



Lufthansa



**3rd Investor Day
European Operations
Non-Hub Services**

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Overview



Short haul strategy

- **Product differentiation (Onboard/Ground, Pre/Post Flight)**
 - **Business Class → Service, Flex, Space, Speed**
 - **Economy Class → Full Flex**
 - **Economy Class → Budget (clearly differentiated from no- frills)**

- **Segmentation Classic / No Frills**
 - **Separation into business models**

- **Regional Feed**
 - **Larger aircraft or**
 - **External processing or**
 - **Classic aircraft with a lower cost base (crew, airport, etc.)**

- **Fleet allocation in the Hubs**
 - **Simplifying aircraft rotations**

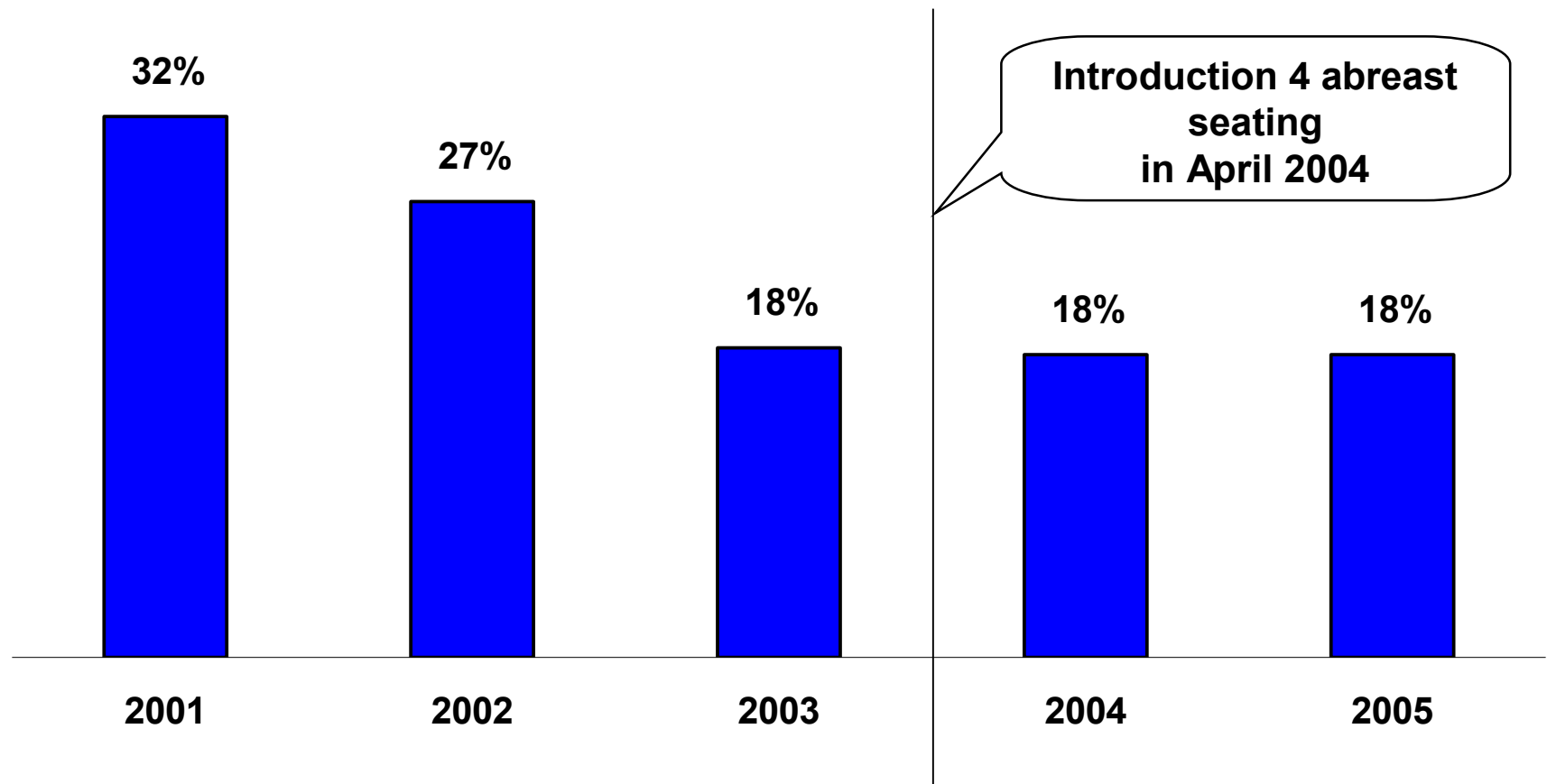
Future European Operations

- **Clear differentiation versus no-frills competitors**
 - **Better seating: 4 abreast C-Class, new seat**
 - **Better service in C-Class**
 - **Faster on the ground (fast-track lanes, priority products)**

- **Double digit unit cost savings**
 - **Minimum crew (first network carrier in Europe)**
 - **20% higher aircraft productivity**
 - **Higher personnel productivity**
 - **Lower procurement costs**

Better seating comfort has stopped C-Class erosion

Ratio of domestic point-to-point C-Class pax



A new seat will increase legroom and simultaneously earning capacity

- **Room to move:**
 - **More than 1 inch additional legroom**
 - **4% more seats in the aircraft**
- **Flexible Business Class**



Solution: the old seat was convertible from 6 abreast to 5 abreast. That cut 2 inches off legroom. The new seat is configured 4 abreast.

Service Adjustments sometimes necessary

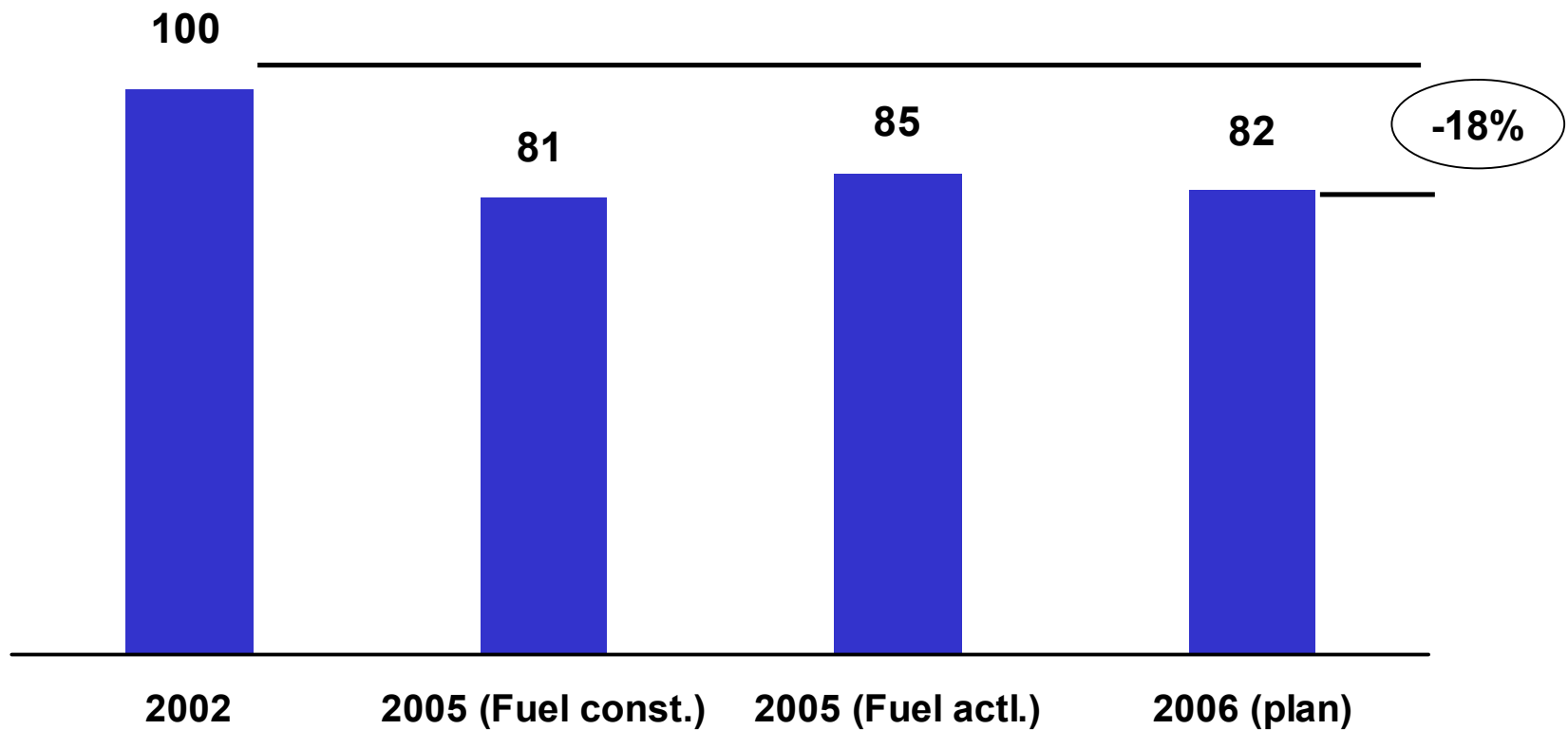
- **Through market research we gradually established a level of service that is both compatible with crew capabilities and market needs**
- **The lesson learnt is: as a quality carrier you have to keep a clear distance to No Frills – otherwise you run the risk of diluting your brand**

Lower cost through higher personnel productivity

- **Minimum crew concept**
- **Higher monthly crew utilization**
- **Shorter planning lead time**
- **Streamlined crew base concept (closing smaller cabin crew bases in Bremen, Hanover, Nuremberg and Cologne)**

Overall unit cost reduction of 18% - despite of rising fuel costs

Unit cost cts/ASK European Traffic*



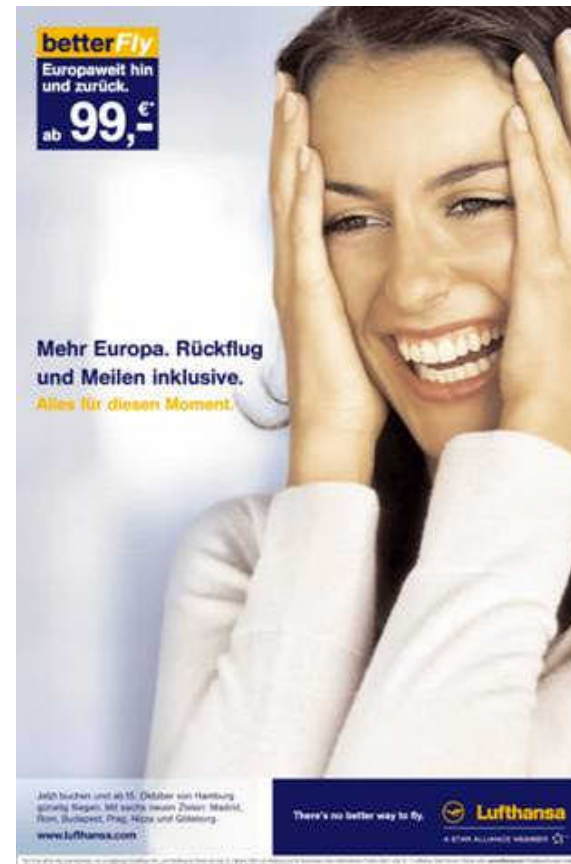
*indexed to 100

Non-Hub Services: Example Hamburg

- **50% more seats in the direct markets ex Hamburg since 15 Oct 2005**
- **6 new destinations – altogether 23 direct destinations**
- **New pricing concept (99€ return price for all flights, waiving of almost all conditions, high availability of low prices)**
- **Biggest-ever decentral marketing campaign**
- **Dedicated uniform fleet (B737 for classic routes, Canadair Regional Jet for regional routes)**
- **New maintenance concept with dedicated tail signs and maintenance crew**
- **Higher utilization of crews based in Hamburg**

New pricing concept stimulates demand

- For all flights ex Hamburg a new booking class is created
- E-Class is priced at 99€
- Two types of economy prices
 - Flex: Refundable, no rebooking charge
 - Basic: Non-refundable, 25€ rebooking charge
- Almost all conditions eliminated
- Small price differentials, e.g. 25€ on Hamburg - Rome



Non-Hub Services: Example Hamburg - Results

- **More than 40% increase in passengers from Day One**
- **Increase from 15% to over 40% direct sales – mostly Internet**
- **Higher yields than projected**
- **Impressive punctuality and technical reliability**
- **Defensive competitor moves**
 - ➔ **easyJet: expansion plans for Hamburg on hold**
 - ➔ **Ryanair: no ramp-up of the base in Lubeck**
 - ➔ **Hapag Lloyd Express: withdrawal from flights ex Hamburg to Dublin, Edinburgh, Klagenfurt and Graz**

The lessons learnt in Hamburg are being carried over to the other decentral stations

- **Market stimulation through attractive pricing concept**
- **New routes developed in cross functional market development teams**
- **Intensive process optimization workshops with stations and service providers, esp. airports to identify cost savings**
- **Negotiations with unions on special deals for the decentral stations (staff for passenger ground service) during 2006**

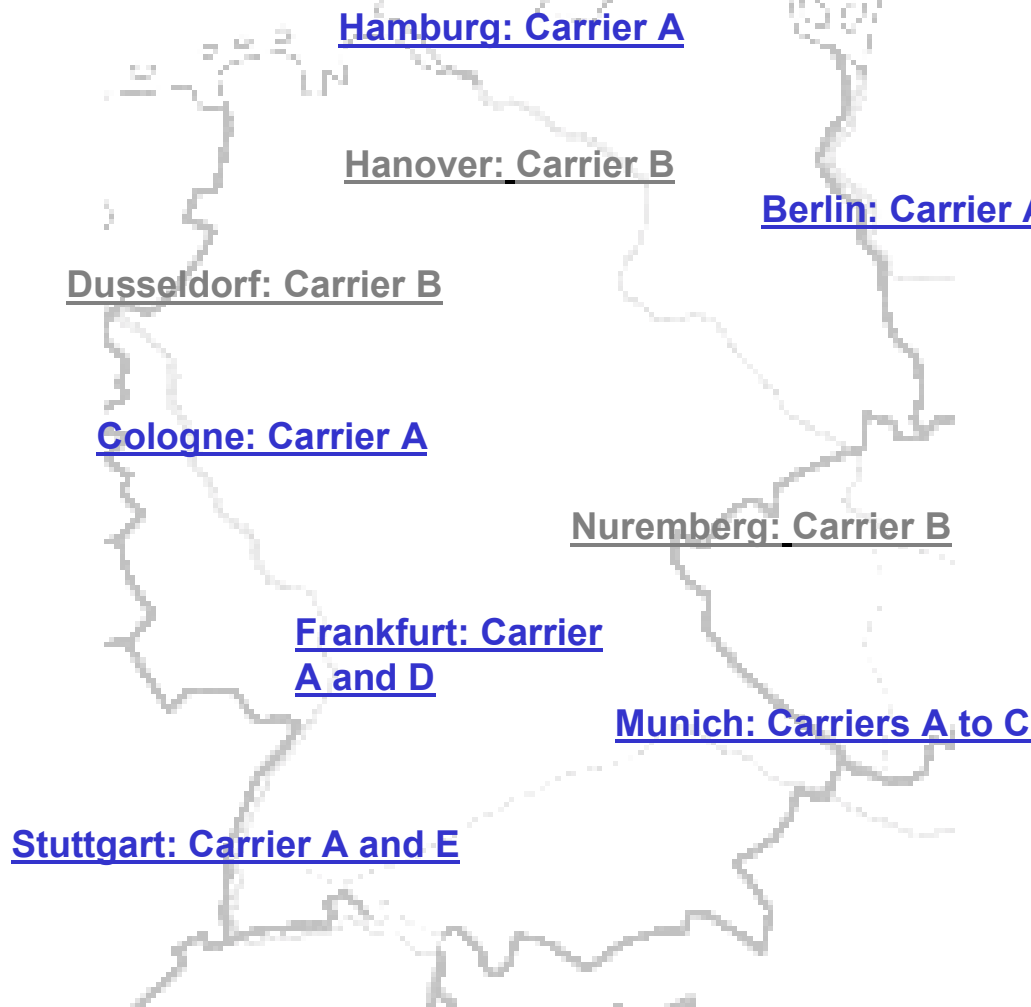
The second expansion: Dusseldorf

- **Capacity expansion Dusseldorf: 4 additional aircraft, 56 additional weekly flights, in total 40 direct destinations**
- **LH is the only carrier to make immediate use of Dusseldorf airport slot expansion**
- **Strong network to Eastern Europe: in 2004 new flights to Moscow, Kiev, Bucharest, Sofia, Belgrade**
- **51 daily flights into Star hubs**
- **Well connected to long haul destinations: 13 daily flights to New York, one non-stop**

LH Regional serves Europe in a five-partner team



LH Regional: higher productivity and better operational performance through base concept



- Concentrating crew and technical resources
- Dedicated fleet for each base
- High productivity through ping-pong traffic
- High technical reliability through overnight stops at relevant base

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