

Annual General Meeting
Speech by the Chairman of the Executive Board and CEO of
Deutsche Lufthansa AG
Carsten Spohr
Report for 2014
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Congress Center, Hamburg

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Good morning Ladies and Gentlemen,
and my dear Shareholders,

I too bid you a very warm welcome to the 62nd Annual General Meeting of Deutsche Lufthansa AG.

If this Annual General Meeting had taken place six weeks ago, I would have been reporting on a turbulent and difficult year 2014.

However, the events of 24 March have changed everything and put it all into an entirely different perspective. In one second, 150 lives were lost and their sudden loss has led to unimaginable pain and suffering among the families and friends left behind. The shock still runs very deep; also due to the fact that the passengers and crew of flight 4U 9525 were (apparently) led to their deaths deliberately.

The thought of this tragedy still causes disbelief, horror and grief. We cannot understand it to this day. Every day over 300,000 people fly with the airlines of our group and place their lives in our hands. Trust is our business!

Federal President Joachim Gauck came closest to putting our shock about this tragedy into words in his eulogy at the memorial service in Cologne Cathedral when he said: "and the fact that our trust has been abused here in such a sensitive spot, truly hits us where it hurts most."

This tragedy Ladies and Gentlemen has hit us where it hurts most. Our thoughts and prayers were immediately and still are with the victims and their families.

Nothing will ever be the same again for the families and friends of the 150 people whose lives were taken away from them. We have given our word: We will stand by their sides and support them.

We consider this not only our obligation, but also a deep need.

What has helped us get through these difficult past weeks is the wave of solidarity and helpfulness that we have encountered – both within and outside Lufthansa. Hundreds of helpers and volunteers, including psychologists, doctors, paramedics, rescue workers, aviation experts any many more, have been helping and supporting us with their efforts since 24 March, some even day and night, and often going all the way to and beyond their physical and psychological limits. They have worked quickly, professionally and empathic, under the most difficult of conditions.

I would therefore like to take this opportunity to express our sincerest gratitude to all who have helped with the recovery efforts, caregiving and support on site. The same applies to the people in the neighbouring towns and villages, who opened their homes to the helpers. We are eternally grateful for all efforts and help.

We have also experienced support in other ways during these difficult weeks:

- from our customers, who have expressed their confidence and loyalty – also for the future;
- from our colleagues and partners in the industry, who are as shocked as we are;
- from federal and regional politicians, federations and authorities with whom we have been in extensive contact with since the tragedy, and who have acted swiftly and unbureaucratically;
- and last but not least from people all over the world, who have expressed their sympathy and condolences in hundreds of thousands of e-mails, letters and posts.

We are eternally grateful for all of this and it helps us to look to the future. However, it will take time, before we will have overcome this shock.

The aviation industry has always learnt from tragedies and safety remains our highest priority. We will therefore also continue to gradually expand our leading position in the area of flight safety, by continuing to develop our safety structures.

This applies irrespective of the brand or collective wage agreements, whereby our standards are today already significantly higher than those statutorily prescribed for the industry.

Increased harmonization in the selection, instruction and training processes for our pilots has already been one of our declared goals for some time. This development will now receive additional force with the Group Safety Pilot, who will now report directly to the Executive Board.

Ladies and Gentlemen, this tragedy has changed us and the scars that it has left on our company will remain forever. We have closed our ranks and we all will never forget the events of this 24 March 2015. We will also never forget the victims, families and friends affected by this terrible disaster.

And even if we all feel the need to step back and take a break after this terrible tragedy, an aviation group or airline cannot stop – not for weeks, not for days and not even for hours.

We must and we will continue. That is what you, the owners of this company, rightly expect from us. That is what our responsibility to our staff demands from us and what we also owe our customers and partners.

The last 12 months were, as you all know, not the start that I would have hoped for. It very quickly became clear that our earnings forecasts for 2014 and 2015 would have to be revised downwards.

Economic and political crises have placed burdens on our result, just like the many,

sometimes massive strikes. The pricing pressure has continued to increase and competition has grown even more hard-fought, but unfortunately not fairer.

The fact is that the staff of Lufthansa can take on any competitor, but not entire countries.

We therefore need domestic and international framework conditions that ensure fair play and open competition that is balanced. Only then will we also be able to ensure direct connections to the world for the German and European economies in the future.

Ladies and Gentlemen,

Given the circumstances, we are able to present a decent result for the last year. Despite incurring costs in the triple-digit millions as a result of the strikes, we were able to realize our revised forecasts: The Lufthansa Group recorded revenue of 30 billion euros, posting an operating profit of almost one billion euros.

However, we are also aware that this will not suffice in the long run.

The adjusted result after one-off effects for the past year was about 1.2 billion euros.

The Group's net profit was significantly below the previous year's figure at 55 million euros. It was mainly burdened by three extraordinary effects: the sale of the Lufthansa Systems Infrastructure segment, the reduction in the market value of the exchangeable notes for JetBlue shares and the reduction in the value of fuel price hedging options.

Our gross capital expenditure during the last year amounted to 2.8 billion euros, of which most was spent on new aircraft. This shows that we have a firm belief in the future of our company. The level of the investments in 2014 however also led to a negative free cash flow, as a result of which the liquidity of the Lufthansa Group has dropped.

In order to be able to finance the planned investments in the future, we will need

significantly more financial stability. Achieving the Investment Grade Rating that we have as one of few airlines worldwide is a further aim.

That is also the basis of our dividend policy: protecting the financial substance of the company. A positive HGB result will therefore also remain the requirement for dividend payouts in the future. Last year it was distinctly negative, also as a result of the mentioned extraordinary burdens. We will therefore not be paying out a dividend for the 2014 financial year.

Our many discussions and exchanges, reassure us that the majority of you, our dear Shareholders, support this consistent application of our dividend policy and for that we thank you. I promise you that we will work hard to make sure that our financial results also close the gap to the best in the world. We do not only want to satisfy our customers, we also want to satisfy you, our shareholders, and be able to regularly pay you dividends.

Allow me to also say another word or two about the development of our share: After a good start into 2014, the price of the Lufthansa share has fallen by 10%.

There were several reasons for this: It was on the one hand due to the revised earnings forecasts for 2014 and 2015, and on the other hand due to the uncertainties resulting from the development of competition and the unsettled wage issues. Although the share price recovered again towards the end of the year, also as a result of the low oil price, its development is altogether not satisfying. We are in extensive dialogue with our shareholders in an effort to strengthen their confidence in the course that we have set. This includes also making the necessary changes and forced development of the Lufthansa Group at times also against resistance more visible and measurable.

Allow me to now provide you with an overview of the results of the individual business segments.

We were again able to fly a record number of passengers last year, with a total of 106 million passengers flying with airlines of the Lufthansa Group. The Passenger Airline Group was also able to record a slight increase in its operating result from the previous year. However, the change to our depreciation policy and the lower fuel

costs resulted in a distinctly positive effect. Without these factors, the result would have been significantly below the previous year's figure.

Lufthansa Passenger Airlines posted an operating profit of 252 million euros, which was below the previous year's figure. The result was burdened by strike costs and the falling average yields. Although we have been able to reduce the units costs since 2012, it is not yet enough to make Lufthansa Passenger Airlines capable of growth. We are still significantly more expensive than our competitors in production. We still have a long and hard road ahead of us before we will have lowered our costs to a level that allows for growth perspectives at our core brand.

Lufthansa Passenger Airlines is and remains the central element of our core business.

Only SWISS was able to improve its result within the Passenger Airline Group: At 289 million euros, our Swiss colleagues recorded an outstanding operating result – once again. SWISS has now been flying under the umbrella of the Lufthansa Group for a decade and the airline has been a guarantor of above-average contributions to the result for almost as long: 2.4 billion euros since 2005 – that is what we call a success story.

Austrian Airlines sustained a significant decline in its result to 10 million euros. The one-off effects from the agreements concluded with the negotiating partners placed a major burden on the result. However, at least the airline can now start into the future with a groundbreaking Group collective agreement, as the new competitive Austrian Airlines. The development proves that far-reaching changes are possible when all involved act in concert.

Now to the other business segments of the Lufthansa Group. I am very pleased to state that they all closed the 2014 financial year with a positive result.

Lufthansa Cargo was able to increase its result to 100 million euros despite facing heavy burdens as a result of the new depreciation policy.

Lufthansa Technik earned an operating result of 392 million euros. Our LSG Sky

Chefs also made a substantial contribution to the Group's result with 100 million euros.

In brief, the Lufthansa Group's broad strategic alignment has once again proven itself and will play an even greater role in the future, but I will get back to that later.

I would also like to take one final opportunity to mention Lufthansa Systems, which was split into three companies during the first quarter of 2015. The IT infrastructure segment was sold to IBM, which is why we will be posting Lufthansa Systems' result separately in 2014 for the last time. The remaining two segments, Airline Solutions and Industry Solutions, will be developed within the group with a new structure.

Ladies and Gentlemen,

The figures do little justice to the true state of our company. What is far more important is that we are on the right track.

I can draw the following conclusion for 2014: The past business year was a future-defining year for the Lufthansa Group. It was a year in which we laid the foundations for the future of the Lufthansa Group.

We have analysed and addressed the challenges.

We defined the fields of action in our "7to1 - Our Way Forward" programme and laid the foundations for a competitive and future-viable Lufthansa.

Ladies and Gentlemen,

Allow me to now briefly present you the aims that we are pursuing and to show you how the Lufthansa Group of tomorrow will look.

Let me begin with a look back into the past. Lufthansa turned 60 on 1 April.

It was a humble new beginning in 1955 with two propeller aircraft that took off simultaneously from Hamburg and Munich on their first domestic flights. Today this little state-owned German airline has evolved into the largest aviation group

worldwide. In 1955, Lufthansa flew 74,000 passengers today we welcome over four times that number on board our aircraft every single day.

We gather our strength for the future from all the things that Lufthansa has stood for over the past six decades. We must and will continue to change, just as we have always done in the past. And we will now again focus on the things that have made us big and strong.

Our greatest strategic goal is and remains the future viability of Lufthansa – for our shareholders, customers, employees and of course our partners.

Ladies and Gentlemen,

We are aligning ourselves within the context of three global megatrends:

Firstly, the shift of economic power, and consequently also the powers in our industry, to Asia.

Secondly, the change in business and private travel behaviour, which is resulting in a rapid increase in the demand for point-to-point connections.

Thirdly, the digitalization of our business, which is also changing the purchasing behaviour of our customers.

We must ensure that three conditions are fulfilled at the same time to secure our future viability: We need financial stability. We must ensure the continuous modernization of our fleet and infrastructure through the corresponding investments. And, we must consolidate and expand our market position in all of our business segments.

Our “7to1 – Our Way Forward” programme is the answer to these challenges. Allow me to briefly explain its three key elements to you:

Firstly, the expansion of our quality leadership throughout the entire Group.

We are investing billions in a modern and environmentally friendly fleet. By 2025 we

will have acquired a total of 272 brand new aircraft with a list price of about 38 billion euros. This will allow us to significantly reduce our unit costs, as well as our fuel consumption and emissions.

We are investing for our customers, with the restructuring of all our travel classes, which will be completed in the autumn. By doing so we want to make Lufthansa Passenger Airlines the first Western Five Star Airline and increase our average yields.

The second important issue is the improvement of efficiency. In this area in particular, we have implemented thousands of individual measures since 2012 with our SCORE programme. This has allowed us to absorb the adverse developments between 2013 and 2015. SCORE will be integrated into the "7to1" programme at the end of the year. The 2-3% annual improvement in efficiency will then become an ongoing task.

And let me finally also tell you about the third element of our strategy: Innovations.

Digital competence in particular will grow increasingly important for the Lufthansa Group if we also want to become the leading airline group for personalized service and personal communication. We are developing innovative solutions at our Innovation Hub Berlin, at Lufthansa Technik and in many other areas of the Group to realize this objective.

What will the Lufthansa Group of tomorrow look like?

Our clear and consistent strategy envisages the Lufthansa Group of tomorrow standing on three strong pillars: the Premium Hub Airlines, our secondary brand Eurowings, particularly for point-to-point traffic, and our Aviation Services.

The by far largest and most important pillar is the Premium Airlines with traffic via our hubs. Our "Multi-Hub" and "Multi-Brand" system has become a trademark in Europe. We therefore plan to strengthen the local brands even further. For example, with more "SWISSNESS" at our Swiss colleagues or with the "NEW AUSTRIAN" programme at Austrian Airlines. At the same time however, we will also be grouping the commercial processes even more: a) to become more efficient and b) to offer our passengers standardized processes across the board for their travel experience.

Another pillar of the Lufthansa Group in the future will be our secondary brand Eurowings for our point-to-point business. In the near future, there will already be over 100 aircraft flying under this brand. We will establish Eurowings as one of the three leading European airlines for point-to-point traffic, also for long-haul tourist flights, and group a number of our smaller airlines under this brand in the future.

By the end of this year, we will again be in the black for decentralized European traffic thanks to Germanwings.

For many years we were deep in the red here and by that I mean in the negative triple digit millions. Even if the tragic crash is currently overshadowing the developments here, Germanwings is a success story and without it, we would never have had the Eurowings perspective. The experience that we have gained setting up this business model is the basis for establishing Eurowings in point-to-point traffic.

Ladies and Gentlemen,

The airlines remain the core business of the Lufthansa Group. However, already today, over half of our 120,000 employees work in our service companies. Aviation Services are growing increasingly important for us, particularly with a view to the global growth opportunities, because unlike with our airlines, we can follow our customers with production here.

Aviation Services will form the third and increasingly important pillar of the Lufthansa Group of the future.

We see considerable growth potential in our global market leader Lufthansa Technik, the largest of our service segments. Every tenth commercial aircraft worldwide is serviced and maintained by Lufthansa Technik.

We intend to grow here by 10% per year, particularly in our business with third parties.

LSG SkyChefs is also a global market leader: Every third meal served on board an

aircraft comes from our kitchens. Our Catering business segment pursues three growth strategies: profitable growth in the core business, the expansion of its product portfolio and the expansion of its global presence. It is also planned to generate additional business through growth in related markets, for example, catering for railway services or educational institutions.

I would also like to mention Air Plus as an exemplary service company in the area of financial services. This business segment has developed into the “travel payment” market leader in China. Over a quarter of the global growth at Air Plus is today generated in China, with a tendency to continue rising. On the whole the expansion of the service business will offer the Group added stability, because on the one hand our service segments are naturally less volatile and more profitable. And on the other hand we have a “natural hedging” effect here, as we also benefit from the growth of our competitors. The combined share of the service business and point-to-point airlines in the Group’s revenue will increase to 40%.

So what can we expect for 2015?

Earnings forecasts in our business are fraught with major uncertainties. These include the development of the oil price and the exchange rates for the euro, particularly against the US dollar and Swiss franc. They also include the development of the average yield in the Passenger Airline Group. And last but not least the further course of the wage negotiations which will also affect the result.

Ladies and Gentlemen, it has not gotten any easier after this first quarter; however, taking into account all aspects, we continue to expect an adjusted Ebit of over 1.5 billion euros before strike costs for the Lufthansa Group.

This year we are expecting a balanced free cash flow at a gross capital expenditure of 2.9 billion euros. For 2016 and 2017 we have limited our investments to 2.5 billion euros per year. As a result of this, we have set new priorities for our investments and will, for example, be postponing the construction of our new Lufthansa Cargo Center for at least two years.

After a year of laying the foundations for the future in 2014, the year 2015 will be the

year of implementation:

- with even more quality and innovations throughout the entire Lufthansa Group,
- with additional profitable growth through our service companies and
- with the new Eurowings, our greatest project.

In order to achieve our aims, we must convince our customers, investors and staff on a daily basis. Achieving the balance within this triangle and keeping all of our stakeholders satisfied is our, and my, highest aim.

Our customers are already benefitting from our measures today, as can be seen from our most recent satisfaction ratings.

We intend to convince our shareholders and potential investors with growing profits and by strengthening our financial stability, but also through transparent corporate figures and regular dividend payouts.

And last but not least our employees. We want to establish sustainably competitive structures for them, because only then will their jobs also be secure. And of course, we want to be an attractive employer – for our current workforce, as well as for future employees.

Ladies and Gentlemen, allow me at this time say a personal thing or two:

Our employees are a corporate asset that cannot be copied. They are among the best in the industry, both on the ground and in the air. We can therefore only realize the future of Lufthansa with them.

I would hereby explicitly also like to include our negotiating partners. We have great challenges to overcome together. This also applies for the pilots' union Vereinigung Cockpit, where, with this in mind, we this morning offered them an overall arbitration of all the open collective wage agreements. We have offered the hand.

And I hope I am also speaking on your behalf when I take this opportunity to express our sincerest gratitude to all of our staff who have not endured the easiest of times. It

fills me with great pride to work with this team.

Ladies and Gentlemen,

We will continue to maintain our course – openly, honestly, transparently and consistently. We intend to and will continue to write the success story that is Lufthansa. The things that unite us across all of our business segments are the same things that the crane stands for: the very highest standards of safety, quality, technical reliability, innovations and our ability to forge partnerships.

Our Lufthansa, your company, is unique: for our customers, for us employees and for you, its owners. The solidarity of the past weeks has shown that when we stand together, we still can be the standard for our industry especially during difficult times.

Thank you for your support and your confidence.