



Analyst and Investor Conference Call – FY 2017

Frankfurt, 15 March 2018

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LUFTHANSA GROUP



Analyst and Investor Conference Call – FY 2017

Carsten Spohr

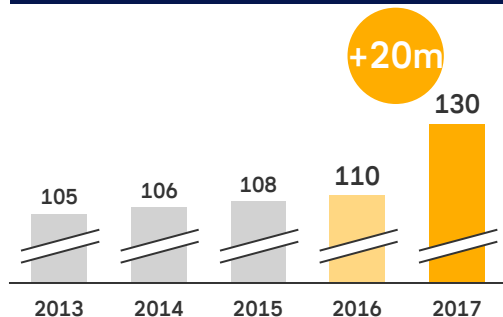
CEO and Chairman of the Executive Board

Frankfurt, 15 March 2018

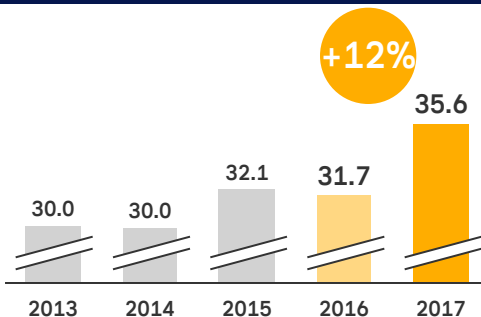
Lufthansa Group achieves best result in its history

Development of financial KPIs

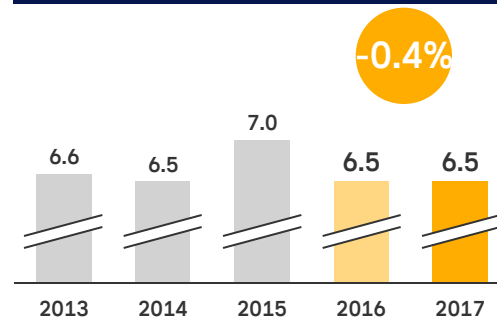
20 million more passengers



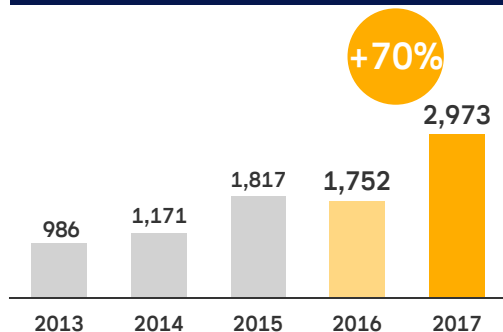
Revenue increases 12%



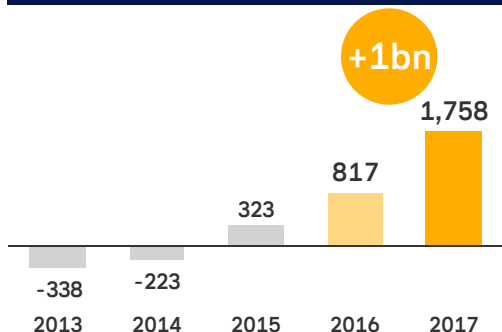
Unit cost¹ down 0.4%



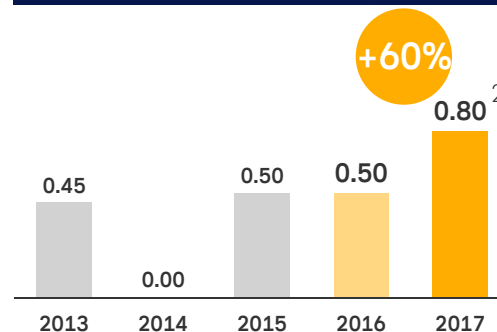
Adjusted EBIT up 70%



1.8bn EUR value created^(EACC)



Dividend increased by 60%




¹ constant currency CASK excl. fuel ² Proposed dividend

Balancing stakeholders' interests is key to our success

Drivers of record results in 2017

 New digital customer services

 Lufthansa: 5 Star Airline

 LH, LX, OS: Best three European Airlines



 Long lasting labor agreements

 3,000 new jobs in 2017, revenue per FTE +7%

 Leaner management structure

 3bn EUR Adj. EBIT

 Continuous unit cost reduction

 Dividend +60%¹

¹ Proposed dividend



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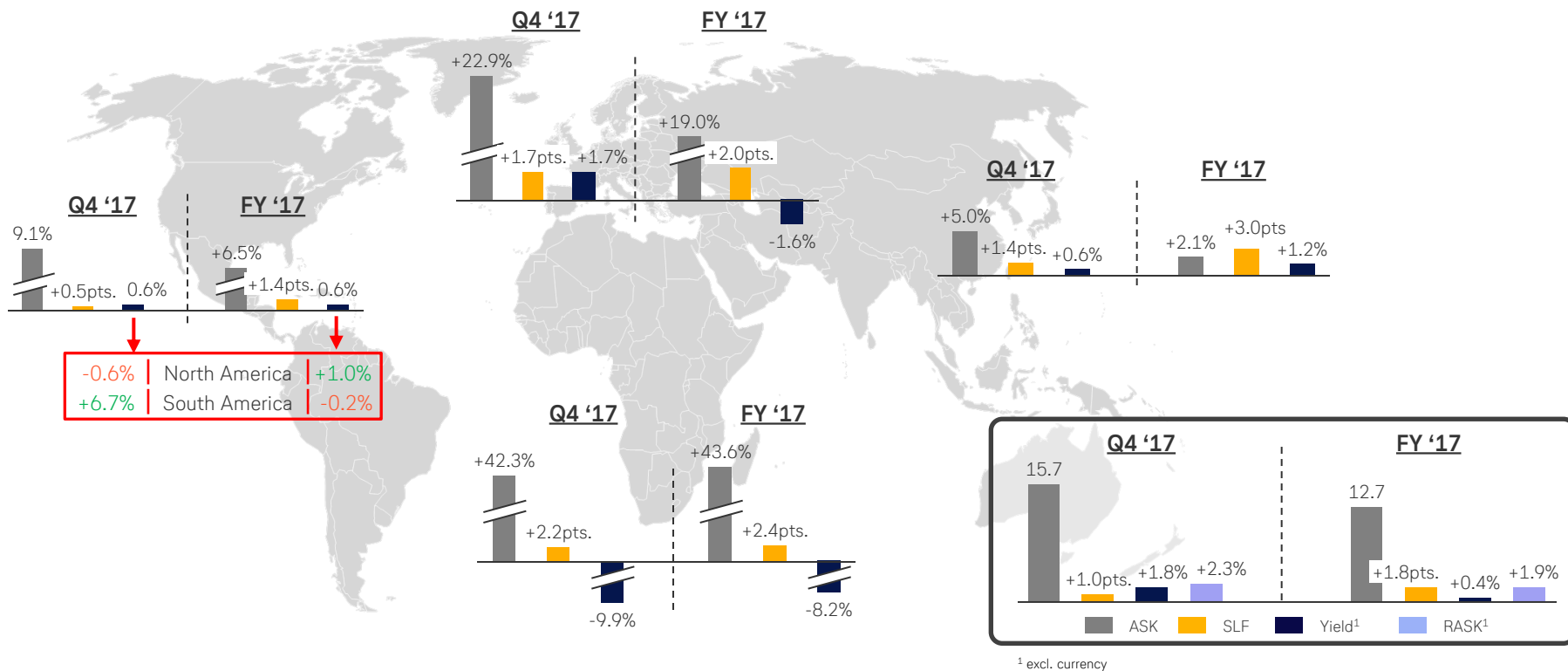
Ulrik Svensson

CFO and Member of the Executive Board

Frankfurt, 15 March 2018

Positive unit revenue development despite strong growth in most regions


Operating KPIs Passenger Airlines



Underlying unit cost reduction in line with long-term target

Unit cost reduction in 2017

Adverse effects on unit costs

FY 2017	
Reported CASK excl. fuel excl. currency	-0.4%
 incl. accruals for higher variable pay due to the strong result development	-0.6pts.
 incl. passenger related cost from the higher seat load factor	-0.5pts.
 incl. irregularity cost associated with the wet leasing of capacity from the failing Air Berlin operations	-0.3pts.
Underlying CASK excl. fuel excl. currency	-1.8%

Unit cost to be reduced between 1% and 2% every year

Key cost drivers 2018



Labour deal Pilots
(150m EUR cost reduction)



Reorganization
(200m EUR profit contribution)



Labour deal Cabin Crews
(structural cost improvement)



Short term savings + strategic dialogue
(two-digit million Euro initial cost reduction)



New aircraft
(c. 20% less operating cost each)



Optimizing MRO cost
(low three-digit million euro benefit over next few years)



Lower distribution cost
(increasing share of direct sales)

**1% to 2%
CASK
reduction
every year**



Being awarded



quality and reducing cost at the same time are not mutually exclusive

Airlines drive strong profit improvement

Q4 and FY 2017 operating KPIs and key profit figures at a glance

Network Airlines		Point-to-Point Airlines		Aviation Services	
		Q4 '17	FY '17	<i>in m EUR</i>	
ASK		+15.7%	+12.7%	Adj. EBIT ²	148 616
RASK (constant currency)		+2.3%	+1.9%	Δ year-on-year	+224 +315
CASK (constant currency; ex-fuel)		+0.7%	-0.4%		
Fuel cost (m EUR) ¹ (year-on-year)		+104	+347		

<i>in m EUR</i>	Q4 '17	vs. Q4 '16	FY '17	vs. FY '16
Revenue	8,818	+13.2%	35,579	+12.4%
EBIT	875	nmf.	3,310	+45.5%
Adjusted EBIT	413	+450.7%	2,973	+69.7%
Net income	511	nmf.	2,364	+33.1%

¹ Including Lufthansa Cargo

² Includes Logistics, MRO, Catering, Others and Consolidation

High cash generation and stronger Balance sheet




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>			<u>Cash Flow</u> <i>in m EUR</i>					
	FY '17	vs. FY '16		FY '17	vs. FY '16			
Net financial debt	2,884	+6.8%	Operating cash flow	5,035	+55.1%			
Pension provisions	5,116	-38.8%	Gross capex	3,005	+34.4%			
Equity ratio	26.5%	+5.9 pts.	Free cash flow	2,253	+98,0%			

Adjusted ROCE (post-tax): **11.6%** (+4.6 pts.)




Focus on value creation

Financial strategy

	 Improve Profitability			 Focus Capital Allocation			 Maintain Financial Stability				
Focus	<ul style="list-style-type: none">Sustainable value generationIntense cost management			<ul style="list-style-type: none">Continuous shareholder participationBalanced investment levelWorking capital management			<ul style="list-style-type: none">Stable Investment Grade RatingHedging of financial risksAccess to different forms of fundingSecuring appropriate liquidity				
KPIs	<ul style="list-style-type: none">Adj. ROCEAdj. EBIT Margin			<ul style="list-style-type: none">DividendCapital expenditure			<ul style="list-style-type: none">Adj. Net Debt / Adj. EBITDA				
Targets		Target	2017		Target	2017		Target	2017		
	Adj. ROCE	constantly increasing through the cycle	11.6%		Dividend	10 – 25% of EBIT	11.4 %		Adj. Net Debt / Adj. EBITDA	< 3.5 x	1.7 x
	Adj. EBIT Margin		8.4%		Capex	in line with best-in-class peers	3.0bn EUR				

Passenger Airlines and Cargo drive growth and margin improvement

Segment overview Q4 and FY 2017

in m EUR	Network Airlines			Q4	FY		Q4	FY		Q4	FY
	Q4	FY									
Revenue vs. 2016	5,622 +388	23,317 +1,453		3,974 +330	16,441 +1,029		1,159 +35	4,727 +256		544 +28	2,358 +205
Adj. EBIT vs. 2016	316 +85	2,263 +708		222 +54	1,627 +537		100 +17	542 +137		-6 +15	94 +36
Adj. EBIT Margin vs. 2016	5.6% +1.2pts.	9.7% +2.6pts.		5.6% +1.0pts.	9.9% +2.8pts.		8.6% +1.2pts.	11.5% +2.4pts.		-1.1% +3.0pts.	4.0% +1.3pts.

Point-to-Point Airlines¹

	Q4	FY
Revenue	1,010 +512	4,041 +1,981
Adj. EBIT	-51 +29	94 +198
Adj. EBIT Margin	-5.0% +11.1pts.	2.3% +7.3pts.

in m EUR	Logistics	
	Q4	FY
Revenue vs. 2016	772 +170	2,524 +440
Adj. EBIT vs. 2016	144 +125	242 +292
Adj. EBIT Margin vs. 2016	18.7% +15.5pts.	9.6% +12.0pts.

MRO	
Q4	FY
Revenue	1,401 +66
Adj. EBIT	82 +37
Adj. EBIT Margin	5.9% +2.5pts.
	7.7% -0.3pts.

Catering	
Q4	FY
Revenue	782 -17
Adj. EBIT	0 -24
Adj. EBIT Margin	0.0% -3.0pts.
	2.1% -1.2pts.

¹ Includes Eurowings, Brussels Airlines and equity stake in SunExpress

Adjusted EBIT expected to be slightly below previous year

Unchanged operating KPI and profit forecast 2018

		Forecast	Comments
Organic Capacity Growth (ASK)		c. +7%	<ul style="list-style-type: none"> <u>Network Airlines:</u> Driven by short-haul growth in FRA, upgauging in MUC, ZRH and VIE <u>Point-to-Point Airlines:</u> Driven by annualization of initial Air Berlin wet lease (started 03/17), long-haul growth
Unit Revenue (RASK, ex. currency)		roughly stable	<ul style="list-style-type: none"> Continuation of regional trends of FY '17 in H1 '18; slightly positive RASK expected Limited visibility in bookings beyond Q2 Current assumption (based on capacity plans) is for roughly stable RASK in FY18 Including mix effect from organic growth of P2P segment
Unit Cost (CASK, ex. currency, ex. fuel)		-1 to -2%	<ul style="list-style-type: none"> Cost reduction in line with long-term guidance Driven by individual cost reductions and change in mix
Fuel		additional cost of c. 700m EUR	<ul style="list-style-type: none"> As of 23 February 2018 Includes additional fuel cost from inorganic growth
Contribution	Aviation Services ¹	flat	<ul style="list-style-type: none"> Differing performance among single Group companies Overall, no major change in total contribution
	Inorganic growth	flat	<ul style="list-style-type: none"> One-off cost compensate for positive contribution from operating business Full integration and positive contribution from winter flight plan 2018/19

¹ Includes Logistics, MRO, Catering, Others and Consolidation



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Carsten Spohr

CEO and Chairman of the Executive Board

Frankfurt, 15 March 2018

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

Set-up of Lufthansa Group



Network Airlines: Focus on premium and efficiencies

Strong competitive position



Focus on premium and brand refresh



Lufthansa brand refresh: 100 years of the crane, visible sign of modernization



New product initiatives: e.g. à la carte meals dining, maître de lounge, bid upgrade at gate



New digital services: e.g. automated check-in, chat & irregularities self services

Efficiencies and flexibilization



Harmonized A320 cabin specification



New collective agreement with ver.di on ground staff – long-lasting agreements with all major unions



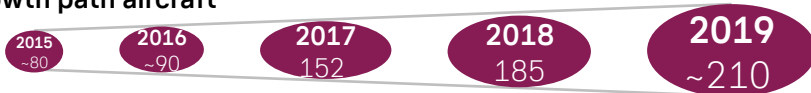
Short-term cost reductions and strategic dialogue with Fraport

Eurowings: Strong growth in home markets and focus on operations

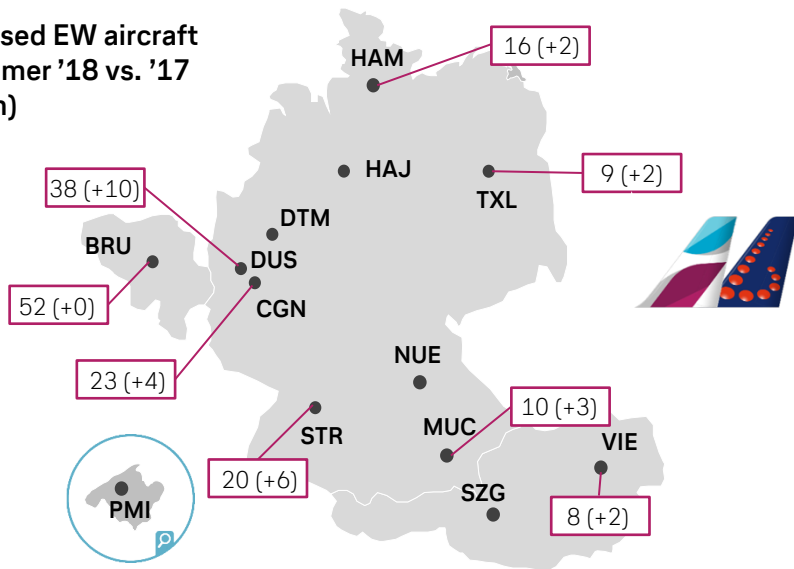
Established as leading point-to-point airline

Eurowings growth in home markets

Growth path aircraft



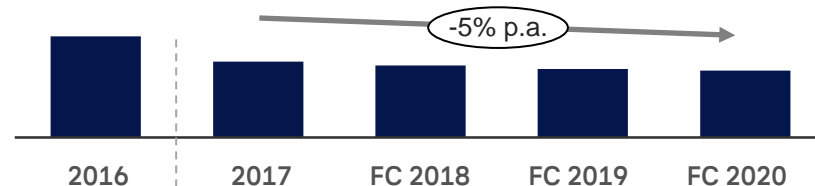
based EW aircraft Summer '18 vs. '17 (Plan)



Operational ramp-up

- Eurowings is successfully growing through integration of former AB Group assets, especially LGW
- Hiring crews and contracting wet lease providers (e.g. TuiFly, Laudamotion)
- Brussels Airlines as “Center of Excellence” for long-haul flights, new operation from DUS

CASK¹ development



¹ underlying CASK; in particular 2018 will be burdened by project and integration cost

Aviation Services: Current development and outlook

Highlights

Current developments



- Successful turnaround, profit improvement of approx. 300m EUR vs. PY
- Targeted investments into high yield product categories



- First airline customers for Digital Platform AVIATAR acquired
- Partnership models integrated into global network (GE, MTU, Honeywell)



- Transformation of LSG Europe in implementation
- Retail inMotion strengthens its leading market positioning in Onboard Retail

Outlook

- Strong demand situation continues in 2018
- Restructuring program “C40” ahead of plan, to be completed in 2018
- Roll-out predictive maintenance capability using AI for AVIATAR Platform
- Broaden global footprint through accretive acquisitions and new aircraft types (e.g. 737 MAX)
- Central production sites: operational setup in Europe
- Further growth of Onboard Retail, In-flight Equipment and Convenience Retail business

The modernization of the Lufthansa Group continues

Executive Summary

- **Best results in history are the basis for gaining further strength through the full cycle**
Modernization of Lufthansa Group continues
- **Lufthansa Group is well prepared also for challenging market environments**
Cost reduction and further flexibilization remain in focus
- **Key to sustainable success is the balance between stakeholder interests**
Our goal remains: # 1 for customers, employees and shareholders



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Thank you for your attention

Appendix

- supplementary information -

Proposed dividend of 0.80 EUR per share equals to 11.4% pay out ratio

Dividend payment and policy

Cumulative Dividend Payments in m EUR



~ 4%

average
dividend yield
p.a. since
2008

Dividend Policy

FY 2017

Base	EBIT	3,310m EUR
Pay-out	10 - 25%	11.4% = 13.8% excl. Pilots one-off (0.80 EUR / share ¹ = 377 m EUR)
Restriction	Local GAAP result = max. payout	Local GAAP result allows for payout
		Optional scrip dividend

Target

Continuous
dividend
payments

¹ Proposed dividend

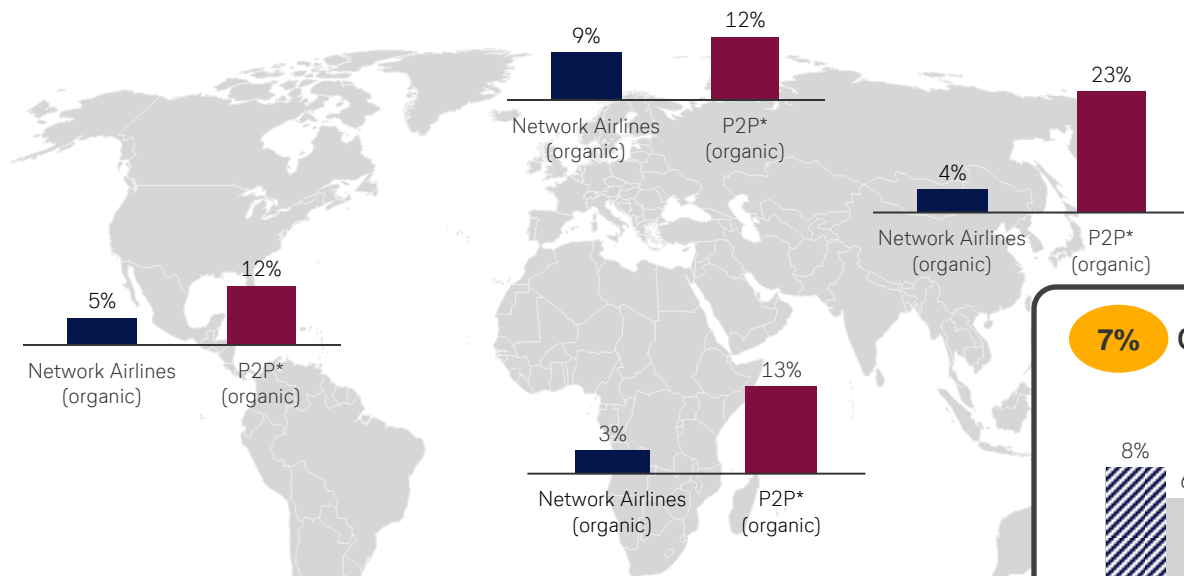
Adjusted EBIT expected “slightly below previous year”

Forecast 2018 per segment

Segment	Adj. EBIT 2017 (m EUR)	Adj. EBIT Forecast for 2018
Lufthansa German Airlines	1,627	slightly below previous year
SWISS	542	slightly below previous year
Austrian Airlines	94	slightly below previous year
Network Airlines	2,263	slightly below previous year
Point-to-Point Airlines	94	slightly below previous year
Logistics	242	slightly below previous year
MRO	415	slightly above previous year
Catering	66	slightly above previous year
Other	-130	slightly below previous year
Internal Revenue / Reconciliation	23	
Lufthansa Group	2,973	slightly below previous year

Passenger Airlines growing capacity into a consolidating market

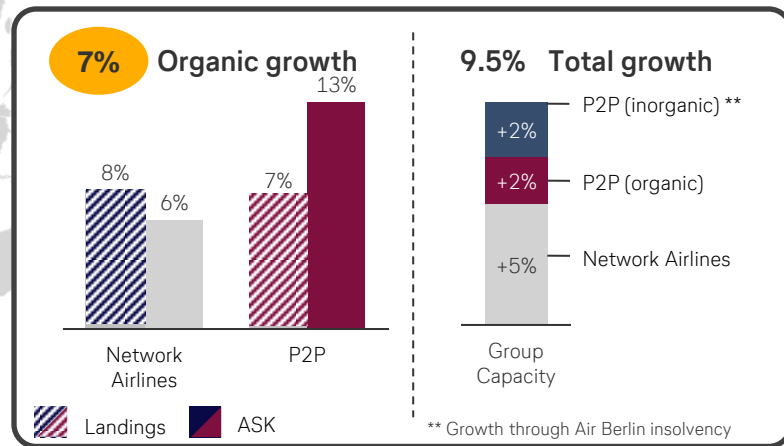
Lufthansa Group capacity growth 2018 per region



* incl. Eurowings and Brussels Airlines

► **c. 7% organic and 2.5% inorganic growth**

All capacity plans (in particular inorganic) indicative and subject to change



Status: February 2018

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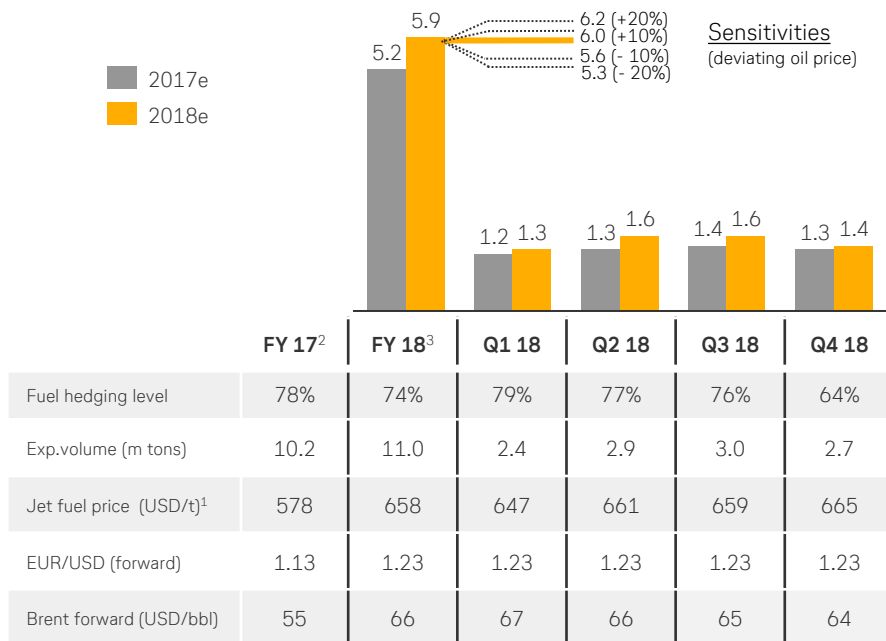
Appendix

- financial figures Q4 / FY 2017 -

Fuel costs expected 700m EUR above previous year

Fuel forecast and sensitivities FY 2018

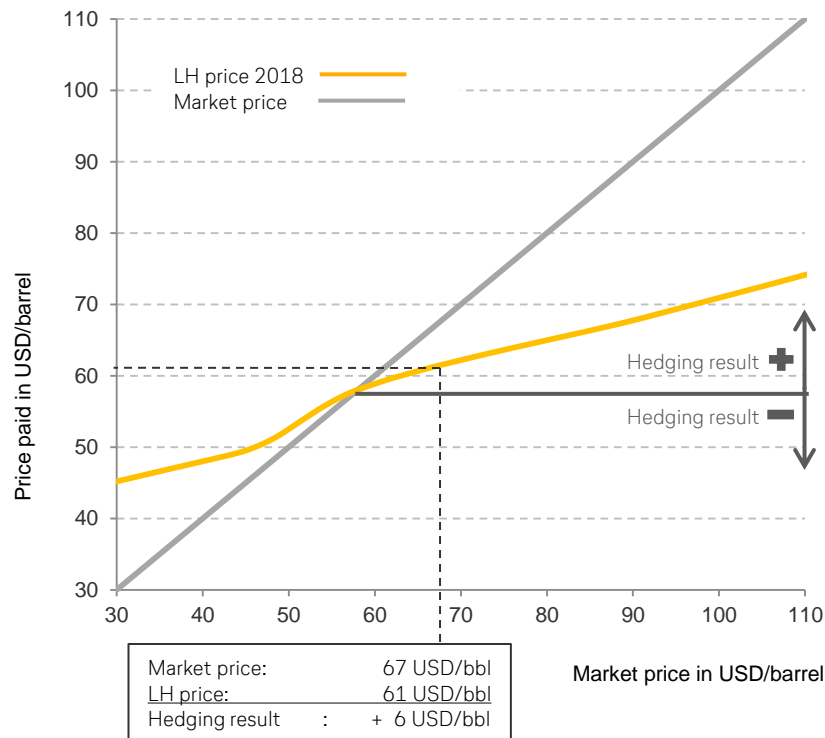
Lufthansa Group fuel expenses after hedging (in bn EUR)



As of 23 February 2018 ¹ incl. fuel hedging and into-plane charge ² Incl. Brussels Airlines

³ Incl. inorganic growth indication

Lufthansa Group price curve for 2018



Revenue increases faster than absolute costs in Q4 and FY 2017

Operating costs and revenues

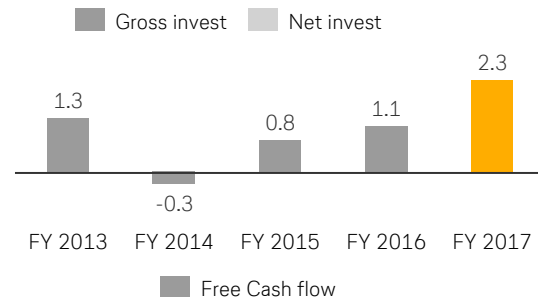
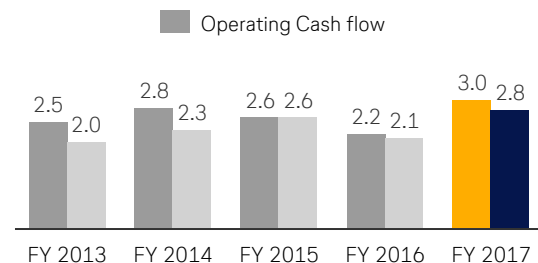
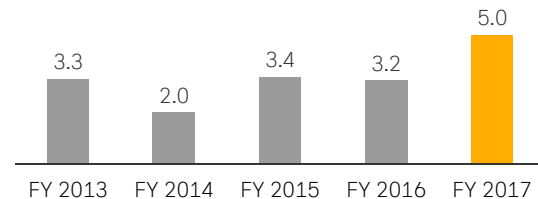
Lufthansa Group (in m EUR)	Q4 '17	vs. Q4 '16	FY '17	vs. FY '16
Total revenue	8,818	+13.2%	35,579	+12.4%
Other operating income	635	-0.5%	2,382	+4.5%
Total operating income	9,453	+12.2%	37,961	+11.9%
Operating expenses	8,595	+1.4%	34,808	+9.6%
Non-fuel operating expenses	7,302	+0.2%	29,576	+10.1%
Cost of materials and services	4,783	+12.8%	19,013	+11.1%
Fuel expenses	1,293	+8.7%	5,232	+7.1%
Fees and charges	1,567	+15.0%	6,357	+10.8%
Staff costs	1,716	-19.5% ¹	8,172	+11.1% ¹
Depreciation	592	+21.8%	2,052	+16.0%
Other operating expenses	1,504	-7.2%	5,571	+1.0%
Result from equity investments	17	+20	157	+72
EBIT	875	+930	3,310	+1,035
Adjustments	-462	-592	-337	+186
Adjusted EBIT	413	+338	2,973	+1,221

¹ includes 582m EUR one-off gain from pilot agreement ratified in 12/2017

Free cash flow increases strongly despite higher capex

Cash flow statement

Lufthansa Group (in m EUR)	FY '17	vs. FY '16
EBT (earnings before income taxes)	3,187	+939
Depreciation & amortization (incl. non-current assets)	2,009	+189
Net proceeds from disposal of non-current assets	-37	+1
Result of equity investments	-157	-72
Net interest	195	-23
Income tax payments/reimbursements	-385	-331
Significant non-cash-relevant expenses / income	-721	+316
Change in trade working capital	259	+399
Change in other assets / liabilities	685	+371
Operating cash flow	5,035	+1,789
Capital expenditure (net)	-2,782	-674
Free cash flow	2,253	+1,115
Cash and cash equivalents as of 31.12.17 ¹	1,218	+80
Current securities	2,551	-130
Total Group liquidity	3,769	-50



Positive RASK development despite high growth in most regions

Operating KPIs Passenger Airlines

Total	Q4 '17	FY '17
Number of flights	+14.7%	+10.6%
ASK	+15.7%	+12.7%
RPK	+17.2%	+15.2%
SLF	+1.0pts.	+1.8pts.

Yield	-1.1%	-0.7%
Yield ex currency	+1.8%	+0.4%
RASK	-0.3%	+0.9%
RASK ex currency	+2.3%	+1.9%
CASK incl. fuel	-1.6%	-1.6%
CASK ex currency ex fuel	+0.7%	-0.4%

Europe	Q4 '17	FY '17
ASK	+22.9%	+19.0%
RPK	+25.6%	+22.2%
SLF	+1.7pts.	+2.0pts.
Yield	+0.3%	-2.4%
Yield ex currency	+1.7%	-1.6%

Americas	Q4 '17	FY '17
ASK	+9.1%	+6.5%
RPK	+9.8%	+8.3%
SLF	+0.5pts.	+1.4pts.
Yield	-3.8%	-0.6%
Yield ex currency	+0.6%	+0.6%

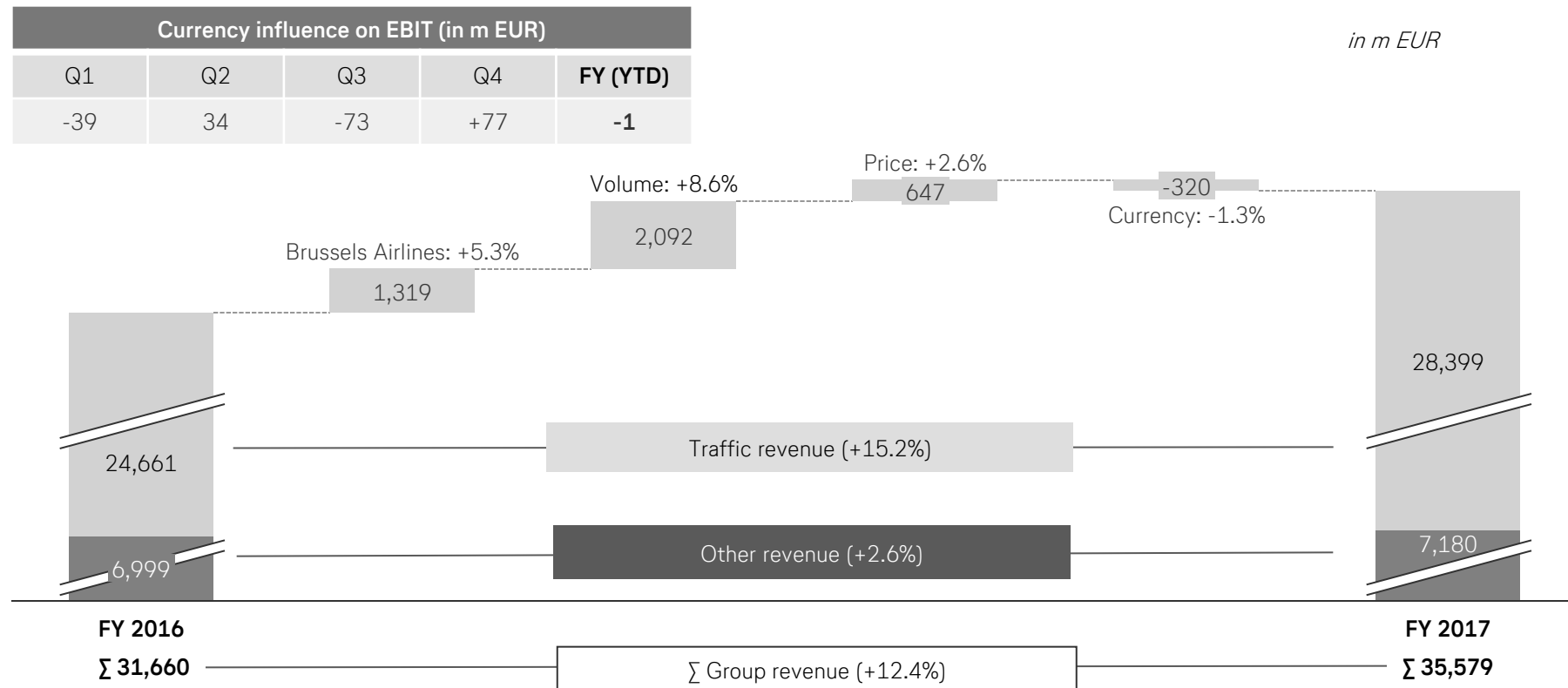
North America	-0.6%	+1.0%
South America	+6.7%	-0.2%

Asia/Pacific	Q4 '17	FY '17
ASK	+5.0%	+2.1%
RPK	+6.9%	+5.8%
SLF	+1.4pts.	+3.0pts.
Yield	-2.6%	-0.4%
Yield ex currency	+0.6%	+1.2%

Middle East/Africa	Q4 '17	FY '17
ASK	+42.3%	+43.6%
RPK	+46.4%	+48.1%
SLF	+2.2pts.	+2.4pts.
Yield	-14.4%	-9.5%
Yield ex currency	-9.9%	-8.2%

Group revenue and currency impact

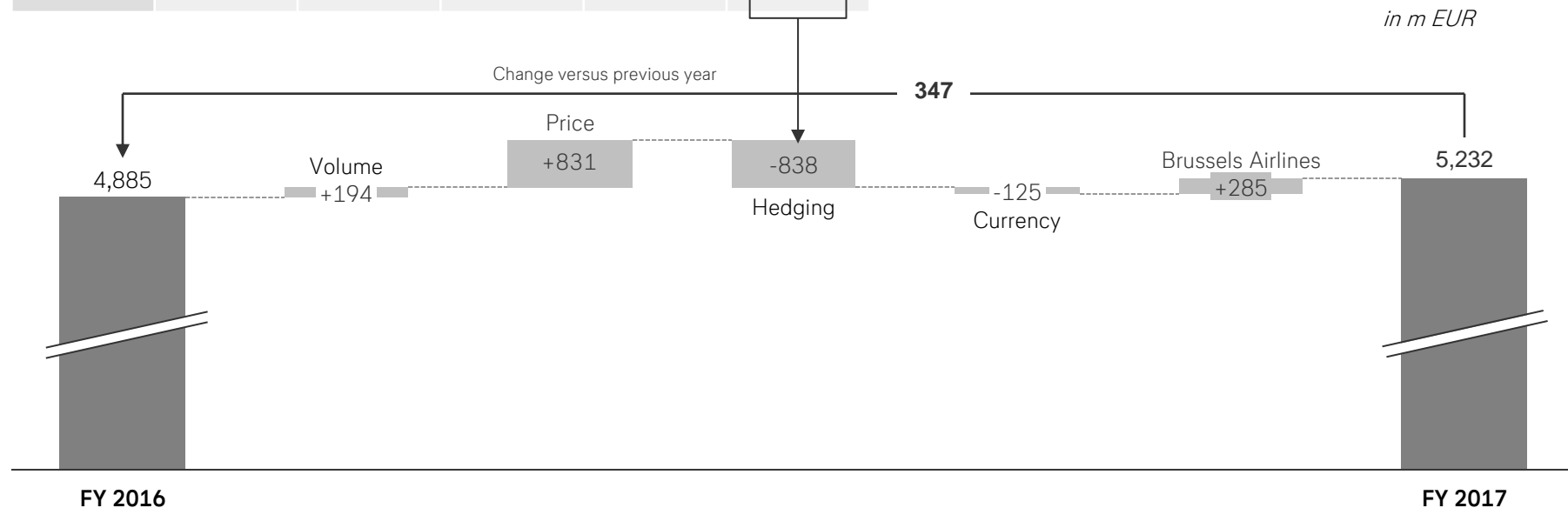
FY 2017 vs. FY 2016



Fuel cost development

FY 2017 vs. FY 2016

Hedging result by quarter (in m EUR)					
	Q1	Q2	Q3	Q4	FY (YTD)
2016	-336	-235	-219	-115	-905
2017	-30	-63	-29	+55	-67



Adjusted EBIT and one-off effects

Quarterly results 2016-2017

in m EUR

	Q1	Q2	Q3	Q4	6M	9M	Full Year
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
Adjusted EBIT 2017	25	1,017	1,518	413	1,042	2,560	2,973
<i>One-off effects</i>	0	0	0	0	0	0	0
Adjusted EBIT ex one-off factors	25	1,017	1,518	413	1,042	2,560	2,973

EBIT and Adjusted EBIT per quarter 2017

in m EUR

	Q1	Q2	Q3	Q4	6M	9M	FY
EBIT	16	1,015	1,404	875	1,031	2,435	3,310
<i>pension changes</i>	+32	0	+9	-592	+32	+41	-551
<i>book gains / losses on asset disposals</i>	-23	-5	-6	-3	-28	-34	-37
<i>impairments / badwill</i>	0	+7	+111	+133	+7	+118	+251
Adj. EBIT	25	1,017	1,518	413	1,042	2,560	2,973
<i>interest on liquidity</i>							+178
<i>taxes (25% lump sum)</i>							-872
<i>cost of capital</i>							-858
EACC							1,758
<i>average capital employed</i>							20,441
<i>WACC</i>							4.2%
ROCE (after tax)							12.8%
Adj. ROCE (after tax)							11.6%

EBIT and Adjusted EBIT per quarter 2016

in m EUR

	Q1	Q2	Q3	Q4	6M	9M	FY
EBIT	-49	567	1,812	-55	518	2,330	2,275
<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
Adj. EBIT	-53	582	1,148	75	529	1,677	1,752
<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
<i>WACC</i>							4.8%
ROCE (after tax)							9.0%
Adj. ROCE (after tax)							7.0%