year
SWISS	405	slightly below previous year
Austrian Airlines	58	slightly below previous year
Network airlines	1,555	slightly below previous year
Point-to-point airlines	-104	significantly above previous year
Logistics	-50	slightly above previous year
MRO	411	slightly below previous year
Catering	104	significantly below previous year
Other	-182	slightly above previous year
Internal revenue / Reconciliation	18	
Lufthansa Group	1,752	slightly below previous year

Absolute costs (excl. fuel) continue to decrease in fourth quarter

Operating costs and revenues

Lufthansa Group (in m EUR)	FY 2016	vs. PY	Q4 2016	vs. PY
Total revenue	31,660	-1.2%	7,790	+0.5%
Other operating income	2,279	-24.9%	638	-25.0%
Total operating income	33,939	-3.3%	8,428	-2.0%

Operating expenses	31,749	-5.3%	8,480	-1.3%
Non-fuel operating expenses	26,864	-3.2%	7,291	-0.2%
Cost of materials and services	17,109	-3.0%	4,240	-2.2%
Fuel expenses	4,885	-15.5%	1,189	-7.8%
Fees and charges	5,736	+1.5%	1,363	+2.0%
Staff costs	7,354	-8.9%	2,133	-1.8%
Depreciation	1,769	+3.1%	486	+8.0%
Other operating expenses	5,517	-9.7%	1,621	-0.9%

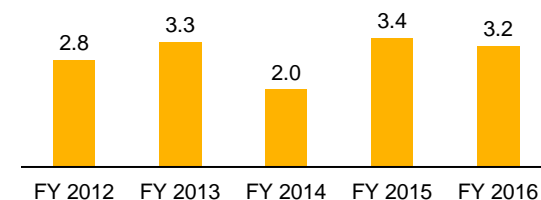
Result from equity investments	85	-29.8%	-3	-160.0%
EBIT	2,275	+35.7%	-55	nmf.
Adjustments ¹	-523	nmf.	130	+17.1%
Adjusted EBIT	1,752	-3.6%	75	-39.5%

¹ Details on p. 28 of presentation

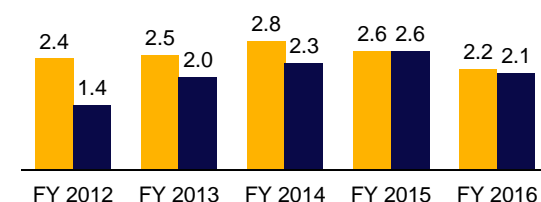
Free cash flow increases due to lower capex

Cash flow statement

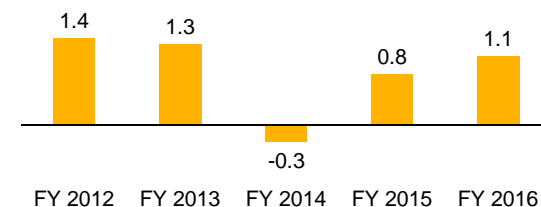
Lufthansa Group (in m EUR)	FY 2016	vs. PY
EBT (earnings before income taxes)	2,248	222
Depreciation & amortization (incl. non-current assets)	1,820	30
Net proceeds from disposal of non-current assets	-38	15
Result of equity investments	-85	36
Net interest	218	48
Income tax payments/reimbursements	-54	143
Significant non-cash-relevant expenses / income	-1,037	-346
Change in trade working capital	-140	111
Change in other assets / liabilities	314	-406
Operating cash flow	3,246	-147
Capital expenditure (net)	-2,108	451
Free cash flow	1,138	304
Cash and cash equivalents as of 31.12.16 ¹	1,138	142
Current securities	2,681	687
Total Group liquidity	3,819	829



Operating Cash flow



Gross invest Net invest



Free Cash flow

¹ Excluding fixed-term deposits with terms from three to twelve months (2016: 118 m EUR, 2015: 103 m EUR)

Pressure on unit revenues offset by strong cost performance

Operating KPIs Passenger Airline Group

Total	FY '16	Q4 '16
Number of flights	+1.9%	-1.4%
ASK	+4.6%	+6.2%
RPK	+2.8%	+6.5%
SLF	-1.4pts.	+0.2pts.

Europe	FY '16	Q4 '16
ASK	+3.2%	+4.8%
RPK	+1.4%	+4.8%
SLF	-1.3pts.	-0.1pts.
Yield	-1.6%	-5.2%
Yield ex currency	-0.6%	-4.4%
RASK	-3.3%	-5.1%
RASK ex currency	-2.4%	-4.3%

Asia/Pacific	FY '16	Q4 '16
ASK	+1.5%	+2.6%
RPK	-0.1%	+2.1%
SLF	-1.3pts.	-0.4pts.
Yield	-5.8%	-5.2%
Yield ex currency	-5.2%	-5.6%
RASK	-7.3%	-5.6%
RASK ex currency	-6.7%	-6.0%

Yield	-5.0%	-6.6%
Yield ex currency	-4.1%	-6.1%
RASK	-6.6%	-6.4%
RASK ex currency	-5.8%	-5.9%
CASK incl fuel	-10.6%	-7.1%
CASK ¹ ex currency ex fuel	-2.5%	-6.1%

Americas	FY '16	Q4 '16
ASK	+10.0%	+9.6%
RPK	+7.2%	+9.8%
SLF	-2.1pts.	+0.1pts.
Yield	-8.9%	-7.6%
Yield ex currency	-8.3%	-7.1%
RASK	-11.2%	-7.6%
RASK ex currency	-10.6%	-7.1%

Middle East/Africa	FY '16	Q4 '16
ASK	-3.3%	+7.7%
RPK	-2.3%	+10.8%
SLF	+0.7pts.	+2.2pts.
Yield	-5.6%	-12.2%
Yield ex currency	-3.8%	-11.2%
RASK	-4.6%	-9.5%
RASK ex currency	-2.8%	-8.5%

North America -5.0% | -4.1%
South America -19.9% | -17.5%

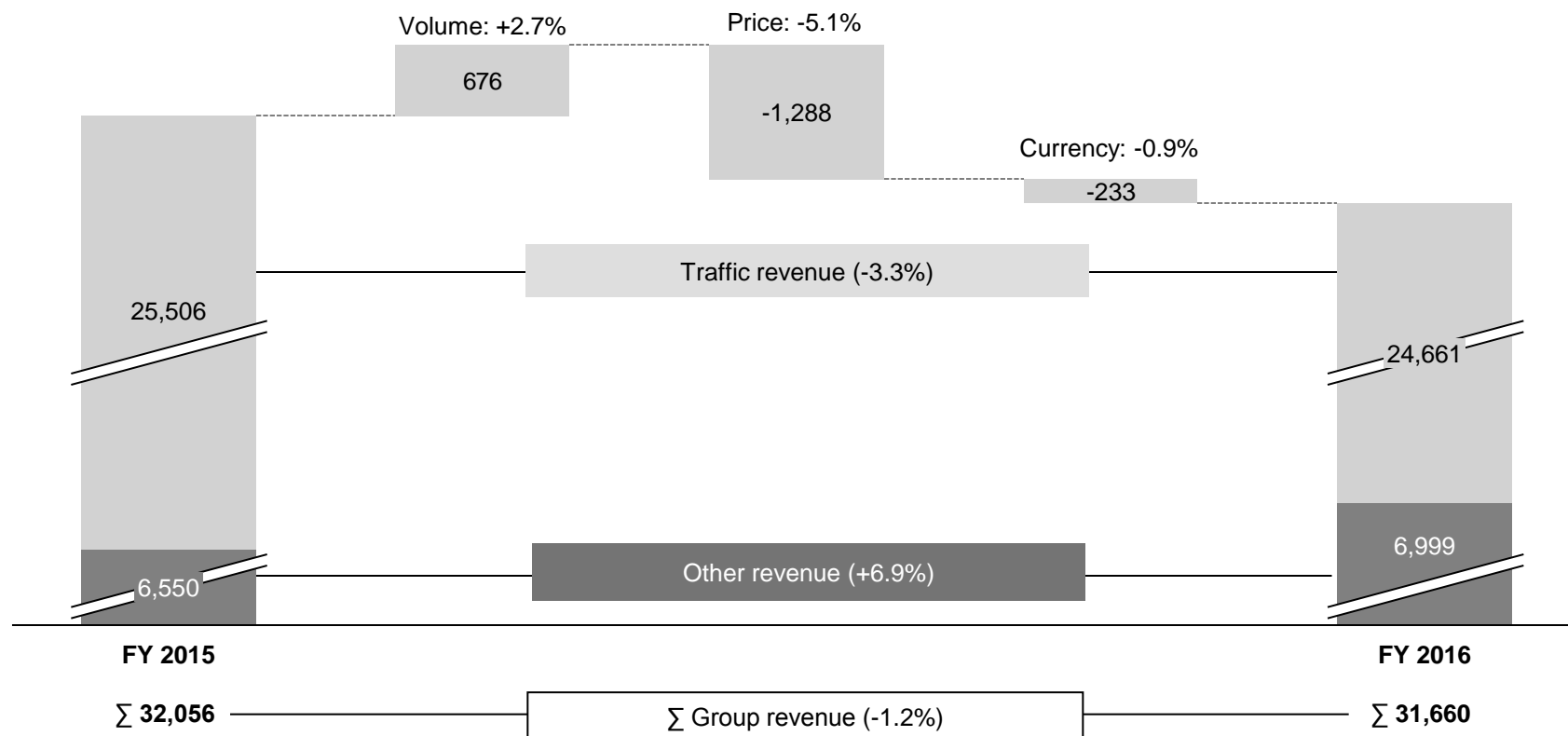
¹ Excl. pension changes due to tariff agreement with UFO amounting to 652m EUR

Group revenue and currency impact

FY 2016 vs. FY 2015

Currency influence on EBIT (in m EUR)				
Q1	Q2	Q3	Q4	FY (YTD)
+85	-28	-22	-138	-103

in m EUR

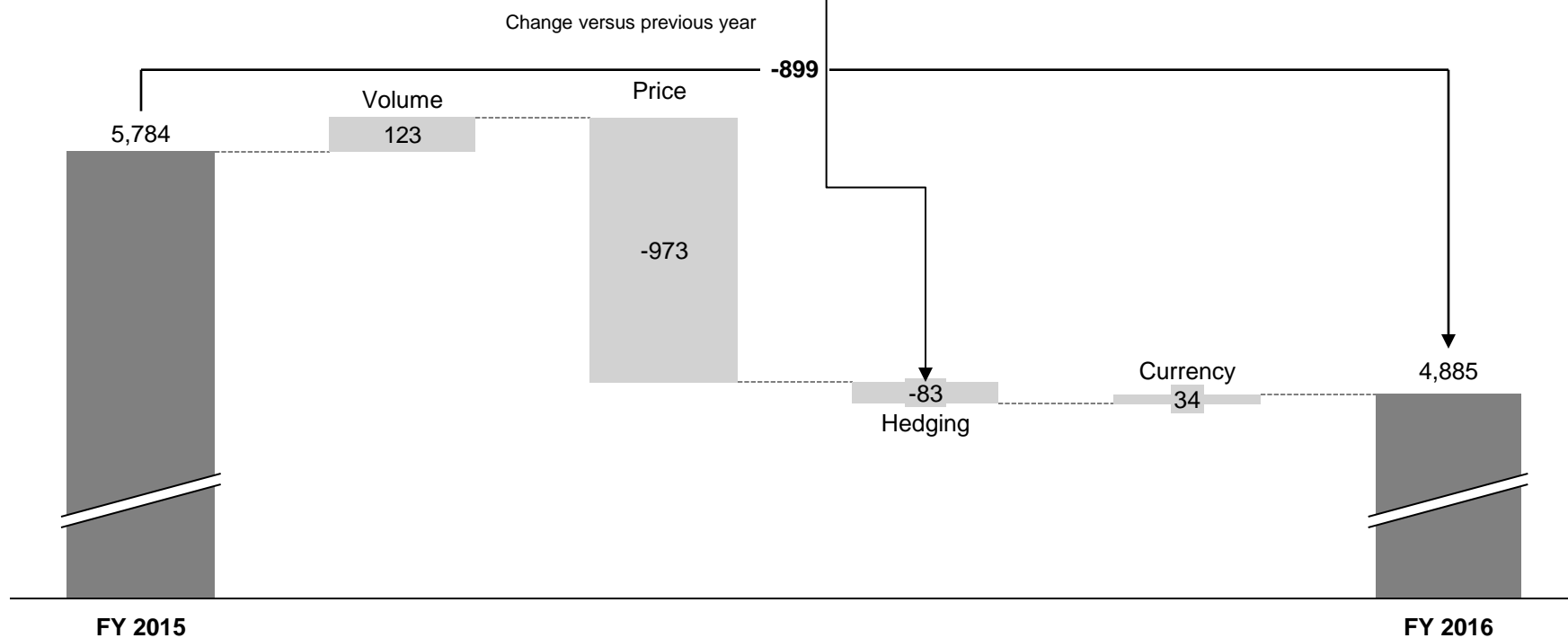


Fuel costs

FY 2016 vs. FY 2015

Hedging result by quarter (in m EUR)					
	Q1	Q2	Q3	Q4	FY (YTD)
2015	-203	-205	-271	-309	-988
2016	-336	-235	-219	-115	-905

in m EUR



Adjusted EBIT and one-off factors

Quarterly results 2015-2016

in m EUR

	Q1	Q2	Q3	Q4	6M	9M	Full Year
Adjusted EBIT 2015	-167	635	1,225	124	468	1,693	1,817
<i>Strikes</i>	-42	-58	-30	-101	-100	-130	-231
<i>Venezuela</i>	-60	+5	-5	-12	-55	-60	-72
Adjusted EBIT ex one-off factors	-65	688	1,260	237	623	1,883	2,120
Adjusted EBIT 2016	-53	582	1,148	75	529	1,677	1,752
<i>Strikes</i>	0	0	0	-100	0	0	100
Adjusted EBIT ex one-off factors	-53	582	1,148	175	529	1,677	1,852

Reconciliation from EBIT to Adjusted EBIT per segment

FY 2016

Segment	EBIT FY 16 (m EUR)	Impairments	Pension changes	Book gains/losses on asset disposals	Adj. EBIT FY 16 (m EUR)
LH Passenger Airlines	1,723	116	-669	-35	1,135
SWISS	412	4		-2	414
Austrian Airlines	64			-6	58
Eurowings	-90		-1		-91
Consolidation	-14			25	11

Passenger Airline Group	2,095	+120	-670	-18	1,527
Logistics	-64	+18		-4	-50
MRO	410			+1	411
Catering	60	+40	-8	+12	104
Others / Consolidation	-226	+15		-29	-240

Lufthansa Group	2,275	+193	-678	-38	1,752
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Adjusted EBIT and EBIT per quarter 2016

in m EUR

	Q1	Q2	Q3	Q4	6M	9M	FY
Adj. EBIT	-53	582	1,148	75	529	1,677	1,752
<i>pension changes</i>	0	0	+721	-43	0	+721	+678
<i>book gains / losses on asset disposals</i>	+5	+37	+7	-11	+42	+49	+38
<i>impairments / badwill</i>	-1	-52	-64	-76	-53	-117	-193
EBIT	-49	567	1,812	-55	518	2,330	2,275
<i>interest on liquidity</i>							+64
<i>taxes (25% lump sum)</i>							-585
<i>cost of capital</i>							-937
EACC							817
<i>average capital employed</i>							19,533
WACC							4.8%
ROCE							9.0%

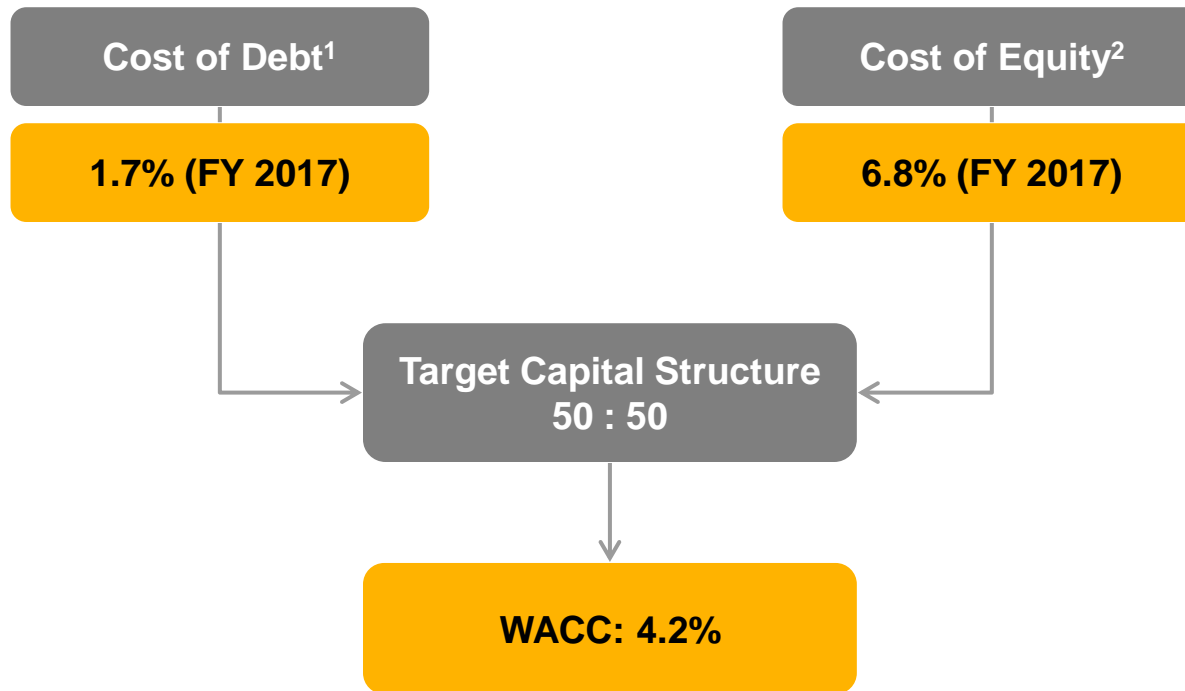
Adjusted EBIT and EBIT per quarter 2015

in m EUR

	Q1	Q2	Q3	Q4	6M	9M	FY
Adj. EBIT	-167	635	1,225	124	468	1,693	1,817
<i>pension changes</i>	0	+32	0	-57	+32	+32	-25
<i>book gains / losses on asset disposals</i>	+22	+24	0	-6	+46	+46	+39
<i>impairments / badwill</i>	+1	-84	-25	-48	-83	-108	-155
EBIT	-144	607	1,200	13	463	1,663	1,676
<i>interest on liquidity</i>							+186
<i>taxes (25% lump sum)</i>							-466
<i>cost of capital</i>							-1,073
EACC							323
<i>average capital employed</i>							18,195
WACC							5.9%
ROCE							7.7%

WACC is based on a target capital structure of 50:50

WACC of 4.2% from FY 2017 onwards

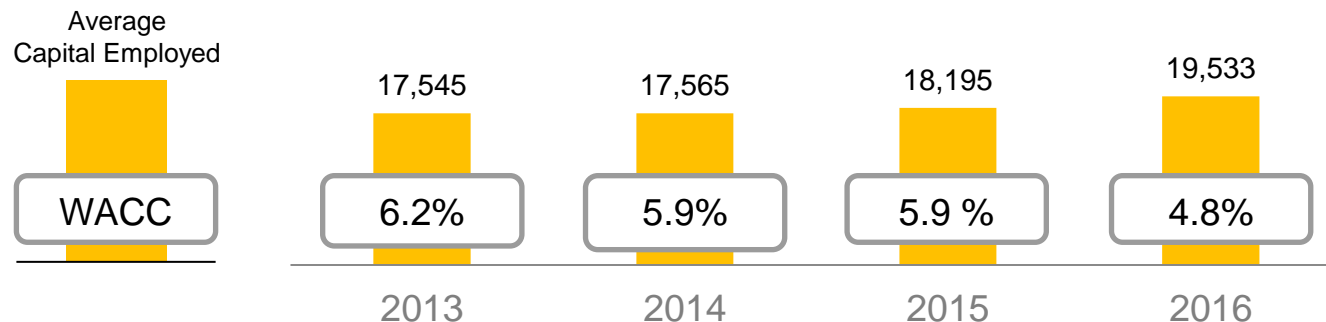


¹ Currently no consideration of tax shield

² Cost of Equity FY 2017 = Risk-free market interest rate of 1.2% + (Market risk premium of 5.1% x Beta Factor 1.1)

Current capital employed is ca. 20.3 bn EUR

Weighted average cost of capital was 4.8%



Balance Sheet Total	29,108	30,474	32,462	34,697
./. Non-Interest Bearing Liabilities	11,563	12,890	13,657	13,657
- liabilities from unused flight documents	2,635	2,848	2,901	3,040
- trade payables, other fin. liabilities, other provisions	5,113	5,151	5,605	5,464
- adv. payments, deferred income, other non-fin. liabilities	2,151	2,103	2,141	2,121
- others	1,664	2,798	3,010	3,811
Capital Employed at year-end	17,545	17,584	18,805	20,261
Average Capital Employed	17,582	17,565	18,195	19,533
WACC	6.2%	5.9%	5.9%	4.8%
EBIT	936	1,000	1,676	2,275
Interest on liquidity	67	84	186	64
Taxes	-251	-271	-466	-585
Cost of capital	-1,090	-1,036	-1,073	-937
EACC	-338	-223	323	817
ROCE	4.3%	4.6%	7.7%	9.0%