Value Based Steering & Dividend Policy

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Value Based Management

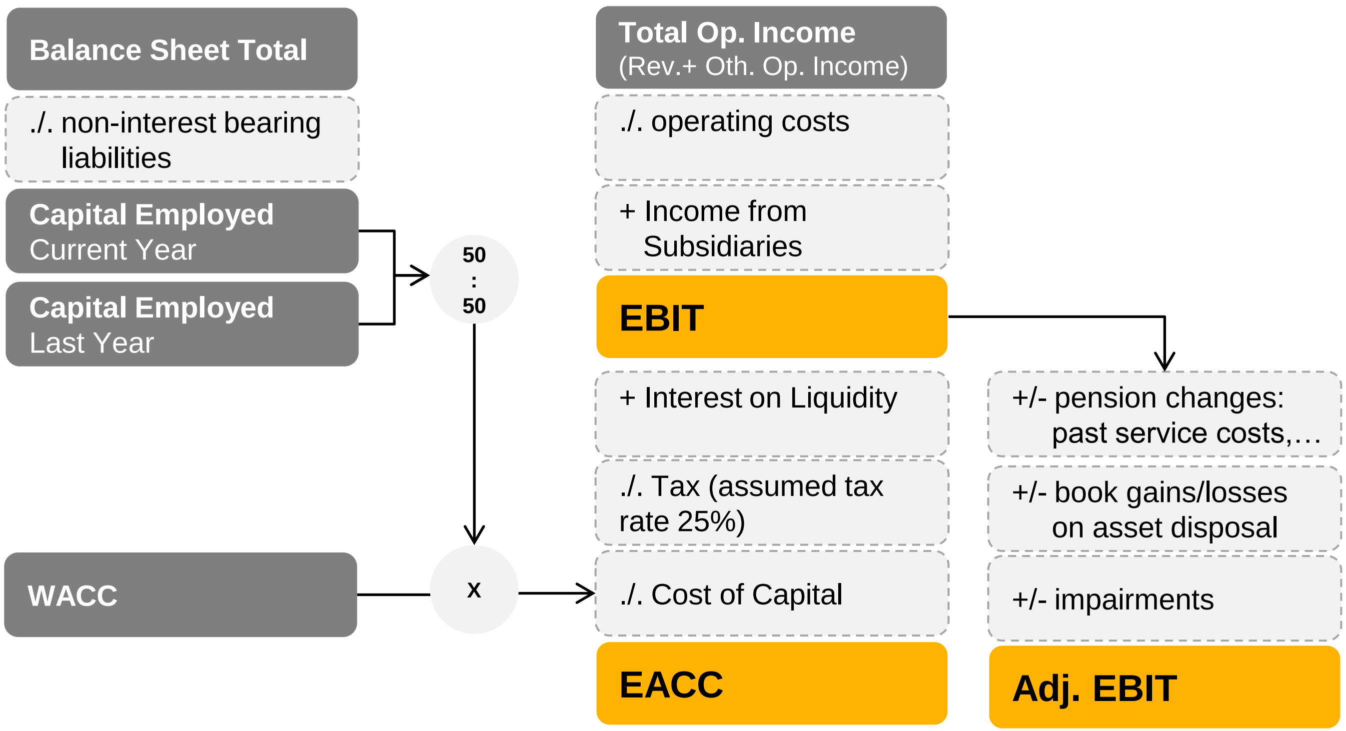
Introduction of New Return On Capital and Profit KPIs

Value based steering was introduced by Lufthansa Group in 1999. New KPIs are to improve transparency and usability.

1999		1999-2014		from 2015
Introduction of value creation metric Cash Value Added (CVA)	→	**Positive track record. >6 bn EUR CVA**	→	**EACC (Earnings After Cost of Capital) and ROCE replace CVA**

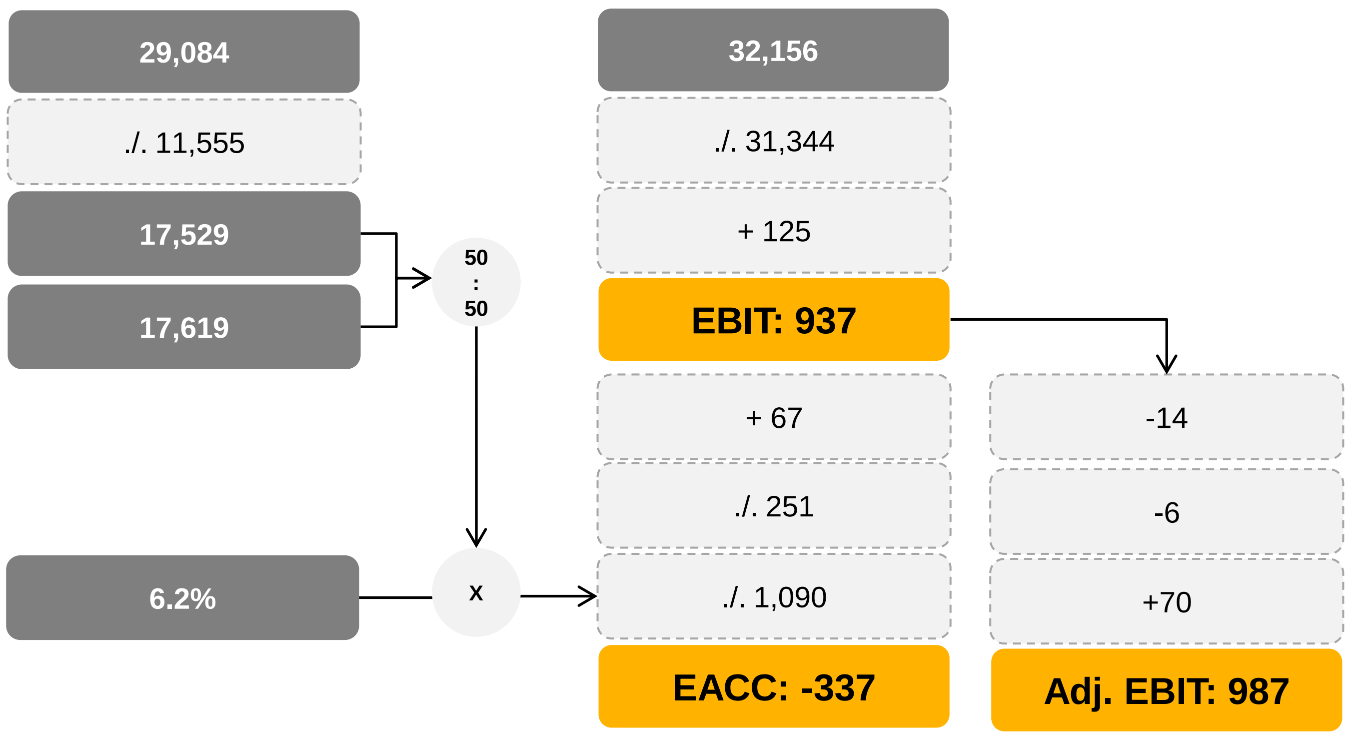
	EACC & ROCE
Transparent: Quick and easy to calculate	✓
Simple: Easier to use in operational steering	✓
Integrated: Directly linked to comprehensive set of KPIs	✓
Comparable: Possibility to compare with peers	✓

New system directly links profit figures and value creation metric. EBIT, EACC and ROCE are transparent and can be calculated easily.



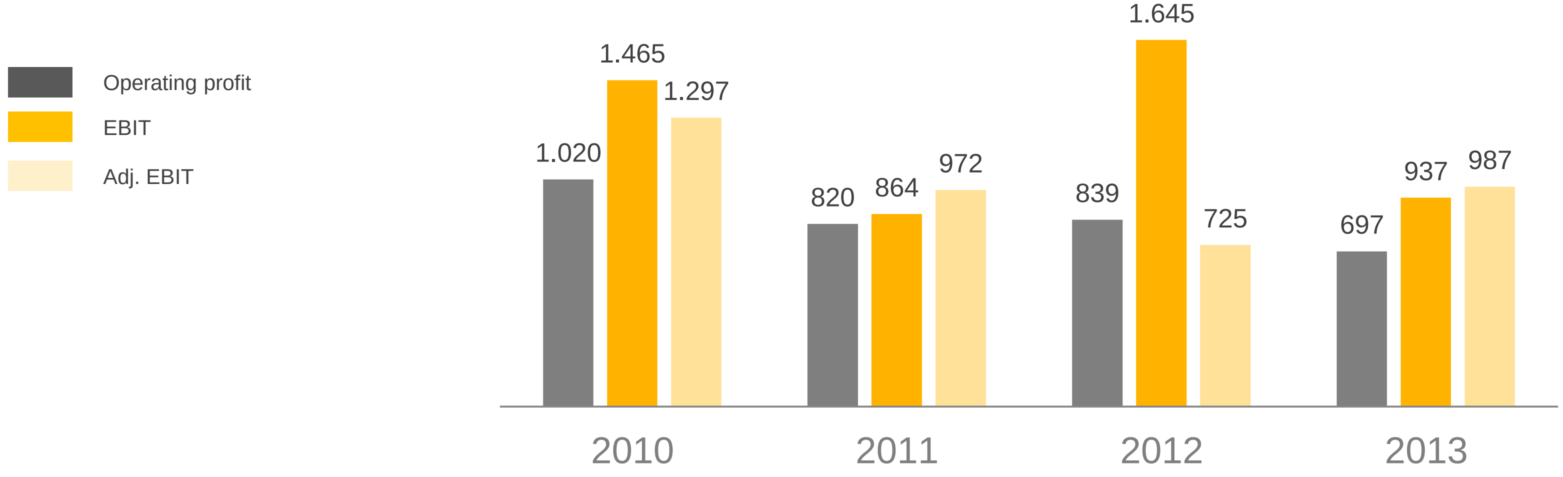
$$\text{ROCE} = \frac{(\text{EBIT} + \text{Interest on Liquidity} - \text{Tax})}{\text{Average Capital Employed}}$$

New system directly links profit figures and value creation metric. Example for financial year 2013.



$$\text{ROCE} = \frac{(937 + 67 - 251)}{17{,}574} = 4.3\%$$

EBIT is a structurally higher number than operating result. Main difference is that income from subsidiaries is included.



	2010	2011	2012	2013
Total Operating Income	**29,136**	**31,070**	**32,947**	**32,156**
./. Operating Expenses	-27,774	-30,277	-31,396	-31,344
+ Income from Subsidiaries	103	71	94	125
EBIT	**1,465**	**864**	**1,645**	**937**
./. Delta to Operating Result	-445	-44	-806	-240
Operating Result	**1.020**	**820**	**839**	**697**
Adj. EBIT	**1,297**	**972**	**725**	**987**
./. Delta to Operating Result	-277	-152	-114	-290
Operating Result	**1.020**	**820**	**839**	**697**

Cost of capital is based on a target capital structure of 50:50. Current WACC is 6.2%.

Cost of Debt[1]

3.6% (FY2013)

Cost of Equity[2]

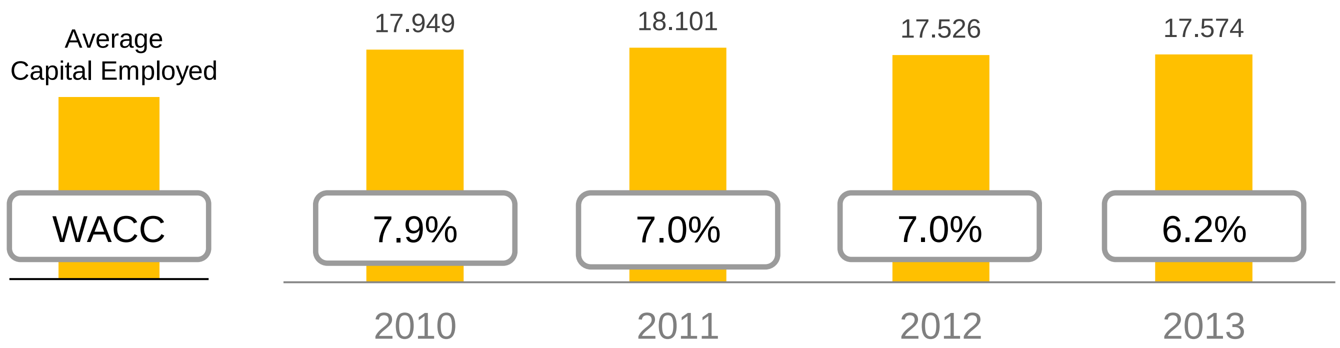
8.8% (FY2013)

Target Capital Structure 50 : 50

WACC: 6.2%

[1] Currently no consideration of tax shield
[2] Cost of Equity FY2013 = Risk-free market interest rate of 3.2% + (Market risk premium of 5.1% x Beta Factor 1.1)

Current capital employed is ca. 17.5 bn EUR. Weighted average cost of capital is 6.2%.



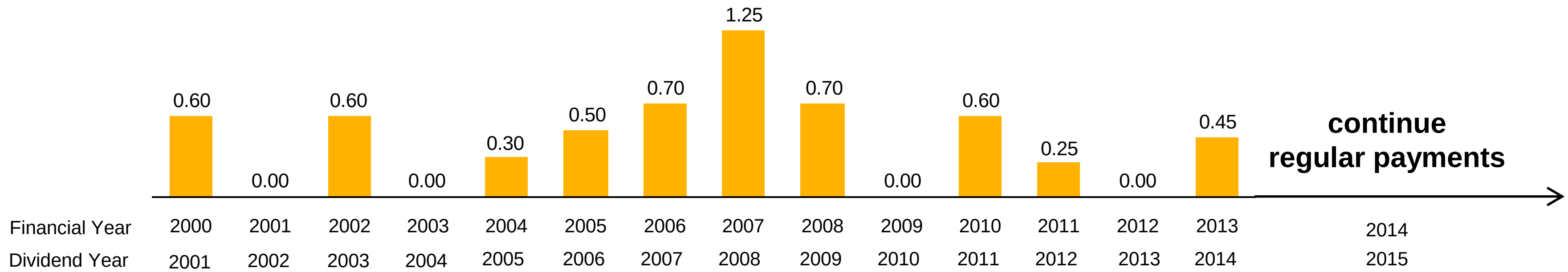
	2010	2011	2012	2013
Balance Sheet Total	**29,320**	**28,081**	**28.559**	**29.084**
./. Non-Interest Bearing Liabilities	10.550	10,649	10,940	11.555
- liabilities from unused flight documents	*2,389*	*2,359*	*2,612*	*2,635*
- trade payables, other fin. liabillites, other provisions	*4,855*	*4,758*	*4,887*	*5,108*
- adv. payments, deferred income, other non-fin. liabilities	*2,153*	*2,095*	*2,096*	*2,148*
- others	*1,153*	*1,437*	*1,345*	*1,664*
Capital Employed at year-end	18,770	17,432	17,619	17,529
Average Capital Employed	**17,949**	**18,101**	**17,526**	**17,574**
WACC	7.9%	7.0%	7.0%	6.2%
EBIT	**1.465**	**864**	**1.645**	**937**
Interest on liquidity	111	62	75	67
Taxes	-394	-232	-430	-251
Cost of capital	-1,418	-1,267	-1,227	-1,090
EACC	**-236**	**-573**	**63**	**-337**
ROCE	**6.6%**	**3.8%**	**7.4%**	**4.3%**

Dividend Policy

Adjusting dividend policy to new profit KPIs and lower deprecation

Lufthansa Group has strong track record of dividend payments. Future dividends continue to be linked to profit development.

Dividend per share in EUR



	Old Dividend Policy	New Dividend Policy
Regular dividend payments	✓	✓
Pay-out directly linked to performance	✓	✓
Pay-out from earnings not equity	✓	✓

New dividend policy is to pay-out 10-25% of EBIT. Maximum pay-out is defined by net result under German GAAP.

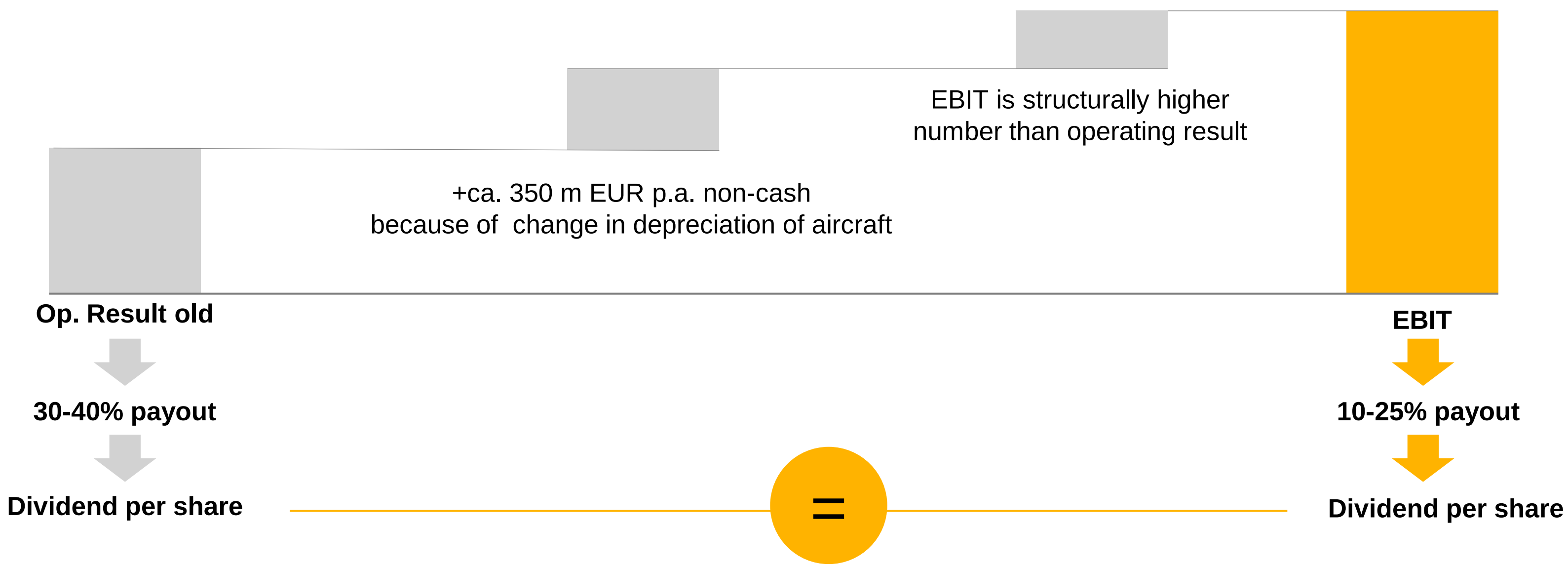
	Old Dividend Policy	New Dividend Policy
Regular Pay-outs	Operating Result	EBIT
	30%-40% pay-out	10-25% pay-out
	local GAAP net result = max payout in m EUR	local GAAP net result = max payout in m EUR
Extraordinary Pay-outs	Special dividends and share buy-backs possible	Special dividends and share buy-backs possible

Dividends are now linked to EBIT.
Pay-out adjusts for depreciation change and structurally higher base.

New Dividend Policy

„10-25% of EBIT“

- Links dividends to leading profit KPI EBIT
- Effective from financial year 2015 (pay-out 2016)
- Allows for similar pay-outs as old policy
- Adjusts non-cash effect from changed aircraft depreciation (+350 m EUR p.a.)
- Reflects that EBIT is a structurally higher number than operating result



Lufthansa Group

Shareholders will not be put in worse situation. Examples for dividends under different local GAAP results.

in m EUR	EBIT	10-25% of EBIT	Local GAAP Result	Pay-out Sum	# of shares	Dividend per Share
Example 1	1,500	150-375	500	150-375	÷462.8m	= 0.32-0.81 EUR
Example 2	1,500	150-375	200	150-200	÷462.8m	= 0.32-0.43 EUR
Example 3	1,500	150-375	0	0	÷462.8m	= No Dividend

Summary and Next Steps

Summary

- **Fully integrated set of KPIs for value based steering**
  EBIT, EACC, ROCE and Dividend Policy are all directly linked and easy to calculate

- **EACC and ROCE replace CVA from 2015**
  New KPIs more transparent and easier to use; better alignment of external view and internal steering

- **EBIT replaces operating profit as key profit figure; guidance will be based on “Adjusted EBIT”**
  EBIT is structurally higher number in particular due to inclusion of income from subsidiaries

- **New dividend policy is to pay-out 10-25% of EBIT but no pay-out higher than local GAAP result**
  New dividend policy will be effective from financial year 2015 (pay-out 2016)

- **New dividend policy allows for similar pay-outs as old policy**
  New pay-out ratio is lower due to structurally higher EBIT and non-cash depreciation tailwind

Implementation timeline

2014	Reporting, steering and management remuneration based on old KPIs Some new KPIs presented in annual report 2014 for information only
2015	External reporting fully based on new KPIs First interim report based on new KPIs will be Q1 2015 Dividend proposal 2015 (for FY14) based on old policy and adjusted for depreciation
2016	Full internal and external integration of new KPIs Management Remuneration based on new KPIs First dividend payment based on new policy