Expert Session on LH Passenger Airlines and the new germanwings

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Lufthansa Passenger Airlines and germanwings
Profile

- **Largest European Airline**
  17.3 bn EUR revenue in 2012, 75 million passengers, fleet of ca. 400 aircraft

- **Largest single unit in Lufthansa Group**
  Accounts for 75% of Lufthansa Group's passenger revenue and 60% of total LH Group revenue

- **Global network, founding member of STAR alliance, joint venture partner with UA/CO/AC and ANA**
  >200 destinations, revenue: 45% short-haul, 27% Americas, 19% APAC, 9% Mideast/Africa

- **Strong premium and corporate exposure**
  ca. 35% premium revenue; ca. 40% of revenue is being generated with corporate customers

- **Largest contributor to FY15 Group target of 2.3 bn EUR op. result**
  LH Passenger Airlines and germanwings target to improve their operating result by +0.9 bn EUR vs. 2011
Lufthansa Passenger Airlines is making visible progress
Current trading and recent developments

Operational KPIs improve (H1 2013 vs. H1 2012)

First impacts of cost reductions become visible
- H1 2013 operating result improved by 66% to -91 million Euros
- Non-fuel CASK reduced by ca. 1% at stable RASK

On track for FY2013 and business plan to 2015 SCORE target
- Current results trend indicate achievement of FY13 and business plan to FY2015 SCORE target
- Germanwings shows desired effect: ca. 90 m EUR improvement in 2013 vs. 2012 expected
- Constructive labor agreements with ground and cabin staff concluded; cabin productivity +4.9% ytd
- Process optimization program with 180 m EUR p.a. cost reductions to be launched shortly

Latest aircraft order and product upgrades secure long-term cost and capacity development
- 25 A350-900 to replace A343-300 from 2016, 34 777-9X aircraft to replace 747-400 from 2020
- 20% CASK reduction from new models expected
- Moderate capacity growth at half of market rate in selected markets: Base case of 3% growth p.a.
- Fully flexible capacity from 1 to 5% growth p.a. by adjusting the roll-over schedule

Product enhancement program in place to improve revenue quality and become 5 star airline
Regional profitability shows strong differences
Current trading and recent developments

**Short-haul incl. domestic shows positive results**
- Lufthansa incl. Germanwings performance is well on track
- Capacity discipline fosters positive yield developments, especially in Germany
- First positive result on short-haul expected since more than 5 years

**North and South America results are very positive**
- Capacity discipline among North Atlantic JVs drives positive results
- South American routes with positive result
- Moderate ASK growth in selected regions/routes

**Asia and Middle East/Africa under pressure**
- Forex developments dilute APAC yields by ca. 4 %pts. year-on-year (Q2)
- Weak Yen pressures Japan routes – JV with ANA eases effect on LH
- Indian Rupee, competition and macro weakness pressures India routes
- Chinese market is growing strongly, partnership options under evaluation
- Gulf carrier competition remains intense
- Strategy for the market includes introduction of two-class fleet and earning capacity measures; successfully proven on first routes
SCORE Agenda: Reduction of complexity and lower unit costs
At the same time investing in best product and efficient fleet

1. Capacity & fleet dimensioning
   - Freeze fleet size at 400 aircraft, ASK growth at half of market rate (ca. 3% p.a.)
   - ASK growth mainly through more seats per plane (i.e. CASK reduction)

2. Restructuring of long-haul
   - Shift in premium vs. non premium to optimize RASK vs. CASK
   - Introduction of 2 class long-haul fleet
   - Ca. 50 further cost reduction measures
   - Launch new technology aircraft from 2016
   - A320neo first delivery

3. Restructuring of short-haul
   - Reduce short-haul fleet from 9 to 3 aircraft models
   - Exit from 70-seater fleet
   - Return non-hub operations to break-even (new Germanwings)

4. Reduce unit cost
   - Reduce overhead costs through shared services
   - Restructure outstation operations
   - Reduce costs at all suppliers (ATC, internal suppliers, etc.)

5. Invest in revenue quality and best product
   - Roll-out new First Class
   - Roll-out of new long-haul Business Class
   - Launch of Premium Economy
   - Become Europe’s first 5 star airline
Fleet complexity will be significantly reduced
From 15 to 8 sub-fleets plus cost reductions from new technology aircraft

2012

6 aircraft types

- 400-500 seats
  - A380
  - 747-8I
- 300-400 seats
  - 744-400
  - A340-600
- 200-300 seats
  - A340-300
  - A330-300

Development
Phase-out by age
Phase-out by age
Phase-out by age
Development almost complete

2025

5 aircraft types

- A380
- 747-8I

- 777-9X
- A350-900
- A330-300

-20% CASK vs. replaced aircraft

9 aircraft types

- Classic
  - A319/20/21
  - 733/5

- Regional
  - E90/95
  - CR9

Development & rollover
Phase-out by 2015
Used as hub-Feeder
Used as hub-Feeder and selected non-hub ops

2012

3 aircraft types

- A320Family
- E90/95
- CR9

- AR8

Phase-out 2012
Phase-out 2013
Phase-out by 2015 targeted

2011 2013 2015 2017 2019 2021
Long-haul fleet will be tailored to serve specific route profiles
Lufthansa focuses on markets with highest margins: large and premium

Share of premium passengers

30%

20%

10%

5%

Small Niche

Mid-Size Premium

Premium Trunk

Small & Growing

Medium Volume

Large Volume

New Technology Aircraft

Expansion of A380 and 747-8i Fleet

Introduction of 2 Class Fleet & New Technology Aircraft

long-haul O&Ds Europe-World served by Lufthansa
long-haul O&Ds Europe-World total market

total passengers p.a.
Lufthansa Passenger Airlines remains on restricted growth path
CASK improves mainly by growing through more seats per plane

Fleet size frozen at 400 aircraft throughout 2016

FY14 and FY15 with higher ASK growth due to increase in number of seats from roll-over, introduction of 2 class long-haul fleet, stage length effects and replacing 70 seaters with larger models on short-haul

Unit costs expected to further decrease in FY14 and FY15
Restructure long-haul: 200 m EUR profit improvement targeted
Major contribution from two class fleet

<table>
<thead>
<tr>
<th>SCORE measure to boost long-haul result</th>
<th>Impact m EUR</th>
</tr>
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<tbody>
<tr>
<td>2-class fleet (Business and Eco only)</td>
<td>&gt; 50</td>
</tr>
<tr>
<td>Structural change in seasonal flight plan</td>
<td>&gt; 10</td>
</tr>
<tr>
<td>Flight operations analyzer</td>
<td>&gt; 10</td>
</tr>
<tr>
<td>Incentive initiative long-haul</td>
<td>&gt; 5</td>
</tr>
<tr>
<td>Reduce technical ground times</td>
<td>&gt; 5</td>
</tr>
<tr>
<td>Reduce minimum ground time</td>
<td>&gt; 5</td>
</tr>
<tr>
<td>Other measures</td>
<td>&gt; 100</td>
</tr>
</tbody>
</table>

Total: 200 m EUR

30 aircraft = ca. 1/3 of long-haul fleet to be converted by end of winter schedule 2014/2015 (744 and A343)

- Objective: reduce long haul ground times by 40%
- Where: FRA and selected airports in US
- Status: first test cases in FRA, SFO, LAX successfully completed
- Next: extension to further airports including MUC

![Two class fleet results in ca. 20% lower CASK](image-url)
Labor agreements result in higher productivity and lower CASK
Next step is to reduce costs through Shape! program

- Valid for 24 months Jan 13 – Dec 14
- Skip of automatic wage increase for 12 months
- <2% annualized increase in exchange for flexibility models
- 5% work time corridor (allows for capacity adjustments)
- Annual work time model that allows hires for peak season only

- Valid for 26 months Mar 13 until Mar 15
- +0% until July 13, +1.5% in Aug 13, +1.5% in Aug 14
- 12 m EUR additional costs over 26 months

- Reduce staff costs by 180 m EUR p.a.
- Process orientation vs. functional hierarchies in core processes (sales, IT, ground ops, product)
- Currently in talks with workers council

FY 2012 2.96 bn EUR
16% of total opex
23% of non-fuel opex
Invest in product to maintain competitive edge in revenue quality
Significant one-time costs are attached to product upgrades

**Investment in revenue quality**
- Complete retrofit of entire long-haul fleet by 2015
- Roll-out of new First, Business, Premium Eco and Economy Class
- Upgrade of IFE and WiFi on long-haul
- Introduction of WiFi on short-haul (A321)
- New lounges (e.g. T2 satellite Munich)
- Service upgrade on entire route network

**5 Star initiative**
- Objective to become Europe’s first five star airline
- Targeted date is rating 2015
- Lufthansa First Class already 5 Star rated
- Rating is symbolic for competitive edge and yield premium as highest profits are generated in premium markets

**One-time costs for product upgrades (project costs)**

- FY13: 120
- FY14: 300
- FY15: <100

- Level of project costs in normal year:
  - Q3: 30
  - Q4: 90

(opex for product installation, e.g. additional downtime of fleet, maintenance work, certification etc.)
New Germanwings
**Germanwings**  
Future company profile

**Largest German low cost airline**  
ca. € 2 bn revenue, ca. 18 million passengers, ca. 90 aircraft

**Quality network with strong domestic core markets**  
Operating from primary and secondary airports, 27% domestic production share

**Product & fare structure with a broad distribution mix**  
Focus on customized products, ancillary revenue maximisation, „user pays“ distribution model

**Lufthansa Group advantage**  
Strength of LH Group network, leveraging strong LH corporate customer base, Partner of Miles&More

**Largest contributor to FY15 LH Passenger Airlines SCORE target (+0.2 bn improvement vs. 2011)**  
ca. 90 m EUR improvement expected in 2013 vs. 2012
On July 1\textsuperscript{st} Germanwings unveiled a new look, new philosophy and new product “Choice at low cost” as a unique positioning in the European point to point market.

### Scope

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Revenue</td>
<td>ca. 2bn EUR</td>
</tr>
<tr>
<td>Passengers</td>
<td>ca. 18m</td>
</tr>
<tr>
<td>Aircraft</td>
<td>ca. 90</td>
</tr>
<tr>
<td>Network</td>
<td>non-hub routes ex / to Germany Berlin, Dusseldorf, Hamburg, Hanover, Cologne, Stuttgart,...</td>
</tr>
</tbody>
</table>

### Design

- Distinctive branding
- Classic Lufthansa fuselage design

### Product

- Customized travel experience
- Choice of booking channel
- Choice of frequent flyer program
- Choice of corporate program
Transformation of LH non-hub ops and old Germanwings started in January 2013
Full P&L responsibility assumed, capacity transfer underway

Starting as market leader for P2P traffic in Germany

- **Brand**: Two brands operating
- **Fleet**: Expansion of ‘New Germanwings’ roll-out completed
- **Product**: ‘New Germanwings’

- **Jan 2013**: one P&L one organization
- **2013 - 2014**: Transition Phase
- **2015**: One integrated business

- **Transfer of 49 A/C from LH mainline**
- **64 A319/20 in germanwings AOC**
- **23 A/C as wet lease from Eurowings**

Market Shares

- Source: SRS Analyser Jan-Dec 2013, as of Jul 2013, sectors up to 4,000 km
Co-ordinated market approach already resulting in higher load factor and yield
Positive impacts are clearly visible in 2013

- Joint revenue management
- No internal competition
- Yield premium and ancillary revenue from new product and fare structure
- Inclusion in Lufthansa’s corporate sales schemes
- Introduction of codesharing / interlining with Lufthansa Group
- Partner of Miles & More frequent flyer program

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Forecast</th>
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<tbody>
<tr>
<td>Δ vs previous year</td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Capacity vs. Demand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[ASK vs. RPK]</td>
<td>+11%</td>
<td>+13%</td>
</tr>
<tr>
<td>Seat Load Factor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[RPK/ASK]</td>
<td>+1.6%p</td>
<td>+2.9%p</td>
</tr>
<tr>
<td>Yield</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Revenue per Pax]</td>
<td>+5.7%</td>
<td>+4.5%</td>
</tr>
<tr>
<td>Yield 4U</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Revenue per Pax]</td>
<td>+12.2%</td>
<td>+10.9%</td>
</tr>
<tr>
<td>Yield LH</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Revenue per Pax]</td>
<td>+0.0%</td>
<td>+1.6%</td>
</tr>
</tbody>
</table>
Germanwings offers an unrivalled mix of distribution channels
By end of 2014 all bookings will be done through lower cost channels

### Allocation of bookings

<table>
<thead>
<tr>
<th>Year</th>
<th>4U Channels</th>
<th>LH Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td>2012</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>2013</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>2014</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2015</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

### Germanwings distribution channels

#### Direct Sales
- 4U.com
- Mobile
- Call Centre
- Airport Sales

<table>
<thead>
<tr>
<th>Surcharge</th>
<th>0 €</th>
<th>20 €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share (Forecast 2013)</td>
<td>88% ticketless</td>
<td>12% ticketed</td>
</tr>
</tbody>
</table>

#### Intermediaries
- B2B portal
- Direct Connect
- Tuifly.com
- Groups
- Tour operator
- GDS

<table>
<thead>
<tr>
<th></th>
<th>0 €</th>
<th>2 €</th>
<th>0 €</th>
<th>15 €</th>
</tr>
</thead>
</table>

Variety of sales channels cover the needs of all customers
Customer pays all additional transaction costs
No incentives to intermediaries
Direct connect delivers full „inventory to inventory“ access to intermediaries
All Germanwings distribution channels enable ancillary revenue generation
“Freedom of choice” philosophy delivers similar ancillary revenues as LCC competitors

Peer Comparison

Selected Key Ancillary Revenue Sources

- Product bundling – SMART & BEST fares
- Checked baggage fees
- Distribution channel fees & surcharges
- Booking-change fees
- Seat selection fees

Opportunity to Increase Ancillary Revenue

- Maximize potential of existing products and services
- Expand ancillary options into new customer segments – GDS, groups, and tour operators
- Introduce new innovative products for the customer

1) Germanwings excluding bulk sales
2) Easyjet adjusted its ancillary revenue definition reporting 1€/Passenger for 2012
Source: Annual reports (FR, U2), Amadeus Yearbook of Ancillary Revenue (AB); 4U Ancillary Reporting
Fleet homogenisation is ahead of schedule and will be completed in early 2015. Overall fleet is going to be reduced by 7 aircraft and productivity boosted by +12%.

### Fleet details

<table>
<thead>
<tr>
<th>Boeing</th>
<th>Regional</th>
<th>Airbus</th>
</tr>
</thead>
<tbody>
<tr>
<td>LH 737</td>
<td>LH CR9</td>
<td>LH A320</td>
</tr>
<tr>
<td>25</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td>18</td>
<td>23</td>
<td>16</td>
</tr>
<tr>
<td>5</td>
<td>16</td>
<td>4</td>
</tr>
</tbody>
</table>

**2015 vs 2011**

- **# of aircraft**: -7 A/C
- **# ASK**: +21%
- **block hours per aircraft**: +12%
The new Germanwings will deliver unit cost reductions in all areas. Transfer to Germanwings contracts has the largest single impact.

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Description</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Airport Taxes</strong></td>
<td>Larger aircraft, unit cost reduction</td>
<td>-5%</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>E.g. reduction of fixed cost due to more passengers</td>
<td>-10%</td>
</tr>
<tr>
<td><strong>Maintenance</strong></td>
<td>Phase-out B737, economies of scale, 4U maintenance costs (young fleet)</td>
<td>-15%</td>
</tr>
<tr>
<td><strong>LH-Station Costs</strong></td>
<td>Less complexity, procurement of passenger handling at market prices</td>
<td>&gt;-30%</td>
</tr>
<tr>
<td><strong>LH Cockpit Crew</strong></td>
<td>From 2014, Cockpit cost on 4U level</td>
<td>-15%</td>
</tr>
<tr>
<td><strong>Cabin Crew</strong></td>
<td>Cabin costs on 4U level after transfer of aircraft</td>
<td>-30%</td>
</tr>
<tr>
<td><strong>Indirect costs</strong></td>
<td>Reduced overhead due to bundling at one location</td>
<td>-20%</td>
</tr>
</tbody>
</table>
**Germanwings labor force is more productive than Lufthansa counterparts**
Maintaining this low cost position is prerequisite for a sustainable turnaround

<table>
<thead>
<tr>
<th>Characteristics</th>
</tr>
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<tbody>
<tr>
<td><strong>Cockpit</strong></td>
</tr>
<tr>
<td>□ Labor contract currently in negotiation</td>
</tr>
<tr>
<td>□ LH Flight Training graduates</td>
</tr>
<tr>
<td>□ Low average age</td>
</tr>
<tr>
<td>□ High schedule productivity (e.g. P2P flights, no layovers)</td>
</tr>
<tr>
<td><strong>Cabin</strong></td>
</tr>
<tr>
<td>□ Long-term labor contract just achieved</td>
</tr>
<tr>
<td>□ Self-financed pension scheme</td>
</tr>
<tr>
<td>□ Fixed-term work contracts, lower average age</td>
</tr>
<tr>
<td>□ Higher productivity (e.g. P2P flights, no layovers)</td>
</tr>
<tr>
<td>□ Extended job description (e.g. cleaning, buy-on-board)</td>
</tr>
<tr>
<td><strong>Admin</strong></td>
</tr>
<tr>
<td>□ Lean organisation</td>
</tr>
<tr>
<td>□ Efficient processes</td>
</tr>
<tr>
<td>□ No labor contract</td>
</tr>
</tbody>
</table>
New Germanwings is to return the non-hub network to break-even in FY15
The company is on track and expects ca. 90 m EUR improvement in 2013

New positioning

- Focus on 6 biggest markets
- Repositioning and clear differentiation in market
- Clear USPs
- Retain current 4U and LH customers
- Attract new customers in business & leisure segments
- Focus on individualisation to meet customer’s needs

‘Best of both worlds’

- Yield protection
- Maintain Germanwings CASK

Actual Forecast

- 2012
- 2013

break-even target

- 2015

- € 200 m

- ca. 200 m EUR SCORE target

Lufthansa results in non-hub network
Germanwings results
New Germanwings
Summary

- **Lufthansa conducts a comprehensive restructuring in all areas**
  Short-haul challenges mainly tackled by new germanwings, long-haul challenges mainly tackled by changed fleet structure

- **Lufthansa restricts capacity growth and invests in product upgrades**
  Stable fleet and moderate capacity growth lead to lower CASK, product investments support RASK

- **Operational KPIs and operating result show first improvements**
  Significant one-time costs will however burden throughout FY15, difficult trading conditions in APAC remain in FY13

- **Lufthansa Passenger Airlines remains on track for its FY2013 budget and SCORE 2015 target**
  FY13: improvement of operating result year-on-year, FY15 SCORE target: improvement of +0.9 bn EUR vs. 2011
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