Lufthansa Group

Shareholder information on the annual results for 2016

Key figures Lufthansa Group

		2016	2015	Change in %
Revenue and result				
Total revenue	€m	31,660	32,056	−1.2
of which traffic revenue[1]	€m	24,661	25,506	−3.3
EBIT	€m	2,275	1,676	35.7
Adjusted EBIT	€m	1,752	1,817	−3.6
EBITDA	€m	4,065	3,395	19.7
Net profit/loss	€m	1,776	1,698	4.6
Key balance sheet and cash flow statement figures				
Total assets	€m	34,697	32,462	6.9
Equity ratio	%	20.6	18.0	2.6 pts
Net indebtedness	€m	2,701	3,347	−19.3
Cash flow from operating activities	€m	3,246	3,393	−4.3
Capital expenditure (gross)	€m	2,236	2,569	−13.0
Key profitability and value creation figures				
EBIT margin	%	7.2	5.2	2.0 pts
Adjusted EBIT margin	%	5.5	5.7	−0.2 pts
EBITDA margin	%	12.8	10.6	2.2 pts
EACC	€m	817	323	152.9
ROCE	%	9.0	7.7	1.3 pts
Lufthansa share				
Share price at year-end	€	12.27	14.57	−15.8
Earnings per share	€	3.81	3.67	3.8
Proposed dividend per share	€	0.50	0.50	0.0
Traffic figures[2]				
Passengers	thousands	109,670	107,679	1.8
Passenger load factor	%	79.1	80.4	−1.4 pts
Cargo load factor	%	66.6	66.3	0.3 pts
Flights	number	1,021,919	1,003,660	1.8
Employees				
Average number of employees	number	123,287	119,559	3.1
Employees as of 31.12.	number	124,306	120,652	3.0

[1] Previous year's figures have been adjusted due to the new reporting method.
[2] Previous year's figures have been adjusted.

Date of publication: 16 March 2017.

Course of business Despite numerous challenges, the Lufthansa Group achieved a good result in 2016. In an environment marked by great uncertainty, we met our financial targets and made great progress in implementing our strategic agenda. This is reflected in particular in a stronger balance sheet and lower costs, forward-looking commercial joint venture agreements and the exploitation of external growth opportunities by means of wet leases from Air Berlin and the acquisition of Brussels Airlines. Lower fuel costs and primarily continuing cost reductions at the airlines have helped to offset the decline in unit revenues. The service companies have again contributed to the success of the Company.

Revenue and income Operating income in the financial year 2016 came to EUR 33.9bn, a year-on-year decline of 3.3 per cent.

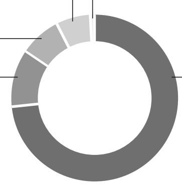
Traffic revenue fell by 3.3 per cent overall to EUR 24.7bn. The decline stemmed from lower prices (−5.1 per cent) and negative exchange rate effects (−0.9 per cent), offset by higher sales (2.7 per cent).

Other revenue went up by 6.9 per cent in total to EUR 7.0bn.

Total Revenue declined by 1.2 per cent to EUR 31.7bn.

Other operating income fell by EUR 648m to EUR 2.2bn. This stems mainly from lower exchange rate gains (EUR −636m), offset by correspondingly lower exchange rate losses in other operating expenses.

Business segments' share of Group revenue in %



Expenses Operating expenses declined year on year by 5.3 per cent to EUR 31.7bn.

The cost of materials and services fell by 3.0 per cent to EUR 17.1bn. Within the cost of materials and services, fuel costs declined by 15.5 per cent to EUR 4.9bn. The average price for kerosene, including fuel hedging, was USD 578.41/tonne in 2016. Fuel prices declined by 18.2 per cent (after hedging), but this was partly offset by the rise in the US dollar (+0.6 per cent) and higher volumes (+2.1 per cent). Fuel costs included a negative hedging result of EUR 905m (previous year: EUR 988m). Expenses for other raw materials, consumables and supplies were up by 3.8 per cent at EUR 3.3bn.

Fees and charges went up by 1.5 per cent overall to EUR 5.7bn. Staff costs fell by 8.9 per cent to EUR 7.4bn. Depreciation and amortisation climbed by 3.1 per cent to EUR 1.8bn. Other operating expenses fell by 9.6 per cent to EUR 5.5bn.

Expenses

	2016 in €m	2015 in €m	Change in %
Cost of materials and services	17,109	17,640	−3.0
of which fuel	4,885	5,784	−15.5
Staff costs	7,354	8,075	−8.9
Depreciation	1,769	1,715	3.1
Other operating expenses	5,517	6,106	−9.6
Total operating expenses	**31,749**	**33,536**	**−5.3**

Earnings development The result from operating activities improved year on year by EUR 635m to EUR 2.2bn. Including the result from equity investments of EUR 85m, EBIT came to EUR 2.3bn.

To calculate Adjusted EBIT, EBIT was adjusted for book gains and losses from the disposal of non-current assets, impairment losses and write-ups, as well as the measurement of pension obligations totalling EUR −523m (previous year: EUR 141m). This produced an Adjusted EBIT of EUR 1,752m (previous year: EUR 1,817m). This includes strike costs of around EUR 100m. The Adjusted EBIT margin was 5.5 per cent (previous year: 5.7 per cent).

Adding depreciation and amortisation to EBIT of EUR 2.3bn produced EBITDA of EUR 4.1bn (previous year: EUR 3.4bn). The financial result fell by EUR 413m to EUR 58m. The profit from operating activities and the financial result added up to a profit before income taxes of EUR 2.2bn, compared with EUR 2.0bn in the previous year. Deducting income taxes of EUR 445m (previous year: EUR 304m) and earnings attributable to minority interests of EUR 27m (previous year: EUR 24m), the net profit for the period attributable to the shareholders of Deutsche Lufthansa AG was EUR 1.8bn (previous year: EUR 1.7bn).

Earnings per share amount to EUR 3.81 (previous year: EUR 3.67).

External revenue and Adjusted EBIT by segment 2016

	External revenue in €m	Year on year change in %	Adjusted EBIT in €m	Year on year change in %
Passenger Airline Group	23,263	−2.3	1,527	1.5
Logistics	2,059	−11.7	−50	
MRO	3,517	8.0	411	−9.5
Catering	2,550	6.9	104	5.1
Other	271	3.4	−236	36.2

Dividend The Lufthansa Group's dividend policy provides for a dividend ratio of between 10 and 25 per cent of EBIT, as long as the dividend payment is covered by the net profit for the year as shown in the individual financial statements for Deutsche Lufthansa AG drawn up according to the commercial law provisions. They present a net profit for the financial year 2016 of EUR 1.2bn. Following the transfer of EUR 935m to retained earnings, distributable profit comes to EUR 234m.

In line with this dividend policy, the Executive Board and Supervisory Board will therefore table a proposal at the Annual General Meeting on 5 May 2017 to distribute this profit to shareholders by paying a dividend of EUR 0.50 per share.

Capital expenditure, cash flow, assets and financial position
Capital expenditure in 2016 was 13.0 per cent lower than in the previous year at EUR 2.2bn. Primary investment in down payments and final payments for aircraft, aircraft overhauls and equipment fell by 15.2 per cent to EUR 1.7bn.

Cash flow from operating activities shrank by 4.3 per cent to EUR 3.2bn. Free cash flow increased to EUR 1.1bn due to the lower capital expenditure (previous year: EUR 834m).

The Group's total assets rose by EUR 2.2bn to EUR 34.7bn as of 31 December 2016. Non-current assets were up by EUR 1.0bn, while current assets increased by EUR 1.3bn.

Within non-current assets, aircraft and reserve engines rose by EUR 207m to EUR 14.8bn. Within current assets, receivables rose by EUR 181m to EUR 4.6bn.

Equity (including minority interests) went up year on year by EUR 1.3bn, or 22.3 per cent, to EUR 7.1bn. The equity ratio went up from 18.0 per cent at year-end 2015 to 20.6 per cent.

Outlook for the Lufthansa Group In view of the increasing volatility of the global economy in general and of the airline industry in particular, the Lufthansa Group expects that the course of its business will also be subject to significant fluctuations in 2017. The strong volatility of key variables will require assumptions to be reviewed continuously over the course of the year, in order to be able to respond appropriately and promptly to changes with suitable management measures.

Based on the market price for crude oil and the US dollar exchange rate as of 28 February 2017, and without adjustment for the fuel costs of Brussels Airlines, which is being consolidated for the first time, the Lufthansa Group anticipates a year-on-year increase in fuel costs of around EUR 350m.

At the same time, the Lufthansa Group expects currency-adjusted unit revenues in the Network Airlines and Point-to-Point segments to fall again, but overall not as significantly as in 2016. Viewed in isolation, a change in cumulative unit revenues of 1 per cent in these two segments has an earnings impact of more than EUR 200m. However, cumulatively lower unit costs, adjusted for exchange rates and fuel, will help to offset at least part of the increase in fuel costs and lower unit revenues. The other business segments together are not expecting any major changes in earnings. Based on these assumptions and from a current perspective, the Lufthansa Group expects revenue to be significantly higher and Adjusted EBIT to be slightly lower than in 2017.

The main influences on earnings remain the oil price, the euro exchange rate, especially against the US dollar and the Swiss franc, unit revenues at the Network Airlines and Point-to-Point segments and the course of collective bargaining for cockpit staff at Lufthansa German Airlines. Overall risks from underlying macroeconomic and from geopolitical developments in particular have increased in recent months and represent a key uncertainty for the development of revenue and earnings, especially for the Network Airlines.

As in the previous year, restructuring activities are likely to adversely affect the earnings of individual segments and the entire Lufthansa Group. At the time of this forecast, costs across all segments are expected to be at a similar high level to the previous year. If progress with the restructuring efforts differs from what was planned at the beginning of the year, this figure may further increase or decrease, improving or reducing earnings accordingly.

Extract from the Annual Report for 2016. For the complete Annual Report please visit our website at i www.lufthansagroup.com/investor-relations or order the printed version via internet service or by fax +49 (0) 69696 – 9 09 90. The printed version will be available from mid-April 2017.