Annual General Meeting
Report by the Chairman of the Executive Board and CEO of
Deutsche Lufthansa AG
Dr. Christoph Franz on the Annual Financial Statements for 2012
on 7 May 2013
at the Lanxess Arena in Cologne

Embargo: End of speech

To be checked against delivery.

I. Welcome Address, Key Figures and Core Statements for the 2012 Business Year

Good morning Ladies and Gentlemen,
Good morning dear Shareholders,

I bid you a very warm welcome to the Annual General Meeting of your company, your Lufthansa. A very good morning, also, to the Lufthansa shareholders following the AGM webcast on the Internet.

I shall start by providing you with a brief **overview** and assessment of the **key figures** for the 2012 business year. A more detailed presentation of our result can be found, as always, in our annual report.

The second part of my report shall deal with the **current situation** within the **air transport industry and Lufthansa Group**, and our strategic goals.

It will also include a detailed look at our SCORE programme and the process of change that we initiated last year. And, of course, I shall also be providing you with an assessment of our **business performance in 2013**.

But now to the **2012 business year:**

You are all well informed, Lufthansa is confronted by considerable challenges; global air transport has changed and our industry is under pressure, particularly in Europe.

Competition is becoming increasingly hard-fought and that is also reflected in our corporate figures.

So I am not even going to bother trying to make our result look good: it is simply inadequate and does not suffice in order to be able to operate profitably in the future.

Here the most important **key figures**:

The Lufthansa Group increased its revenue by about **5%** to approximately **30 billion euros**.

However, the **operating result** did not increase: it was posted at **524 million euros** and corresponded to our forecasted figure in the mid-triple-digit millions. It has however suffered a 36% drop in comparison to the previous year. The adjusted operating margin dropped by 1.1 percentage points and now lies at 2.3%, a figure with which we will not be able to secure Lufthansa’s future in the long term.

The **Group result** rose significantly to almost **one billion euros**. This is due to one-time book gains from selling part of our stake in Amadeus and the elimination of the burdens caused by bmi, which still had to be borne in 2011.

We were able to increase our **operating cash flow** by over 20% to **2.8 billion euros**. This was important, as it allowed us to finance the necessary investments directly from our operating activities.

The Group’s **capital expenditure** in 2012 amounted to almost **2.4 billion euros**, of which the greatest share was invested in the modernization of our fleet and product.

Those were the key figures; allow me to now give you a brief summary of the developments in the individual **business segments**. All of our business segments posted an operating profit last year and this is a highly pleasing development. Some of our **service companies** were able to achieve a significant improvement in their results, thus enabling the positive operating result of the Lufthansa Group. The situation at our airlines is however an altogether different one. Some of the results have deteriorated considerably.

The operating result for the Lufthansa Group’s passenger business during the last year dropped by almost **26% to 258 million euros**, with the adjusted **operating margin** now at a mere **1.6%**.

The largest airline in our Group, **Lufthansa Passenger Airlines**, ended 2012 with a **loss of 45 million euros**. There are many understandable reasons for this, such as high fuel prices, increases in fees and charges from airports and air traffic controllers, the air traffic tax or the cabin crew strike, which placed a burden of 33 million euros on the result of Lufthansa Passenger Airlines.

As you can therefore see, these are all things that we could very little or nothing to influence.

It is however clear, that Lufthansa Passenger Airlines is where we have the greatest need for action when it comes to improving earnings. This has been understood, and Carsten Spohr and the Executive Board at Lufthansa Passenger Airlines already introduced measures to improve the result last year, mainly in the form of capacity adjustments and the structural development of employment conditions in the cabin.

Further measures, such as leaner administrative and purchasing processes are being implemented and worked on intensively. This also includes the realignment of our European traffic with the new Germanwings, but I will get back to that later. In all cases, Lufthansa Passenger Airlines expects an <u>improvement</u> of its revenue and result in 2013.

The operating result at **SWISS** was also in decline in 2012, but remained **distinctly positive at 191 million euros**. Here too, the high fuel costs and the strong Swiss Franc burdened the result. We shall therefore also be implementing restructuring measures at SWISS, e.g. in the areas of administration and MRO.

Ladies and Gentlemen,
Austrian Airlines was the only of the Lufthansa Group's airlines that was able to improve on its result. Jaan Albrecht and his team were able to record an operating result of 65 million euros, thus recording a profit for the first time. The transfer of operations to Tyrolean contributed a positive one-time effect in this case. However, the restructuring measures are taking effect and we have set the right course, also for 2013. The airline has put in an excellent performance and was <u>THE success story</u> of the Lufthansa Group last year from the operational perspective.

Lufthansa Cargo did not perform as well as last year. Our cargo business segment was nevertheless able to record a distinctly positive result thanks to some clever capacity management measures; at **104 million euros** the result is still in the triple-digit millions. Karl Ulrich Garnadt and the Executive Board at Cargo expect higher profits again in 2013.

Lufthansa MRO remains on course for success despite a slight decline in revenue and was able to significantly increase its operating result to **318 million euros**. August-Wilhelm Henningsen and the Executive Board at LHT have eliminated loss-making activities and at the same time continued to expand their presence in the important North American market. We expect a stable development of the result for 2013.

There is also pleasing news from the Catering and IT Services business segments.

Both business segments witnessed significant increases in their operating results. **LSG SkyChefs** posted a superb result of **97 million euros** in 2012 and was able to increase its operating result for the fifth time in a row. And Walter Gehl and his team plan to do so again in 2013.

It has already been stated in the news, but allow me to take this opportunity to again state very clearly that we will <u>not</u> be selling LSG SkyChefs. The further development and planned growth of our Catering business segment can also be realized without external partners.

Lufthansa Systems also posted a higher, and distinctly positive, result of **21 million euros.** Our IT business segment remains on a successful restructuring and growth course. Our colleagues Hansen and Küchler plan to improve revenue and profits further in 2013.

Our **service and financial companies** were also able to improve their revenue and results in 2012. **AirPlus** deserves a special mention here; the company was able to increase its operating result by about 24% to almost 35 million euros and shall be continuing on its course of expansion. Chapeau!

Ladies and Gentlemen,

This brief summary of our results once again shows quite clearly how important the broad alignment of the Lufthansa Group is for us; because whereas the situation in our core business areas was weaker than the year before, our service companies were able to deliver higher contributions to the result of the Group.

As a result, we were last year once again able to close on a better note than most of our competitors. **We are the number one in Europe.** The Lufthansa Group was able to record a solid result; however, not one that can be seen as <u>absolutely</u> satisfying.

Within that context, allow me to say **a few words about our share price and dividends**: We can be very satisfied with the development of the **Lufthansa share**; which rose by 55% last year.

The issue of **dividends** is definitely less pleasing and was also the subject of intense discussion within the Executive Board. Following the continuous decline of the company's operating result during the past years – mainly due to our core business, the airlines – we have decided **not to propose a dividend**, in order to support the financial stability of your company.

We have had countless individual talks with you our shareholders concerning the matter and many of you understand and see it as a sensible step to strengthen the equity base of Lufthansa. Allow me to therefore once again state quite clearly that we are generally committed to our obligation as a company to let our shareholders share appropriately in the success of the company, and we shall, as soon as we have succeeded in <u>sustainably</u> turning around the negative trend in our results, once again – as usual – propose a dividend payout.

Irrespective of this, we the Executive Board of the Lufthansa Group shall also be making **a contribution to success of SCORE**. The Executive Board shall, as of 1 July of this year until the end of the SCORE Project on 31 December 2014, be waiving 5% of our basic monthly remuneration.

II. Challenges, Strategic Goals – Measures and SCORE

Ladies and Gentlemen,

Where are we heading to?

The figures for the 2012 business year – increasing revenue and declining results and profit margins – speak for themselves. We are turning a wheel of gigantic proportions.

It is getting larger and larger year by year, and there is less and less left at the end. Why is that?

We find ourselves in an extremely competitive and hard-fought market with low-cost carriers, the state airlines from the region and Asia, and new alliances of our competitors.

In our domestic market of Germany and Europe, we find ourselves fighting against bans and restrictions that are costing us a lot of money. We have to overcome unilateral tax burdens and charges that result in major distortions of competition. (> 500 million euros per year)

And that is not all, we are not only in an industry that is highly susceptible to crises, but also in a highly cost-intensive one. Fuels, fees, charges and staff, as well as investments in our fleet, on-board and ground products are huge cost blocks and constant factors.

There is little that we can do to change them; it is therefore we that must change if we intend to remain at the top.

We already implemented the first steps in **2011**, by selling or shutting down our major loss-makers, or as in the case of Austrian Airlines, launching a major restructuring process.

That was however not enough, because the conditions deteriorated even further.

We therefore started analysing and reviewing everything. The result is **SCORE**, **our programme for the future**, which was launched in 2012. It represents one of the most far-reaching restructuring processes in the history of our company. SCORE, Ladies and Gentlemen, is the sum of all the LH Group's employees' knowledge, experience, ideas and commitments. Without it, it would simply be the name of another programme.

What are our goals?

1. SCORE will allow us to create additional financial freedom to make urgently required investments for our customers.

2. SCORE will allow us to improve the long-term competitiveness of the Lufthansa Group.

3. SCORE will allow us to make Lufthansa more resistant and strengthen our umbrella brand.

We will need this strength in order to continue playing an active role in shaping change in the airline industry. Only then will we be able to determine the course of the crane ourselves. We do not want to be controlled by others, hanging on the drip of foreign airlines; We want to shape the future and not be shaped by the future.

Despite some resistance and scepticism, which I do not want to deny, we have accomplished a lot since the start of SCORE in February of last year. Over 2,500 ideas were generated with the aim of improving earnings.

It will of course not be possible to realize them all, but the vast number of ideas alone reflects the high level of commitment that our staff have dedicated to this programme. It also shows their creativity and willingness to support and push forward the changes. We can be very proud as Lufthanseats.

The planned SCORE contribution of 280 million euros for 2012 was significantly exceeded with a figure of 618 million euros. Unfortunately our efforts in 2012 were not reflected in an improvement in earnings.

Countless obstacles, particularly the high fuel prices, which resulted in additional costs of 1.1 billion euros, nullified the SCORE successes; however, it should be noted that without SCORE, we would have had a negative result in 2012.

One of the most powerful levers within the framework of SCORE is the reorganization of administrative processes. It is however also the most painful part of our change process, as it also comes with job losses.

A total of 900 employees will be affected by changes in the Group's administration. Besides staff in Hamburg and Norderstedt, the figure also includes 365 staff here in Cologne; the Cologne offices will be shut down in 2017.

It was emotionally a very difficult decision for us, and myself in particular; this is after all where I began my career at Lufthansa in 1990 and it was here that Lufthansa began rebuilding the company after the war.

We are also aware that these decisions represent major changes in the life planning of our staff; and believe me the decisions did not come easily to us. The decisions are also painful to us, but there was no other way.

The planned job cuts will secure the overwhelming majority of the 117,000 jobs in the Group. We have assured the affected staff fairness, transparency and support. We shall implement these measures in a socially responsible manner, as has traditionally been the case at Lufthansa.

Ladies and Gentlemen,

Another major SCORE project is the **strategic realignment of our European traffic**. It is an urgently needed step, as we have been flying in high losses here for years and the pressure from the competition is continuing to grow.

As of July, the new Germanwings shall fly all European routes that are not operated from the hubs of Frankfurt and Munich. By the end of 2013, Germanwings will be flying about 9 million passengers throughout Europe with its fleet of 90 aircraft.

The new Germanwings will offer three different fares and Europe’s best price-performance ratio among the low-cost carriers. By 2015 we plan to improve the 2011 result by at least 200 million euros.

And now to another cornerstone of our strategy: our **fleet policy**.

In March, the Lufthansa Supervisory Board approved the acquisition of an additional 108 new aircraft for the Group and thus increased the number of ordered aircraft for our fleet to 236 (with a listed price of 22 billion euros). Almost all of the ordered aircraft shall be replacing older aircraft. We are investing for:

- the residents around the airports – reduction of noise pollution
- the environment – reduction of fuel costs and CO_2 emissions
- our competitiveness thanks to more cost-effective aircraft.

Already today, we are flying with a new First Class product, which, according to independent ratings (Skytrax), is the best among European carriers and one of the best worldwide.

We are also flying with a new Business Class product on long-haul routes that has also received outstanding ratings, at Lufthansa, SWISS, Austrian and brussels airlines.

- We have on-board Internet on more and more of our long-haul routes.
- We have introduced a new European product on all routes.
- We are expanding our lounge offer (e.g. seven new lounges in Frankfurt A+ in 2012 alone)

We are investing for our customers and our competitiveness, but also so that we can continue to bear our Lufthansa brand, a brand with a strong tradition, with pride. But all of this costs money, lots of money, that must first be earned; and we cannot afford to encumber an excessive burden of debt in doing so.

The air transport market shall continue to change in the future and at an even faster pace. The consolidation of global aviation shall continue to progress. Our **strategic partnerships** shall become increasingly important within this context. Our North Atlantic joint venture with United Airlines and Air Canada (A++) is coming along very successfully.

Our strategic joint venture with our Star Alliance partner All Nippon Airways (J+), which was implemented in 2012 is also promisingly under way. We shall therefore continue to build on our defining role within the Star Alliance and search for more intensive partnerships first and foremost within our globally-leading alliance.

III. Conclusion

Ladies and Gentlemen,
My report only represents a snapshot of our current process of change at Lufthansa. We view these changes as an opportunity, as a path into a successful future. We are shaping them from a strong position.

The years **2013 and 2014** will be very decisive years for the implementation of the individual SCORE measures.

During this time we shall also incur restructuring costs and shall also have to account for the costs of our fleet modernization programme and the re-equipment of our existing fleet. A large portion of the impact on the result will therefore only become visible after 2013.

Ladies and Gentlemen,

Despite all of these changes, we must also face cyclical changes; these include in our case the elections at national and state level in Hesse and Bavaria. These too are important changes for us.

During the past years we have experienced no shortage of political surprises, first and foremost the unilateral national move that resulted in the air traffic tax in 2011.

But there have also been pleasing developments:

- We were able to steadily improve the attractiveness of our network, e.g. with new highly sought-after slots to Tokyo Narita or the approval for the A380 to Shanghai.

- The new runway at our largest hub Frankfurt has allowed us to become more punctual and stable than ever before. The holding patterns that placed a burden on climate protection and noise pollution balances have almost disappeared. The strict ban on night flights however remains a severe setback for Lufthansa.

After all, our competitors are not sleeping. Paris and Amsterdam have four, respectively, six runways. The 24-hour megahubs that are rapidly emerging in the Gulf region and Turkey will eclipse anything that we have known here to date.

A country with Germany's reputation in terms of economy, technology and innovation needs open hubs in the same way that we need highway intersections, railway stations and harbours. It is impossible for Germany to be a leading industrial nation and operate in total silence.

Our country must be **more flexible when it comes to dealing with its self-implemented standards**; it is a matter of survival. This insight seems to also be gradually making inroads with regard to the issues of air traffic tax and emissions trading.

In the case of emissions trading, the EU seems to have for now averted a trade war; however, it did so at the expense of the European airlines. Where can we expect to go from here?

The German Bundesrat (Federal Council) voted with a large majority to immediately abolish the unilateral national air traffic tax. Tens of thousands of people have shown their support for the German air transport industry by signing our **petition** against the tax.

The deadline for submitting the petition expires at midnight tonight.

I therefore also appeal to you my dear Shareholders to please sign the petition. We have set up a stand here at the Annual General Meeting with the signature lists. The countdown is running and every signature counts.

Trade unions, industrial associations, airports and air traffic controllers are also working with us airlines here.

Even if we sometimes naturally represent different positions, in this case, they have all shown their solidarity and signed the petition and that definitely deserves a round of applause.

IV Current Events and Outlook

Ladies and Gentlemen,
Our start into the 2013 business year was yet again “not lacking in variety”: a long winter and countless strikes placed quite a burden on our day-to-day operations and weighed heavily on the result. Fortunately, the development in demand in our passenger business is quite satisfactory. SCORE is on course. Despite the restructuring costs, the results of the Lufthansa Group’s operational companies in the first quarter are altogether stable. That should make us quite confident.

We want to improve on last year’s reported result of 524 million euros with a better operating result in 2013, and we expect a significantly larger contribution from our airlines.
We are pleased to note that the first quarter has already shown that it is possible.

Ladies and Gentlemen,

There will also be changes in the **organization and composition of the Lufthansa Executive Board**, as Mr. Weber has already told you.

My Executive Board colleagues Simone Menne and Carsten Spohr, and myself, look forward to working with Dr. Bettina Volkens and Harry Hohmeister. We are firmly convinced that we shall form a strong team with a good “blend” of experience and expertise, particularly in view of our plans for the future and the challenges that we face.

And by the way, something that is not of little importance during these special times: these changes in the Executive Board are all either cost-neutral or shall result in the reduction of our costs.

The new Executive Board Member for **Group Airlines and Logistics** shall – as in the case of Carsten Spohr – assume two roles and also remain CEO of SWISS. One of the positions in the Executive Board of Lufthansa Passengers Airlines shall also not be filled.

Ladies and Gentlemen,

“Shaping the Future Together” – that is the title of our annual report this year.

“Shaping the Future Together” is something that we can only achieve as a team. We are a good team, with great staff that are well and truly committed.

We would therefore like to take this opportunity to express our sincere gratitude to all of our staff for what they have accomplished over the past year.

It fills us with optimism for the future. **We have set ourselves clear goals:**

1. The continued expansion of the Lufthansa Group's leading market position
2. The sustainable enhancement of your company’s value
3. The continued improvement of customer satisfaction
4. Economically and ecologically sustainable business activities, as a reliable partner for our staff, customers and shareholders
5. The achievement of an operating result of 2.3 billion euros for the entire Lufthansa Group by the end of 2015

My dear Shareholders, I hope that you shall continue to accompany us on our course as you have done in the past. We ask you to stay on board with us and help us to fly Lufthansa through this long climb to new successes. I thank you for your confidence.