

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 2013  
on 29 April 2014  
Congress Center, Hamburg

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I. Welcome Address

Good morning Ladies and Gentlemen,  
and my dear Shareholders,

I bid you all a very warm welcome to this year's Annual General Meeting of Deutsche Lufthansa AG. A very warm welcome also to our shareholders following the AGM webcast on the Internet, and a very good morning to you too.

I am very pleased to be able to present you my report in Hamburg today, a city to which we have strong ties. It was in the Hanseatic city that Lufthansa's success story after the Second World War started, and from there, that our newly-founded airline took off into a new era of air traffic on 1 April 1955. It was from here that we established and expanded our position on the world market. Hamburg remains one of our largest locations to this day and our 10,000 employees here make us the second largest employer in the city and the region. Almost half of all the passengers at Hamburg Airport fly with the Group's airlines and we are the undisputed number one here. We are also particularly proud that our subsidiary Lufthansa Technik has played a major role in turning the Hanseatic city into a major hub of aviation technology in Europe.

**II. Overall Assessment of the Company's Development and Key Figures for the 2013 Business Year**

Ladies and Gentlemen,

I will start today by providing you with an overview of the key figures for the 2013 business year and overall assessment for the company's development. The second part of my report will deal with the progress of the Group's development and our competitive environment, and will also include the forecast for the rest of 2014 and 2015.

I can assure you that I have many glad tidings for you today, but allow me to start with three of the most positive:

1. We have posted a good result and thus laid the foundations for further profit increases during the years to come.
2. All of the business segments are profitable, with our core business, the passenger airlines, in particular, significantly improving their results.
3. The realignment of our company is proving effective.

This is also reflected by our **most important key figures**:

- The Lufthansa Group recorded **operating profit** of **697 million euros** in 2013. That means we clearly achieved our targets for the year. Excluding the one-off charges that always arise during times of restructuring, we were able to even increase our operating result to over one billion euros; which is equivalent to a rise of 62%.
- **Revenue** remained stable at 30 billion euros.
- The **Group result** stood at 313 million euros and was expectedly lower than the previous year's figure. This was, to a large extent, due to the disposal of certain investments during 2012.
- The **Cash Value Added (CVA)**, which indicates the performance of your company and the value created, was over three billion euros (3.1bn). The high figure is mainly due to the adjustment in the useful life of our aircraft within the balance sheet, which resulted in a major catch-up effect for the past years.

However, even without these effects, we again achieved positive value creation last year. The conclusion at the end of the day is that the financial stability of the Lufthansa Group, and consequently our room for manoeuvre, again improved significantly during the past year.

- The Group's **capital expenditure** increased slightly to about 2.5 billion euros, most of which was invested in our fleet and product. And as you have grown accustomed to with Lufthansa, we continue to finance these investments from our own resources.
- Last year, we welcomed over **104 million passengers** on board our aircraft, more than ever before. This too marked a slight year-on-year increase (+1%).
- And let me now conclude the look at our key figures with another piece of good news: Our **share price** developed positively in 2013, increasing by 8.3%. The development during the first few months of this year is even more pleasing. Our share price has more than doubled since our Annual General Meeting in 2012. This reflects the confidence of the financial markets – in our work.

My dear Shareholders, the turnaround in our operating result, our confidence for the coming years and our long-standing philosophy to have you share directly in the success of your company, are the main reasons why we, the Executive and Supervisory Boards, will be proposing a dividend of 45 eurocents per share to the Annual General Meeting for the year 2013.

On the whole, we are very satisfied with the year 2013; however, an operating margin of 3% shows that there is no room for contentment, and still a lot to be done.

Allow me to provide you with a better understanding of our results with a **glance at our business segments**.

The **Passenger Airline Group** continued to consolidate its leading position as an airline group in 2013. All of the Group's airlines are operating profitably and, for the first time, without any one-off effects. The reported **operating profit** was **495 million euros**.

**Lufthansa Passenger Airlines** posted a positive result in European traffic for the first time in five years. The realignment of Lufthansa Passenger Airlines and Germanwings is bearing fruit. We increased operating profit at the two airlines by 245 million euros in 2013, which marks a very pleasing development in our core business.

Since **1 January 2013**, all **decentralised traffic** in Germany, i.e. all flights that are not operated from the hubs of Frankfurt and Munich, is flown by the **restructured Germanwings**. This represents a major milestone in the restructuring of our core business and one that was mastered operationally in record time. Congratulations and thank you to Carsten Spohr, Thomas Winkelmann and all the staff who contributed. I know that this was really tough on all of you.

**SWISS** again stood its ground in a challenging market and improved last year's result by over 10% to **226 million euros**. Here too, the SCORE measures made a major contribution to the positive developments. Particularly the establishment of the independent operations base in Geneva with its new business model is already paying off. Thank you to Harry Hohmeister and his colleagues for their consistently good work.

We are also very satisfied with developments at **Austrian Airlines**, where despite the slight decline in revenue, the airline recorded a **positive operating result of 25 million euros for 2013**. For the first time since joining the Lufthansa Group, Austrian Airlines was in the black without the help of one-off effects. That is an important milestone and we owe a major thank you to Jaan Albrecht and his team.

**Brussels Airlines**, in which we hold a 45 percent share, made very remarkable progress in its restructuring process during 2013. In 2014, the airline has further enhanced its restructuring measures following the "attacks" by low cost carriers at the Brussels hub. We are optimistic that these will soon have the desired effect and the successful course will continue.

Let us now have a look at our Logistics business segment: **Lufthansa Cargo** was one of the few freight airlines worldwide to record a positive result in 2013. It was however significantly lower than last year's result (-26.7%). The expected upswing in

the freight market never came and the excess capacities on the market continued to grow. Lufthansa Cargo, nevertheless, made targeted investments in new aircraft, modern IT technology and its route network, in order to maintain its position as industry leader.

Another topic, not necessarily directly related to our balance sheet is the social commitment that plays a very special role at our company and at Lufthansa Cargo, too. Our freight airline has a longstanding tradition of quickly and professionally organizing relief flights with aid after humanitarian crises. At the end of 2013, it was exemplary in flying two relief flights with humanitarian aid to the Philippines free of charge. It is very important to me that we also explicitly mention such successful commitment on the part of our colleagues.

My thanks to Karl Garnadt and his team for their very good performance in 2013. Dear Karl, I am very pleased that you, as an aviation professional, will be joining Lufthansa Passenger Airlines as Chairman and CEO on 1 May 2014 and I wish you the best of success.

Ladies and Gentlemen,

The developments at **Lufthansa Technik** and **LSG SkyChefs** were particularly pleasing. Both companies recorded the best results in their history in 2013. **Lufthansa Technik** increased its **operating profit to 404 million euros**, a truly extraordinary result. Our MRO business segment has been a guarantee for positive contributions to the Group's result for many years, a fact that August Wilhelm Henningsen and his team have once again underlined, for that we thank you. At the same time LHT has further expanded its position as global market leader. Lufthansa Technik has achieved a year-on-year increase of 25% in serviced aircraft, with a total of over 2,800 aircraft now under exclusive contract. Yet another outstanding foundation for further growth. A further pleasing piece of news is that Lufthansa Technik is among the top ten most popular employers for engineers in Germany (according to the current ranking published by Manager magazine).

**LSG SkyChefs** improved its result for the fifth time in a row. Our Catering business segment has worked continually to improve its structures, cost management and quality leadership during the past years. It has paid off, with LSG SkyChefs the number one on the global catering market. A global market share of 29% means that three out of ten meals on all aircraft worldwide are “served” by our chefs – a outstanding development that earns Walter Gehl and his team a major applause.

**Lufthansa Systems** has also improved its profits. The digitalization-driven change process will continue. IT is of huge importance to us. Coming innovations in air traffic will be made possible by IT, for example, a more individualized approach to our customers. More later about what we have planned for the future here. However, allow me to take this opportunity at this stage to thank Stefan Hansen and his team, who have been pushing this process forward successfully for years.

Allow me to again sum up the past business year:

1. We again had a better year than many of our competitors – something that should not be taken for granted given the increasingly challenging conditions in our industry.
2. The developments at the airlines were very pleasing. All of our airlines improved on their previous year’s results and that was very important.
3. We improved our earnings situation and, something that has become especially clear this year, reduced our costs.
4. We have consolidated our leading role in European and global aviation, also due to the fact that we have invested more than ever before in our customers: in a more environmentally-friendly fleet, in more comfort on board our aircraft and in improvements to our services on the ground.

All of this has been achieved by the overall performance of our Lufthansa workforce and that is something we are very proud of.

### **III. Balance, Review and Status of Restructuring Process**

Ladies and Gentlemen,

When I took over as Chairman and CEO of this company three and a half years ago, the first thing we did was analyse the framework conditions in our industry and set our “homework”. The competitive situation had changed drastically and the European airlines were at the bottom of the table in the global comparison when it came to profitability. We had to take action.

We started by offloading our permanent, or very hard to turn around, loss-makers. We discontinued operations at Lufthansa Italia, sold bmi and engineered the liquidation of Jade Cargo.

However, we very quickly discovered that it would take a lot more to succeed against the uncontrolled growth of the Gulf carriers and other competitors. We therefore launched our SCORE programme in 2012 and have since been investing huge effort in gradually and sustainably strengthening our competitiveness. Even if many results are not yet visible financially, the decisions have been taken, many projects and measures have been implemented – and the turnaround is now visible.

In 2013, the combined measures allowed us to achieve earning improvements before tax of 926 million euros. We were able to record net improvements of 400 million euros to our operating results despite one-off costs and obstacles.

We have made good headway, but also know that this progress is not yet enough. We are therefore targeting further significant improvements this year. Our pipeline is currently filled with measures worth over 1.1 billion euros for 2014 and almost 900 million euros for 2015.

### **IV. Outlook 2014 / 2015**

As it stands today, we expect an operating result between 1.3 and 1.5 billion euros for 2014. For 2015, we continue to target an improvement in earnings of 1.5 billion euros compared to our reference year of 2011. Based on the changes in

depreciation, this results in a target result of 2.65 billion euros.

We also plan for our equity ratio to increase towards our medium-term target of 25% and further strengthen our Investment Grade Rating. Ladies and Gentlemen, Your company Lufthansa is built on solid financial foundations and we intend to keep it that way.

That is also one of the reasons why we suffered through the biggest strike in the company's history and are wrangling so intensely with the pilots' union Vereinigung Cockpit at the negotiating table. We will do all that is in our power to ensure an acceptable solution for both sides, and we hope to avoid further strikes, especially in the interest of our customers. However, it also goes without saying that we need an agreement that will also contribute to the economic sustainability of the company.

Allow me to now present you several **key projects to safeguard the future** of the Group, which have already taken concrete shape:

1. The new Germanwings:

This has not only been a success from the profit perspective, but also from the quality perspective. Nine out of ten Lufthansa status customers are satisfied with the new product that was launched in the summer of 2013. We had not expected Germanwings to establish itself so quickly as a quality low cost airline in Germany and Europe.

2. The closer **cooperation** between our **Group airlines**.

The creation of an Executive Board position in charge of Group Airlines and Logistics played a key role in this development. The keywords here are the joint definition of cabin layouts and aircraft interiors, the development of our e-commerce platform (airline.com), and shared global check-ins.

3. The third key project and the major cornerstone when it comes to safeguarding our future is however our **fleet development programme**. We made some groundbreaking decisions in 2013 and approved the two largest orders for aircraft in the history of Lufthansa. The latter, in September, was the largest investment ever made by a private company in German business history. In total, we ordered 168



short, medium and long-haul aircraft last year, with a list price of around 22 billion euros. Our customers can already look forward to the first new long-haul aircraft as of 2016; aircraft that will not only set new standards in terms of comfort, but also consume less than three litres of fuel per passenger per hundred kilometres. Only a few days ago, we set a new record for efficiency with the Group's airlines. For the first time ever in 2013, we were under the magic four-litre mark, with the aircraft in our fleet averaging a consumption of 3.91 litres of kerosene per passenger and 100 kilometres, 3.8% less than the year before. This will reduce our cost and in addition, it will also help the environment and the residents around airports, as the new aircraft are much quieter.

#### 4. Key project:

Improved **products and services** for our customers. For example, our new First Class product, which is the best among all European airlines; our new Business Class product that we are installing throughout our entire long-haul fleet; or the new lounges, in-flight entertainment offers and satellite terminal in Munich; all of these are also paying off. Our customer satisfaction ratings are currently among the highest that Lufthansa has ever enjoyed. We are winning awards and prizes for our products, which means our customers are confirming that we are on the right track.

Ladies and Gentlemen, better results create room for manoeuvre at Lufthansa. This freedom is necessary to secure our position as industry leader and to expand it where possible. Only if our company is built on solid financial foundations, will we also be able to make the necessary investments in our future.

The **Investment Grade Rating** that we have as one of very few airlines worldwide also offers additional freedoms, as it assures us favourable conditions on the money market. We are working hard to make sure that we receive it again year after year.

#### **(Where do we go from here?)**

All of the European airlines are going to have to continue changing and improving in the future. Why? Because we are operating in a competitive environment that is characterized by direct or indirect subsidies in the billions and corporate mergers.

Examples from 2013: Emirates and Qantas are working together in traffic between Australia and Europe. Etihad has acquired a share in the Indian airline Jet Airways (25%). The merger between American Airlines and US Airways, resulting in the largest airline in the world (based on the number of passengers), has been approved by the American authorities. I could go on with the list for quite a while.

It is however more important that **we accept and adapt to these altered conditions:**

Firstly, through our two strategic partnerships: **A++**, our North Atlantic joint venture with United Airlines and Air Canada and **J+**, our first Asian joint venture with our Star Alliance partner All Nippon Airways. In addition, we are currently also working on expanding our cooperation with Air China.

Secondly, through the improvement of our financial basis and thus additional room for manoeuvre. In order to remain among the leading airlines worldwide the LH Group must consolidate and expand its position as the number one in Europe. And that, my dear Shareholders, is something that we are constantly working on in the Executive Board and in close coordination with our Supervisory Board.

And thirdly, we are adapting to these changes by placing an even greater focus on the altered needs of our customers. Lufthansa Passenger Airlines, for example, has launched its “Five Star project”. The aim is to become the first Western airline with a five star airline rating for its “overall package” (quality, comfort and service). Our First Class product is already classified as such today and that makes us very proud.

## **VI. Political Framework**

Beforehand: The Lufthansa Group is the market leader in Europe thanks essentially to its own immense efforts.

While our state-run competitors, mainly from the Gulf Region are enjoying optimal framework conditions and being courted by their governments at every opportunity,

allowing them to function as drivers to develop their economies, we on the other hand are being stopped in our tracks with one new tax and restriction after another – and that was my annual *ceterum censeo*. We are being hindered by:

- The inflexible night flight bans, which alone at our international hub in Frankfurt is equivalent to the hub being completely closed for three months a year.
- The highest charges for air traffic control and airports in the entire EU.
- The emissions trading system that costs only the EU-Carriers many millions of euros every year.
- The air traffic tax in Germany and Austria that costs Lufthansa between 300 and 400 million euros every year; and much, much more; we would rather invest this money in quiet and modern aircraft.

Lufthansa has always been committed to free competition, but it must also be fair competition. We are fighting for German and European airlines to continue being able to offer their own connections to the rest of the world.

Without its own airlines, a country's connection quality will suffer.

Without its own airlines, a country will lose tens of thousands of jobs.

Without its own airlines, a country's economy will suffer.

The consequences for an exporting nation like Germany would be severe. We therefore cannot allow it to come to this, a situation where Europe will be linked to the rest of the world primarily by external operators.

## **VII. A New Culture of Change at Lufthansa**

Ladies and Gentlemen,

Our own process of change is going well and there is no turning back now, not that

anyone wants that. We have some major plans for the rest of the year, as a look to the future will show:

- Lufthansa Global Business Services, a cost-effective company responsible for the back-office functions of all of the Group's companies, has begun operating.
- Lufthansa Cargo will complete its Boeing 777 fleet.
- Lufthansa Passenger Airlines will launch its new Premium Economy Class product on the long-haul routes.
- The spinning off of our bonus programme activities at Miles & More is another major topic at today's Annual General Meeting and will make the programme even more interesting for our customers and partners. Europe's leading frequent flyer bonus programme today has 25 million customers and 300 partners worldwide, and the spin-off will offer it a broader, more independent basis and significant entrepreneurial freedoms. By voting in favour today you can ensure that the additional future partnerships make it even more attractive for our customers and also improve our results thanks to the increased bonus revenue that will be generated.
- Our IT business segment will be divided into three independent companies. The infrastructure services of Lufthansa Systems will be awarded to an external IT provider. Concepts are being developed for the structure and alignment of the remaining companies - Airline Solutions and Industry Solutions – and everything of course in a mutually acceptable and socially responsible manner, as has always been the tradition at Lufthansa. Those are the major plans that we have for 2014 so far.

However the changes in the restructuring of our company go far beyond. **We have changed the culture in our company** and that too can be felt. We have become more flexible, open, diverse and international. These changes also make us more attractive as an employer, as they are also seen in a positive light and as a step forward outside the company; the economists have moved us back up to fourth place

in their list of best employers, and that of course makes us very happy.

Ladies and Gentlemen,

All employee groups have already or must contribute to securing the future of Lufthansa. It is of course always easier to implement change when your back is up against the wall. We are therefore very proud that we have managed to implement these far-reaching changes without it having to come to that.

We are no longer discussing whether or not we need change, we are changing. Change has become a fixed component of our genetic code, our corporate DNA. That is the truly major success that lies behind our measures.

We owe it for the most part to our employees, who we have put through a lot, and I am of course very much aware of that. We would therefore like to take this opportunity to truly congratulate all of our employees for an outstanding performance and send them a big thank you for all their good work and efforts. We do not take it for granted and we are very proud of what you have achieved as a team. I know I am also speaking for my colleagues on the Executive Board here. This is your applause and you deserve it.

### **VIII. Closing Remarks...**

We have achieved a lot together during the past years. I can therefore hand over to my successor with a good feeling. Carsten Spohr will be taking over as Chairman and CEO of your company on 1 May.

Dear Carsten, I wish you all the very best and the greatest possible success in mastering the known and new challenges that you will face together. But above all, I wish Lufthansa and this great team a great and secure future. The changes will continue, in all areas of our company, and especially in our core business. Our competitors will make sure of that.

So there will still be plenty to do in the future. But Lufthansa knows all about change and we have proved it time and again, also in the past. Ladies and Gentlemen, it is

not easy to say farewell, I have no problem admitting it. Of course I am looking forward to the new task that awaits me at Roche Pharmaceuticals, but I will miss Lufthansa and all the people, colleagues and friends that make up this company in my eyes. Of course I will remain faithful to Lufthansa. As of 1 May, as a customer and frequent flyer. My dear Shareholders, I ask you too to stay loyal to the crane. Thank you for your time. We merit your trust!