

Group strategy

➤ Global air traffic is increasing, yet is a notably cyclical business. ➤ Lufthansa's course in this industry is set on sustainable, profitable growth. ➤ Our core business segments form the basis for this. ➤ Further growth in the airline business can take place organically or together with partners. ➤ Consistently improving the Group remains a success factor for our strategy. ➤ The financial strategy provides support and creates the leeway for further operating and strategic corporate development.

➤ Exploiting opportunities to add value

The international aviation business stands for solid growth rates, but it is also distinctively cyclical. In this environment we have positioned and continue to develop the business segments in the Lufthansa Group with the aim of profitable growth. In economically challenging periods we never lose sight of the long-term goal of creating value, but continue to make use of opportunities in terms of markets and partnerships during crises as well. With foresight we review strategic options for their long-term value contribution to the Group. The growth prospects created in this way together with the increased competitiveness of the Lufthansa Group benefit all stakeholders: our customers, shareholders and employees, and not least the air traffic centres Germany and Europe. Competitive local policies make a major contribution to a balanced mix of mobility options and citizens' prosperity. At the same time, profitability remains our primary objective. As ecology and economy form a particular symbiosis in the aviation sector, we feel responsible for relieving the burden on the environment and conserving resources, for instance by means of extensive investment in a modern, fuel-efficient aircraft fleet.

The course that we have chosen is clearly mapped:

- We will continue to write our success story as one of the most attractive and profitable aviation groups with a global network and range of services.
- We offer our customers excellent quality and innovative service in all segments.
- We systematically align the profile of our processes and products with the needs of our customers and their demand patterns today, and as they are revealed for the future.

- We offer our customers, shareholders and staff attractive, long-term prospects.
- We will continue to grow profitably: organically, in partnerships and by acquisitions.
- We feel bound to create value.

As part of the value-based management, all areas of the Company are managed in line with the cash-value-added concept; see the chapter "Value-based management and targets" from [p. 48](#). Continual cost management has a particular priority in the achieving of our targets. All business segments are making substantial efforts in this regard. The Group initiative Upgrade to Industry Leadership, under which by February 2010 some 140 projects had been identified in all segments with a sustainable annual earnings contribution of around EUR 700m, has meanwhile been brought to a successful close. In addition, we have launched further initiatives in all Group companies to safeguard our competitiveness and improve unit costs. For example the Climb 2011 project at Lufthansa Passenger Airlines aims to achieve a sustainable earnings improvement of EUR 1bn by the end of 2011 see chapter "Lufthansa Passenger Airlines" starting on [p. 85](#).

➤ Mobility à la carte – high-quality products in all customer segments

The carriers in the Passenger Airline Group and Lufthansa Cargo offer demand-oriented mobility for passengers and freight in every segment. All customer segments are covered, from the budget flights of our Germanwings subsidiary to the premium product of Lufthansa Private Jet. This gives every Lufthansa customer the products and services that meet their needs on their preferred travel route from a single source.

In addition, our three other business segments MRO, IT Services and Catering offer high-quality services for airline customers inside and outside the Lufthansa Group. All segments derive mutual benefits from the complementary effects of high product standards and Lufthansa's very good reputation in the global air traffic industry. For instance, Lufthansa Technik has a decisive influence on the core Lufthansa brand image in terms of quality, safety and technical reliability.

7 Core competences are a guarantee for sustained success

Thanks to our staff, their outstanding training and our experienced leadership team, we are in a position to deploy resources successfully and optimise them continuously. We are highly proficient in the core processes of air travel, such as operating procedures on the ground and in the air. Our objective is always to improve quality, costs and flexibility continuously – while maintaining our very high safety levels. In the field of innovation too, our companies continue to bring new ideas to market, enabling them to offer new products to all customers. In order to optimise our range of products constantly, our business segments implement customised solutions, for instance with a multitude of local production facilities in the Catering segment or by expanding the route network for our passengers. In the aviation industry the overarching management of networks is of paramount importance. In the past the Lufthansa Group has more than once demonstrated its ability to integrate new partners into the airline group successfully and can build on this in the future.

7 Profitable growth underscores the claim to lead the European airline industry

Our crisis strategy and crisis management activities during the financial and economic turbulence have proven their worth and at the same time prepared the ground for taking part in air transport's current growth spurt. In economically strong phases and recognising the pronounced cyclical nature of our industry we took the necessary decisions that would equip us to deal with an economic downturn. These include the greatest possible degree of flexibility in terms of capacity and costs, rapid reactions to market changes, local entrepreneurship, taking advantage of opportunities and a solid financial profile. At Group and segment level we evaluate the opportunities and risks of the different markets constantly and adjust the growth scenarios flexibly.

We intend to participate in the forecast future growth, particularly in our core business of passenger transportation. This can come about by means of organic growth and also – as far as opportunities to create strategic and economic value arise – via the integration of partners into our airline group or via other partnerships, particularly the Star Alliance. Expanding and enhancing cooperations and alliances has the advantage of offering rapid market access at a modest investment and with a limited market-entry risk. Intensifying the scope of partnerships, as in the transatlantic joint venture Atlantic++, also enables further income and earnings potential to be realised. Further information on the development of the Star Alliance and on Atlantic++ can be found in the chapter "Passenger Airline Group" starting on [p. 78](#).

7 Entrepreneurship and flexibility are key to the Group's successful future development

The development of the Group and its organisational structure remains a fundamental component of our strategy and a success factor, which allows us to rise to the challenges set by constantly changing environmental and market conditions. Since Lufthansa made the extent of its vertical integration more flexible and sharpened its airline profile in the 1990s, the Group has developed into an alliance of operationally independent airlines. In this multi-airline and multi-service group all the partners benefit from the mutual exchange of best practices as well as from wide-ranging cost and revenue synergies. The Airline Development Board, which brings together the Group's Executive Board and the CEOs of the group airlines on a regular basis, permanently refines the airline group. The decentralised structures throughout the Group also promote profit responsibility and entrepreneurialism.

Given the limited financial and management resources it is nevertheless necessary now more than ever to concentrate on core competences. This applies equally to the Group as a whole and to the individual business segments. Their relevance is largely determined by their importance for the competitiveness of, and their interdependency and "competence fit" with, the strategic business segment Passenger Airline Group. If the activities of a business segment are less relevant for the Passenger Airline Group, we also examine solutions for developing this segment outside the Lufthansa Group. In future portfolio management activities we will be guided as hitherto in our decision making by the potential of a transaction for increasing value.

Financial strategy

7 Strong financial profile complements corporate development

Our financial strategy is aimed at securing the greatest freedom of action for the Group at all times in terms of operating, financial and strategic development. This means the Company's development is accompanied and secured by a strong financial profile.

Lufthansa has enjoyed the benefits of this financial strategy during the global financial and economic crisis of recent years. Equipped with strong liquidity and a sound financial constitution, Lufthansa had a clear advantage over its competitors during the crisis too. They enabled us to maintain our course despite strong headwinds, particularly in our capital expenditure, and to actively shape the future competitive situation while managing the crisis.

The consolidation of the new airlines and the crisis year 2009 had a number of significant effects on the Group's financial profile. As a consequence our target figures for the capital structure were undershot. The satisfying earnings development in the 2010 financial year has had a positive impact on these figures, however. It makes the achievement of the targets – where not already met – look very reachable, thereby preparing the Group for any economic opportunity or turbulence further into the future.

7 Financial strategy follows clearly defined parameters

The financial strategy is an integral part of the overall strategy for the Lufthansa Group. Its main aspects are incorporated into all the Company's important decisions. The financial strategy is implemented via a number of clearly defined targets. In 2010 we added an additional target indicator. The performance indicator "debt repayment ratio" was introduced to assess and plan for a sustainable level of debt for the Group. It indicates the Group's capacity to repay debt. The target figure of 60 per cent was set so that when it is reached, the rating agencies' comparable indicators for an investment grade rating are sustainably met.

Furthermore, the following principles remain in force:

- The Group needs an adequate supply of liquidity to reduce refinancing risks. This is vital, particularly in view of the sometimes volatile customer and financial markets. As a strategic reserve Lufthansa holds minimum liquidity of EUR 2.3bn that is available at any time.

- We deal with the cyclical nature of our industry by means of a strong capital structure:
 - We strive for a sustainable equity ratio of 30 per cent.
 - Gearing including pension liabilities should move within a target range of 40 to 60 per cent.
- We maintain our financial and operating flexibility by having a high proportion of unencumbered aircraft.
- We attach great importance to having good creditworthiness in the eyes of lending institutions and rating agencies. Our aim is to safeguard the investment grade rating.
- We control financial risks by integrated risk management with the aim of smoothing price fluctuations.

Debt repayment ratio

in €m	2010	2009
Cash flow from operating activities	3,075	1,991
Change in working capital	-475	-129
Interest income	314	214
Interest paid	-451	-281
Adjusted cash flow from operating activities	2,463	1,795
Net indebtedness and pensions	4,167	4,905
Debt repayment ratio in %	59.1	36.6

7 Dividend policy keeps the balance between sharing profit and preserving capital

Our dividend policy follows a clear logic and is embedded in our financial strategy: dividend payments are primarily oriented towards the Group's operating profit as reported under IFRS. After successful financial years we have distributed between 30 and 40 per cent of operating profit as a dividend in the past. However, this is subject to the ability to pay a dividend from the net profit for the year reported in the individual financial statements for Deutsche Lufthansa AG under HGB. The proposed amount of the dividend also considers the continued or successive achievement of our financial objectives. The continuity of this dividend policy means that our shareholders share in the success of the Lufthansa Group and we maintain the financial substance of the Company.

Dividend in €

2010	2009	2008	2007	2006
0.60	–	0.70	1.25	0.70