



Lufthansa Group



Analyst and Investor Conference Call Q2 2016

Frankfurt, 02 August 2016

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Lufthansa Group



Analyst and Investor Conference Call

Q2 2016

Simone Menne, CFO

Frankfurt, 02 August 2016

Overview

- **Adjusted EBIT of 529 m EUR in first half-year (+61 m EUR), margin increases to 3.5% (+0.5pts.)**
Profit improvement driven by Lufthansa Passenger Airlines
- **Passenger Airline Group with stable results in Q2, Aviation Services below previous year**
Passenger airlines achieve Adj. EBIT of 508 m EUR (+5 m EUR), other segments 74 m EUR in total (-58 m EUR)
- **Constant currency RASK decrease by 4.1% in Q2, constant currency CASK ex. fuel increase by 1.0%**
Europe with positive development; still very negative revenue development in South America; unit cost increase as a result of difficult comparison with previous year; unchanged cost discipline at airlines; absolute costs (ex. fuel) decline
- **Planned capacity growth for 2016 reduced to 5.4%**
Selective route cancellations and optimization of frequencies
- **Financial stability improved, free cash flow up 10.1% to 1.1 bn EUR, ability to pay dividend confirmed**
Equity ratio down to 10.4% on lower interest rates; clear improvement versus similar interest rate level in Q1 2015; noticeable improvement of equity ratio expected due to tariff agreement with cabin crews; EBIT, which is relevant for the dividend, will be several hundred million euros higher than Adjusted EBIT
- **Forecast for Adjusted EBIT reduced from “slightly above previous year” to “below previous year”**
Trend of shorter term bookings due to economic and geopolitical uncertainties; RASK development expected down 8% to 9% in the second half-year; unit cost forecast at -2% to -3% in the second half-year

Adj. EBIT improved in first half-year, financial stability increased

6M and Q2 2016 at a glance

<i>Lufthansa Group (in m EUR)</i>	6M 16	6M 15	vs. PY
Total revenue	15,042	15,365	-2.1%
of which traffic revenue	11,637	12,181	-4.5%
EBIT	518	463	+11.9%
Adjusted EBIT	529	468	+13.0%
Net income	429	954	-55.0%

	Q2 16	Q2 15	vs. PY
	8,126	8,392	-3.2%
	6,402	6,734	-4.9%
	567	607	-6.6%
	582	635	-8.3%
	437	529	-17.4%

	6M 16	6M 15	vs. PY
Operating cash flow	2,193	2,527	-13.2%
Net invest	1,070	1,507	-29.0%
Free cash flow	1,123	1,020	+10.1%

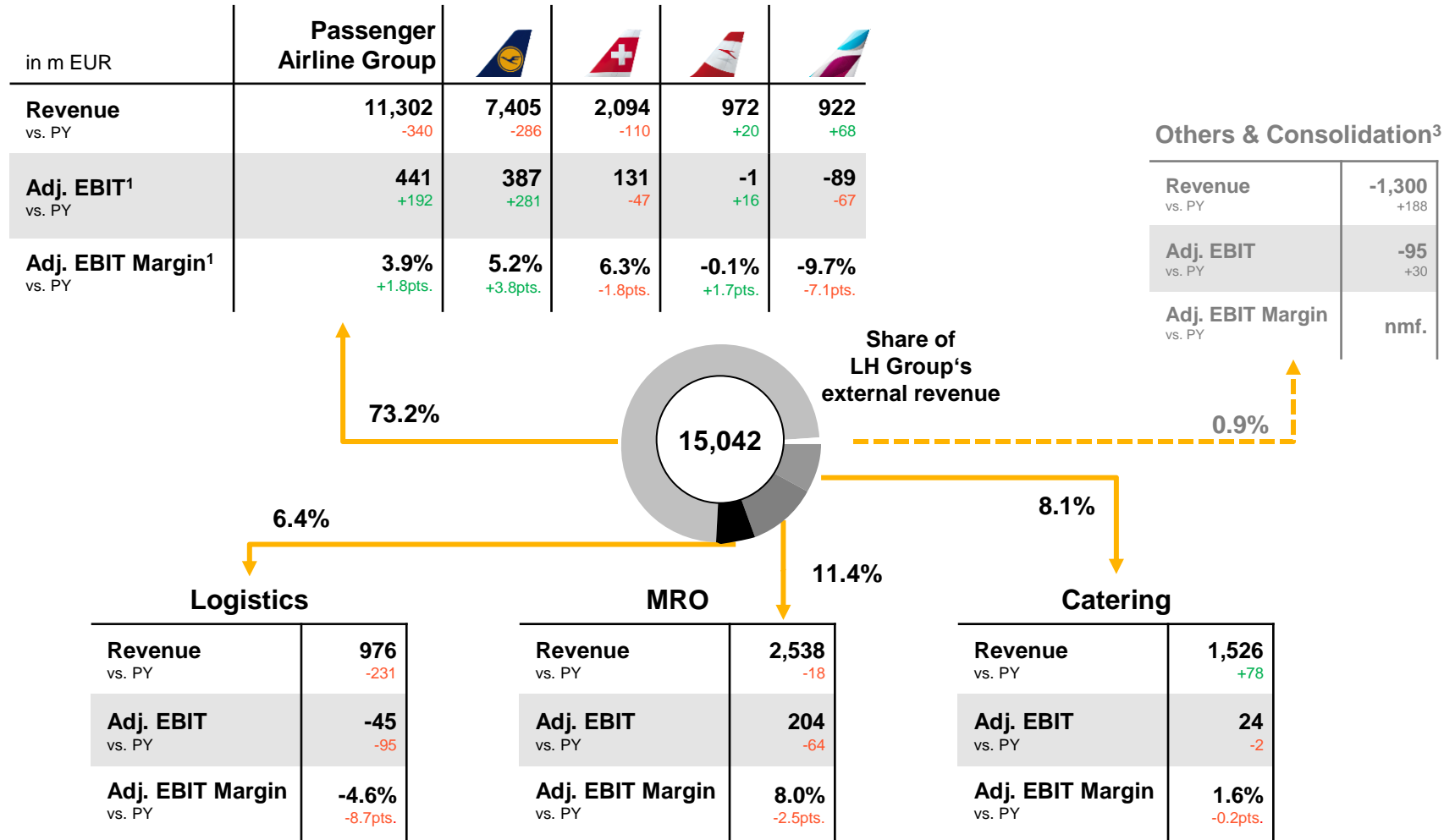
	6M 16	FY 15	vs. FY 15
Equity ratio	10.4%*	18.0%*	-7.6pts.
Net debt (excl. pensions)	2,499	3,347	-25.3%
Pension provisions	10,823	6,626	+63.3%

<i>Passenger Airline KPIs</i>	6M 16	Q2 16
No. of flights	+2.4%	+2.0%
ASK (capacity)	+4.2%	+2.2%
RPK (volume)	+1.6%	-1.1%
SLF (load factor)	-1.9pts.	-2.6pts.
Yield (pricing)	-4.3%	-2.7%
RASK (unit revenue)	-6.6%	-5.9%
CASK (unit costs)	-9.4%	-6.3%

* IRFS discount rate – FY 2015: 2.8%; 6M 2016: 1.6%

Passenger Airlines compensate profit development of other segments

Segment overview 6M 2016



¹ Sun Express und SN Brussels proportionally in PAG included; ² mainly AirPlus, IT-Services and central functions included

Constant currency pricing development remains clearly negative

Operating KPIs Passenger Airline Group

Total	6M '16	Q2 '16
Number of flights	+2.4%	+2.0%
ASK	+4.2%	+2.2%
RPK	+1.6%	-1.1%
SLF	-1.9pts.	-2.6pts.

Europe	6M '16	Q2 '16
ASK	+1.6%	+0.4%
RPK	-1.1%	-3.1%
SLF	-1.9pts.	-2.8pts.
Yield	+0.3%	+2.8%
Yield ex currency	+1.6%	+4.3%
RASK	-2.3%	-0.8%
RASK ex currency	-1.0%	+0.6%

Asia/Pacific	6M '16	Q2 '16
ASK	+0.3%	-1.7%
RPK	-1.7%	-4.1%
SLF	-1.6pts.	-1.9pts.
Yield	-6.8%	-6.4%
Yield ex currency	-4.8%	-3.6%
RASK	-8.3%	-8.4%
RASK ex currency	-6.3%	-5.7%

Yield	-4.3%	-2.7%
Yield ex currency	-2.9%	-0.8%
RASK	-6.6%	-5.9%
RASK ex currency	-5.2%	-4.1%
CASK	-9.4%	-6.3%
CASK ex currency ex fuel	-1.3%	+1.0%

Americas	6M '16	Q2 '16
ASK	+7.3%	+5.6%
RPK	+2.9%	+0.9%
SLF	-3.4pts.	-3.7pts.
Yield	-8.7%	-8.8%
Yield ex currency	-7.8%	-7.3%
RASK	-12.2%	-12.8%
RASK ex currency	-11.3%	-11.4%

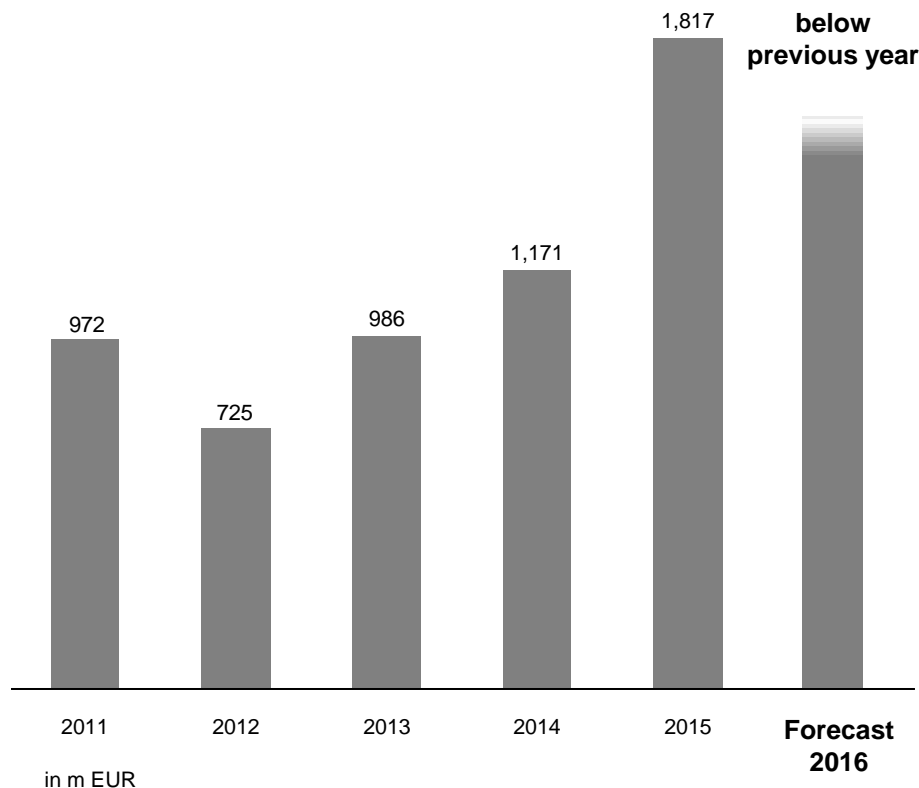
Mid. East/Africa	6M '16	Q2 '16
ASK	-5.9%	-11.5%
RPK	-5.3%	-13.0%
SLF	+0.5pts.	-1.2pts.
Yield	-3.8%	-0.2%
Yield ex currency	-0.7%	+5.3%
RASK	-3.1%	-2.1%
RASK ex currency	0.0%	+3.3%

North America	-3.0%
South America	-24.0%

Lufthansa Group expects Adj. EBIT below previous year for 2016

Forecast Lufthansa Group 2016

Lufthansa Group Adjusted EBIT
Actual and Forecast



Updated forecast FY 2016:

- Expected fuel costs: 4.8 bn EUR¹
 - Tailwind of 950 m EUR vs. PY, thereof 350 m EUR in second half-year at Brent forward of 45 USD/bbl; 1.11 USD/EUR
- Operating KPIs passenger airlines
 - ASK growth full year: +5.4%
 - RASK² second half-year: -8 to -9%
 - CASK² second half-year: -2 to -3%
- Other business segments (Logistics, MRO, Catering and Others) in total with same earnings contribution as in H2 2015
- EBIT will be higher than Adj. EBIT by several hundred million EUR due to expected tariff agreement with UFO
- Ability to pay dividend for FY2016 confirmed

¹ As of 18 Jul. 2016; details in appendix of presentation

² Unit revenues excl. currency, unit costs excl. currency and fuel



Lufthansa Group



Analyst and Investor Conference Call

Q2 2016

Carsten Spohr, CEO
and Chairman of the Executive Board

Frankfurt, 02 August 2016

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

Differentiated objectives for three strategic pillars

#1

for customers, shareholders, employees and partners

Premium network airline system

#1 in Europe

Premium positioning &
cost optimization



Margin improvement

Eurowings Group

#1 in home markets¹

Establishment of Eurowings
as dual brand



Profitable growth

Aviation Services

#1 worldwide

Participation in global
market development



Exploiting synergies and consistent capital allocation

¹ Germany, Austria, Switzerland and Belgium



Revenue and cost optimization still in focus

Measures at network airlines

Ongoing revenue optimization

Extension of premium product

Examples

Broadband internet short-haul



~ 300 A320 aircraft

Upgrade products & services

seats, lounges, etc.



Progress with Digitalization

Examples

New distribution strategy



+ 25% direct online sales

Personalized services

400 m EUR project volume until 2020



Enhancement of network quality

Examples

Joint Ventures



Development JVs

Development of route network

15 new routes in 2016



Achieved cost optimization

Fleet renewal

Examples

C-Series



-23%
CoC¹ vs. AR1

-19%
CoC¹ vs. B733

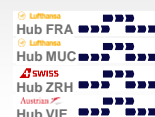
A320neo



Use of synergies

Examples

Process orientation



Synchrone Prozesse

-22%
management positions

Harmonizing Airline IT



Lower infrastructure costs

Examples

Airport and air traffic control fees & charges

FLUGHAFEN ZÜRICH



others...



-85 m EUR
in 2016

Competitive tariff structures

Examples

Agreement cabin crews



Agreement ground staff



¹ Cash operating cost



Increased capacity discipline in tense market environment

Measures at network airlines

Market situation

Political and economic uncertainties

- ▶ Weaker bookings due to terroristic events and political trouble spots
- ▶ Impact of Brexit

Yield on level of financial crises in 2009¹



¹ LH Passenger Airlines

² Growth incl. strike effect of 1.3pts.

³ Summer and winter schedule 2016 / 2017

Capacity discipline

Lower capacity growth in 2016²

Original Plan

4.1%



Adjusted Plan

3.6%

≙ Reduction equal to 7 A320

Fleet- and network adjustments³



Seasonal fleet reduction (winter):
1x long-haul
6x short-haul



Route cancellations:
Frankfurt - Caracas
Frankfurt - Shenyang
München - Dubai
München - Sao Paulo
Wien - Delhi
Wien - Tokyo Narita



Eurowings is number one in home markets

Development of the new Eurowings

Consistent focus on costs

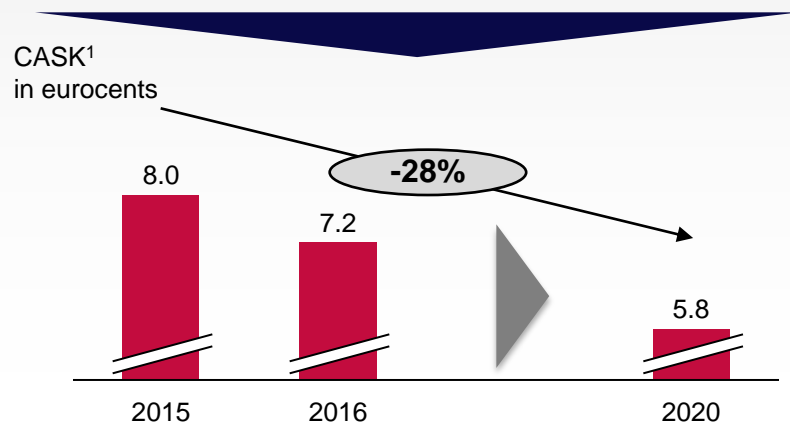
► Competitive platforms



► Launch of Eurowings Europe in Vienna as first basis outside of Germany

► Homogeneous and modern fleet

CRJ completely rolled over with A320 until early 2017



¹ According to current planning; CASK excl. fuel, ETS, FX and project costs

² in Germany

Continuation of growth path

► Establishment of European brand



87%
brand recognition²

► Expansion of long-haul operations



16 destinations by
the end of 2016

► Cooperation for growth



Assessment of
options



Aviation Services with growth and efficiency improvement targets

Individual projects and programs for each service company

Growth projects

Efficiency programs



- **Strategic partnerships**
e.g., with GE, Rolls Royce, P&W
- **Digitalization projects**
e.g., preventive aircraft maintenance

- **Engines: efficiency increase of 40%**
(e.g., reduction of 700 positions until 2022)
- **Efficiency program in admin functions**
(c. 70 m EUR p.a.)



- **Growth in adjacent markets**
(+27% 2015 vs. 2013), e.g. railway sector
- **Extension of buy-on-board**
(e.g., via RIM¹)

- **Restructuring and optimization of production sites** in Europe
- **Efficiency program for admin and operations** (c. 80 m EUR p.a.)



- **JV & cooperation**
with ANA, Cathay and United
- **New products and digital services**
myAirCargo, eOffering

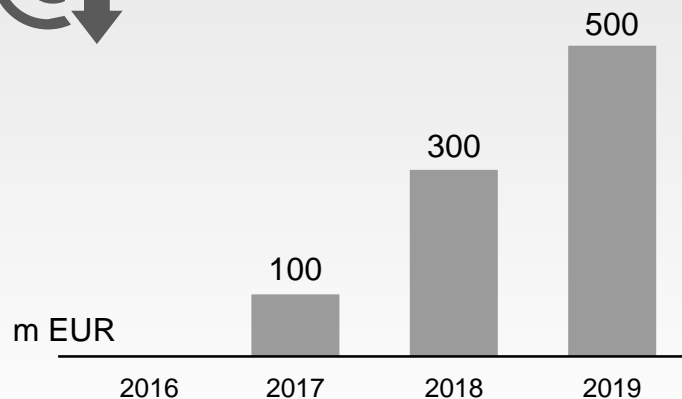
- **Short-term measures to safeguard results**
- **„C40“** efficiency program (c. 80 m EUR p.a.), reduction of up to 800 positions

¹Retail in Motion Ltd: leading provider of buy-on-board solutions

Visible progress in reorganization

Status quo at administrative functions

Profit contribution through synergies: 500 m EUR p.a.¹



18 operating
processes in
progress

15 administrative
processes identified
and in preparation

Reduction of management positions by approx. 15%



Network
Airlines²

✓ **22%** reduction achieved

Admin

Aviation Services

H1 2016 | H2 2016 | H1 2017 | H2 2017

So far reduction of **61**
management positions

One management level
taken out

¹ Full effect from 2019

² Commercial & operational functions

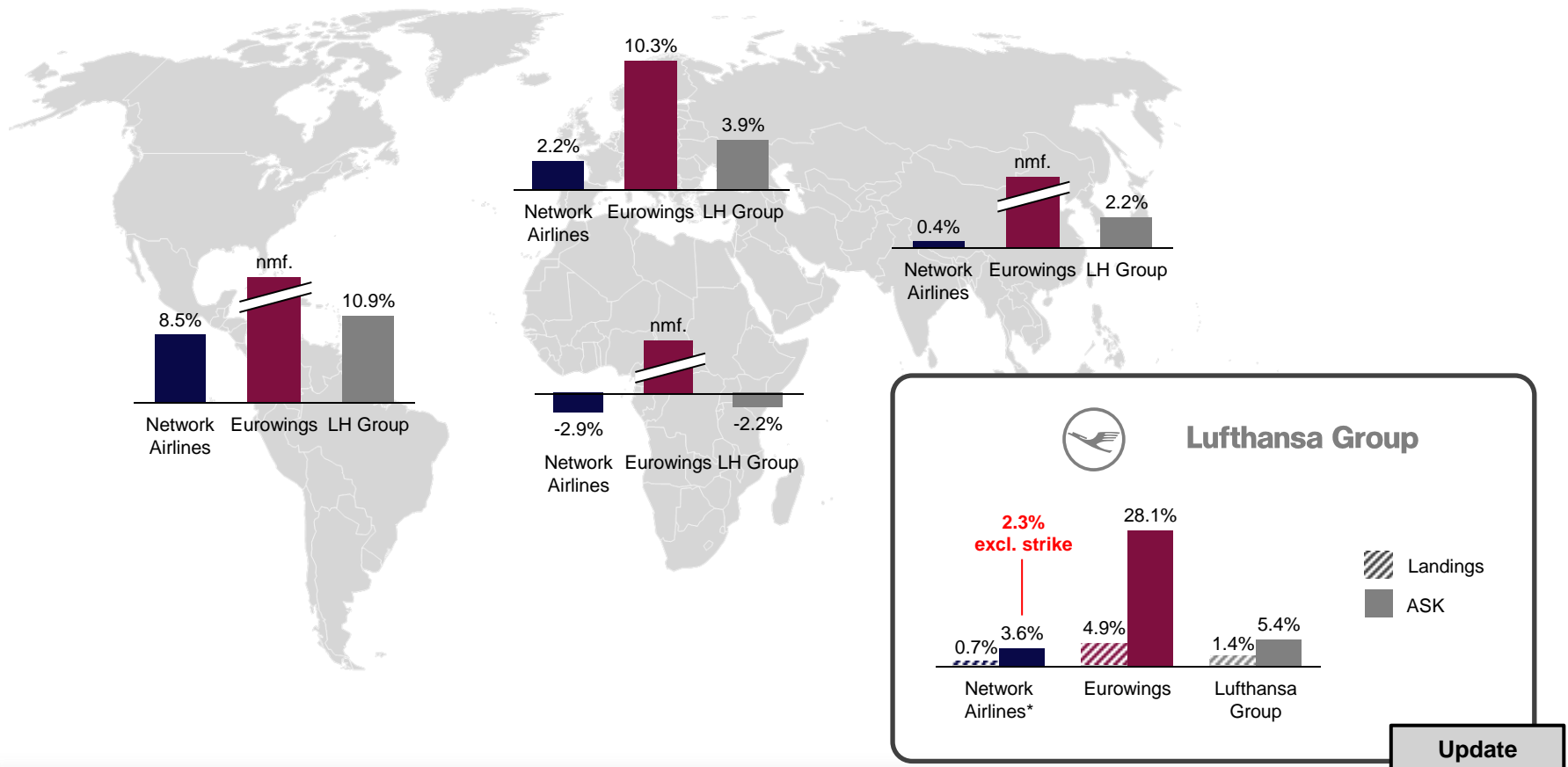
Consistent implementation of strategy continues

Summary and outlook

- **Solid development in first half-year**
Adjusted EBIT 61 m EUR above previous year
- **Financial stability further improved**
Equity ratio on better level than at comparably high pension deficit in Q1 2015; further improvement due to tariff agreement with UFO expected; positive development of free cash flow
- **Forecast lowered due to increased political and economic uncertainties**
Unit cost target confirmed, capacity growth reduced, earnings still on good level
- **Advancement of Lufthansa Group consistently implemented with focus on efficiency gains**
 - Strengthening of revenue quality and improvement of cost position at network airlines
 - Further development of Eurowings and realizing attractive growth options
 - Profitable growth at Aviation Services
 - Increase in efficiency in administrative functions

Appendix
– Financial Figures 6M 2016 –

Capacity planning at network airlines and Eurowings further reduced Lufthansa Group capacity growth 2016 per region



► **Network airlines (excl. strike effect) below mid-term growth rate of c. 3% p.a.**

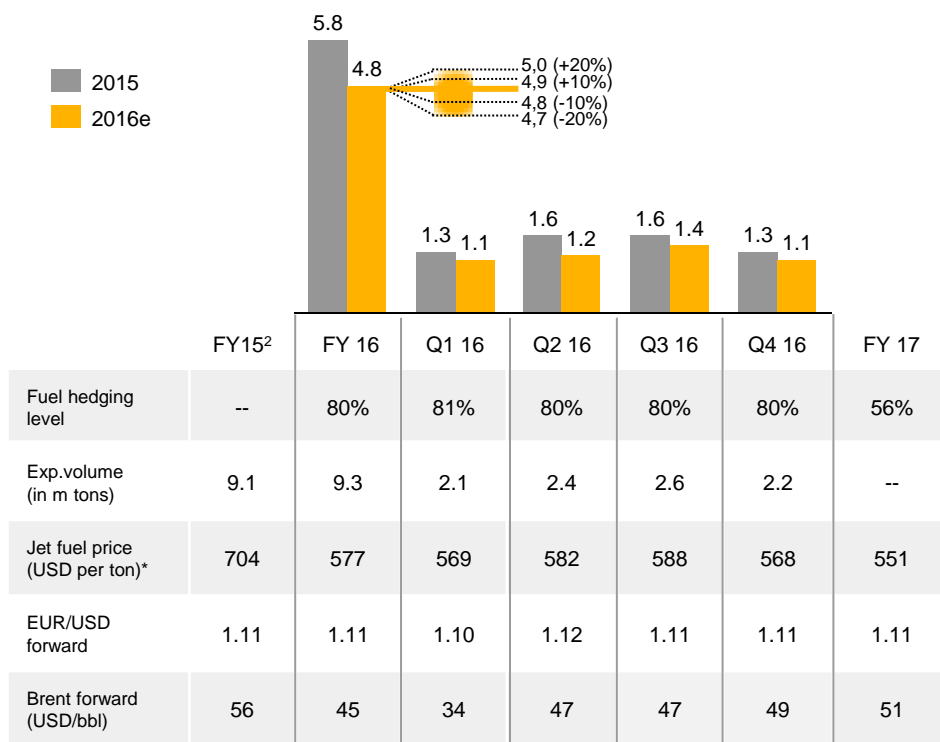
* 2016 growth includes base effect due to strikes in 2015 (1.3pts.) and leap year 2016 (0.3pts.)

Expected Fuel costs decrease versus previous year

Fuel forecast and sensitivities FY 2016 und 2017

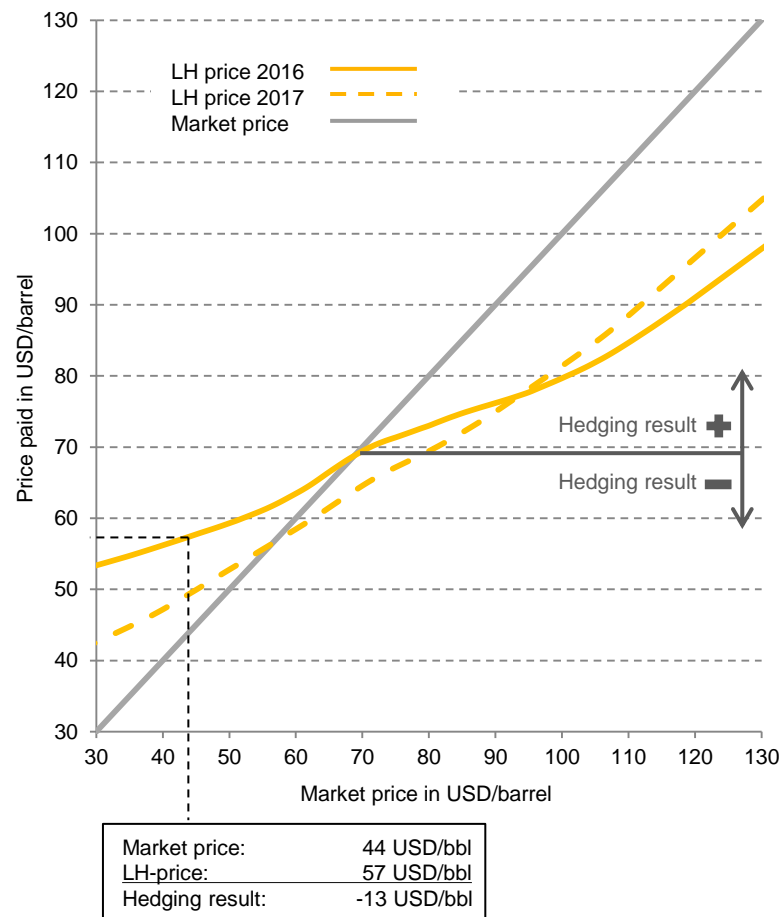
Lufthansa Group fuel expenses after hedging
(in bn EUR)

Sensitivities with deviating oil price



As of 19 July 2016 ¹ incl. fuel hedging ² forwards are actual numbers for FY15

Lufthansa Group price curve remainder of 2016 and 2017



Trading assumptions 2016 indicate profit below previous year

Updated Trading assumptions FY 2015 and 2016

	FY15	FY16 assumptions	Explanation FY16 assumptions
No. of Flights	+0.2%	c. 1.4%	Slight increase at network airlines; increase mainly due to Eurowings fleet growth
Capacity (ASK)	+2.2%	c. 5.4%	Network airlines +3.6% (thereof 1.3pts. strike effect); below mid-term growth rate of 3% p.a.; Eurowings +28.1% due to growing long-haul operations
Volume (RPK)	+2.7%	Below capacity growth	
Load Factor (SLF)	+0.3pts.	decreasing	
Pricing (Yield ex currency)	-3.5%	clearly negative	Yield decline partly driven by Eurowings (long-haul); development at network airlines less negative; yield pressure could increase with lower fuel prices
Unit Revenue (RASK ex currency)	-3.0%	-8% to -9% in second half-year	
Unit Costs (CASK ex fuel ex currency)	+2.4	-2% to -3% in second half-year	Strong reduction at Eurowings; also reduction at network airlines; assumption in the absence of further strikes
Cargo Capacity	slight increase	slight decrease	Reduction in freighter capacity; slightly growing belly capacity of passenger aircraft

Passenger Airlines now expected Adj. EBIT below previous year

Forecast 2016 per segment

Segment	Adj. EBIT 2015 (m EUR)	Adj. EBIT Forecast for 2016
Lufthansa Passenger Airlines	970	below previous year*
SWISS	429	below previous year*
Austrian Airlines	52	above previous year*
Eurowings		negative result*
Reconciliation	54	

Passenger Airline Group	1,505	below previous year*
Logistics	74	negative result*
MRO	454	significantly below previous year
Catering	99	slightly below previous year
Other	-370	significantly above previous year
Internal revenue / Reconciliation	55	

Lufthansa Group	1,817	below previous year*
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* Forecast changed compared to annual report 2015

Absolute costs (excl. fuel) decrease for two consecutive quarters

Operating costs and revenues

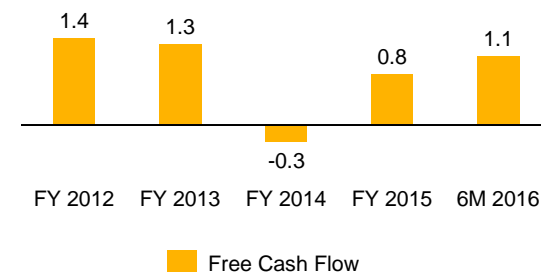
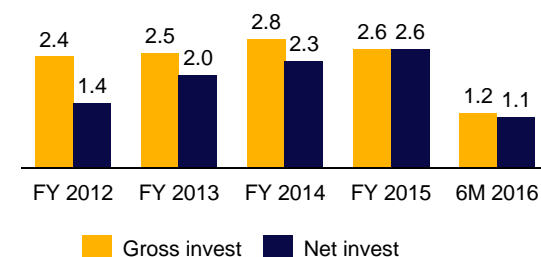
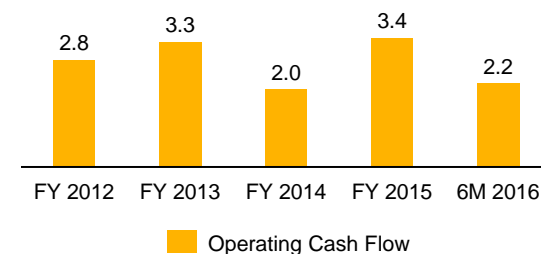
Lufthansa Group (in m EUR)	6M 2016	vs. PY		Q2 2016	vs. PY	
Total revenue	15,042	-2.1%		8,126	-3.2%	
Other operating income	1,232	-23.0%		579	-15.6%	
Total operating income	16,274	-4.1%		8,705	-4.1%	
Operating expenses	15,746	-4.8%		8,156	-4.2%	
Non-fuel operating expenses	13,409	-1.4%		6,890	-0.0%	
Cost of materials and services	8,283	-4.2%		4,347	-6.9%	
Fuel expenses	2,337	-20.3%		1,266	-22.1%	
Fees and charges	2,778	+0.9%		1,493	-0.9%	
Staff costs	3,984	+1.6%		2,027	+1.3%	
Depreciation	843	-0.9%		451	-5.5%	
Other operating expenses	2,636	-15.4%	+3.1% excl. FX losses	1,331	-2.8%	+5.8% excl. FX losses
Result from equity investments	-10	--		18	-59.1%	
EBIT	518	+11.9%		567	-6.6%	
Adjustments*	11	+120.0%		15	-46.4%	
Adjusted EBIT	529	+13.0%		582	-8.3%	

* Details on p. 27 of presentation

Free cash flow increases due to lower capex

Cash flow statement

Lufthansa Group (in m EUR)	6M 2016	vs. PY
EBT (earnings before income taxes)	498	-483
Depreciation & amortization (incl. non-current assets)	895	+8
Net proceeds from disposal of non-current assets	-42	+4
Result of equity investments	+10	+43
Net interest	134	+80
Income tax payments/reimbursements	-73	+66
Significant non-cash-relevant expenses / income	-216	+411
Change in trade working capital	989	-421
Change in other assets / liabilities	-2	-42
Operating cash flow	2,193	-334
Capital expenditure (net)	-1,070	+437
Free cash flow	1,123	+103
Cash and cash equivalents as of 30.06.16*	1,302	+179
Current securities	2,683	+423
Total Group liquidity	3,985	+602



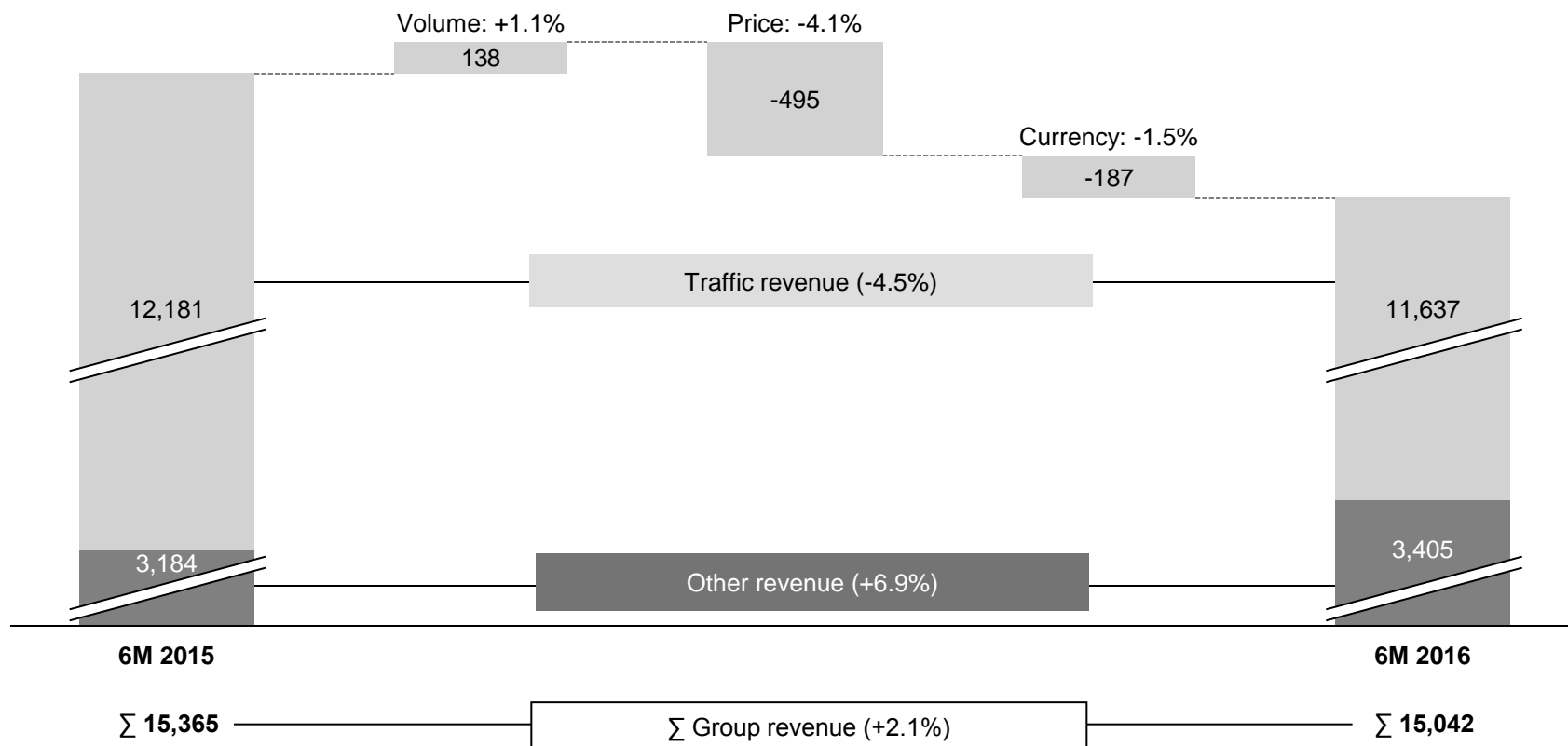
* Excluding fixed-term deposits with terms from three to twelve months (2016: 106 m EUR, 2015: 100 m EUR)

Group revenue and currency influence

6M 2016 vs. 6M 2015

Currency influence on EBIT (in m EUR)				
Q1	Q2	Q3	Q4	FY (YTD)
+85	-28			+57

in m EUR

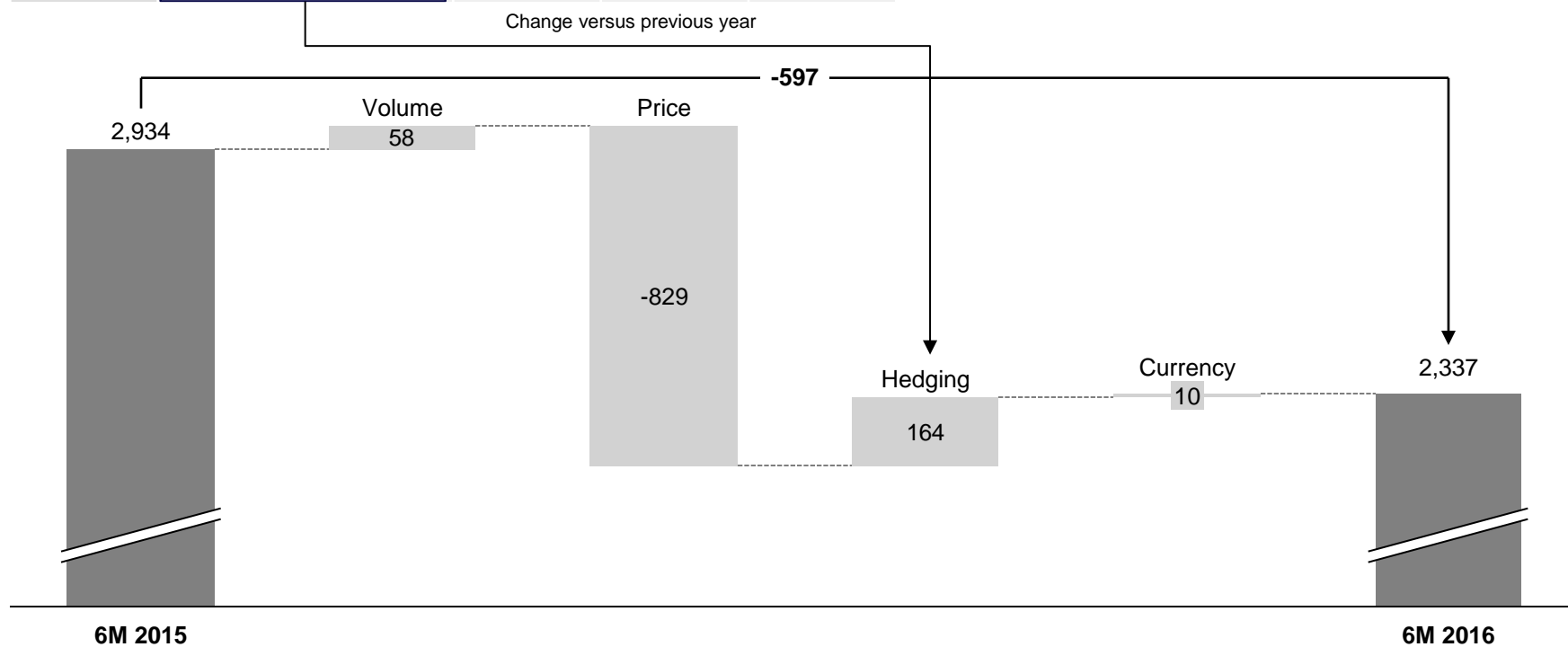


Fuel costs

6M 2016 vs. 6M 2015

Hedging result by quarter (in m EUR)					
	Q1	Q2	Q3	Q4	FY (YTD)
2015	-203	-205	-271	-309	-988
2016	-336	-235			-571

in m EUR



Adjusted EBIT and one-off factors

Quarterly results 2014-2015

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>incl. strikes</i>	-42	-58	-30	-101	-100	-130	-231
<i>incl. 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			529		
<i>incl. one-offs</i>	0	0			0		
Adjusted EBIT ex one-off factors	-53	582			529		

Reconciliation from EBIT to Adjusted EBIT per segment

6M 2016

Segment	EBIT 6M 16 (m EUR)	Impairments	Pension changes	Book gains/losses on asset disposals	Adj. EBIT 6M 16 (m EUR)
LH Passenger Airlines	354	+51		-18	387
SWISS	131				131
Austrian Airlines	1			-2	-1
Eurowings	-89				-89
Consolidation	-4			+17	13

Passenger Airline Group	393	+51		-3	441
Logistics	-46	+1			-45
MRO	204				204
Catering	26	+2		-4	24
Others / Consolidation	-59	-1		-35	-95

Lufthansa Group	518	+53		-42	529
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Adjusted EBIT and EBIT per quarter 2015

<i>in m EUR</i>	Q1	Q2	Q3	Q4	6M	9M	Full Year
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	-7	+46	+46	+39
<i>impairments</i>	+1	-84	-25	-47	-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%