LUFTHANSA GROUP

SHAREHOLDER INFORMATION 01/2020

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LUFTHANSA GROUP

Key Figures Financial Year 2019

		2019	2018	Change in %
Revenue and result				
Total revenue	€m	36,424	35,542	2
of which traffic revenue	€m	28,136	27,801	1
Operating expenses	€m	37,124	35,164	6
Adjusted EBITDA	€m	4,718	5,016	-6
Adjusted EBIT	€m	2,026	2,836	-29
EBIT	€m	1,857	2,974	-38
Net profit/loss	€m	1,213	2,163	-44
Key balance sheet and cash flow statement figures				
Total assets	€m	42,659	38,213	12
Equity ratio	%	24.0	25.1	-1.1 pts
Net indebtedness	€m	6,662	3,489	91
Pension provisions	€m	6,659	5,865	14
Cash flow from operating activities	€m	4,030	4,109	-2
Capital expenditure (gross)[1)]	€m	3,559	3,757	-5
Adjusted free cash flow	€m	203	288	-30
Key profitability and value creation figures				
Adjusted EBITDA margin	%	13.0	14.1	-1.1 pts
Adjusted EBIT margin	%	5.6	8.0	-2.4 pts
EBIT margin	%	5.1	8.4	-3.3 pts
ROCE	%	6.1	11.1	-5.0 pts
Adjusted ROCE	%	6.6	10.6	-4.0 pts
Lufthansa share				
Share price at year-end	€	16.41	19.70	-17
Earnings per share	€	2.55	4.58	-44
Proposed dividend per share	€	-	0.80	-100
Traffic figures[2)]				
Flights	number	1,177,315	1,163,565	1
Passengers	thousands	145,190	141,935	2
Available seat-kilometres	millions	359,567	349,391	3
Revenue seat-kilometres	millions	296,511	284,639	4
Passenger load factor	%	82.5	81.5	1.0 pts
Available cargo tonne-kilometres	millions	17,378	16,349	6
Revenue cargo tonne-kilometres	millions	10,664	10,896	-2
Cargo load factor	%	61.4	66.6	-5.2 pts
Employees				
Employees as of 31 Dec	number	138,353	135,534	2
Average number of employees	number	137,784	134,330	3

The figures include effects from the first-time application of new accounting standards and other accounting changes. Previous year's figures have been adjusted accordingly.

[1)] Without acquisition of equity investments.
[2)] Previous year's figures have been adjusted.
Date of publication: 19 March 2020.

DEAR SHAREHOLDERS,

2019 was another demanding year for the global airline industry. Slower economic growth worldwide, trade disputes, uncertainty surrounding Brexit and overcapacities – especially in the German market – and the resulting price erosion also affected the performance of the Lufthansa Group.

Despite these difficult conditions, we can point to some successes: we have reduced our unit costs for the fourth year in succession. Lufthansa German Airlines and SWISS performed well on long-haul routes. This is also reflected in our passenger numbers, which reached new records. The comprehensive turnaround plan for Eurowings is already having an effect, and we are pleased to have been able to make further improvements to our market position in Germany, despite competition from low-cost carriers. Lufthansa Technik again made a significant contribution to group earnings in 2019. And, not least, the LSG group improved its earnings, in spite of the uncertainty related to the sale of its European business. Altogether we met the targets for 2019 which were revised at the end of the first half-year – Adjusted EBIT came to EUR 2,026m and the Adjusted EBIT margin to 5.6%.

We are not satisfied with that, but the success of the measures initiated in 2019 confirms our intention to work even harder on the further development of the Group. We have set ourselves the goal of safeguarding and strengthening our long-term market position as the leading European airline group through profitable growth. CREATING SUSTAINABLE VALUE – for our shareholders, customers, employees, and for society and the environment – is our aspiration and thus also the title of this year's annual report.

In this context, we accelerated the strategic transition of the Lufthansa Group from an aviation group to an airline group in 2019. By selling the European business of the LSG group, we are separating ourselves from an operating segment that only has minor synergies with the airlines. We are maintaining close links to the LSG group, however, by signing a long-term catering contract and thus ensuring that the in-flight catering experience is still of the highest quality under the new owner, gategroup.

With a focus on our airlines, we continued to modernise the fleet in the reporting year and introduced innovative products and services. This strengthens our premium positioning and enables us to offer our customers a highquality travel experience. The repeated confirmation of our Five-Star rating from Skytrax underlines the success of our quality offensive.

The restructuring of the Executive Board in terms of responsibilities and individuals also reflects our concentration on the core business segment. You will find further information in this Shareholder Information.

Although only some 3% of global anthropogenic CO_2 emissions are the result of air traffic, we feel a growing responsibility to minimise the environmental impact of flying. To this end we have developed a comprehensive strategy consisting of measures with both an immediate and a long-term effect. They range from the continuation of our fleet renewal and different remuneration options through to support for the production of alternative fuels. Sustainable economic success is a prerequisite for all these investments, also for our social commitments. We therefore have to ensure that all the operating segments earn their cost of capital. With this aim in mind, we launched wide-ranging programmes in 2019 to safeguard earnings and cut costs at Austrian Airlines, Brussels Airlines and Lufthansa Cargo.

Dear shareholders, the spread of the Corona virus is posing unprecedented challenges for the world economy and the aviation industry. The dramatic decline in demand for air travel and the travel bans imposed by numerous countries are having a significant impact on us. We are addressing this challenge by adjusting our flight capacity flexibly to lower demand and cutting costs in all areas. In view of this exceptional situation and to further reinforce the balance sheet, we have decided to make a proposal at the Annual General Meeting not to pay a dividend for the financial year 2019. But we do not intend to lose sight of the Group's long-term strategy. We will continue to work to add value for you, our shareholders, by maintaining a balance between the interests of all stakeholders – shareholders, customers, employees, society and the environment. We will dedicate ourselves wholeheartedly to this task.

We would be pleased if you would continue to accompany us on this journey.

Dennis Weber

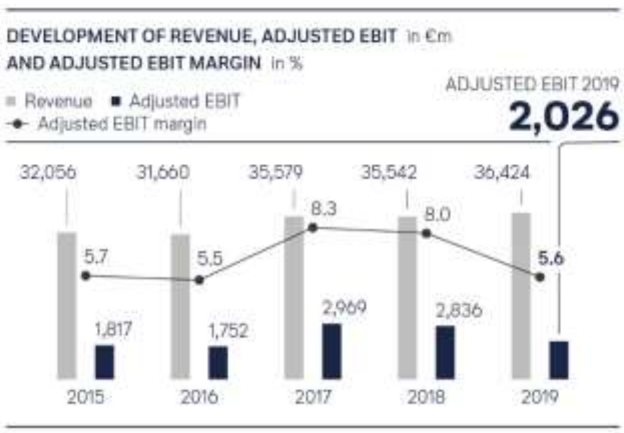
Head of Investor Relations
Deutsche Lufthansa AG

BUSINESS DEVELOPMENT

Difficult market environment and higher fuel expenses weigh on earnings

The Lufthansa Group achieved a solid result in 2019, despite difficult conditions. European business was marked by price erosion due to overcapacities throughout the market and the general economic downturn in the Lufthansa Group's home markets. By contrast, Network Airlines' long-haul business still performed well, particularly on connections to North America.

Traffic rose again in the reporting year. The airlines in the Lufthansa Group carried over 145 million passengers, more than ever before. New highs were also achieved in terms of capacity, sales and passenger load factor. Traffic revenue increased year-on-year by 1% to EUR 28,136m (previous year: EUR 27,801m). Positive volume and exchange rate effects made up for the fall in prices. Revenue of EUR 36,424m was 2% up on the previous year (previous year: EUR 35,542m).



Adjusted EBIT fell in 2019 by 29% to EUR 2,026m (previous year: EUR 2,836m). This was primarily the result of declining unit revenues, hedging-related higher fuel costs and MRO costs, for which lower unit costs could not fully compensate. The earnings performance stabilised in the second half of the year. Lower capacity growth, initial success in implementing the turnaround plan at Eurowings, unit cost reductions at the Network Airlines and improvements in operational performance all contributed. The Adjusted EBIT margin fell in 2019 by 2.4 percentage points to 5.6% (previous year: 8.0%).

Adjusted EBIT for 2019 in the segments Eurowings, MRO and Catering was up on the year. Adjusted EBIT for the Network Airlines and Logistics business segments declined, however. The latter was affected by lower demand in the airfreight market.

Cash flow from operating activities declined in 2019 by 2% to EUR 4,030m (previous year: EUR 4,109m). Despite lower capital expenditure, Adjusted free cash flow fell year-on-year by 30% to EUR 203m, due to lower earnings and higher tax payments (previous year: EUR 288m).

At year-end 2019, the Lufthansa Group again had a strong balance sheet. Its equity ratio fell by 1.1 percentage points to 24.0% (previous year: 25.1%). Gearing went up, due to the first-time application of IFRS 16 and higher pension liabilities, but at 2.8 was still well below the upper limit of the target corridor of 3.5 (previous year: 1.8). Its strong balance sheet enables the Lufthansa Group to keep investing in its strategic development and fleet modernisation.

SHARE PRICE DEVELOPMENT

Lufthansa closes difficult year on the stock market with an upturn at year-end

The performance of the Lufthansa share in 2019 was marked by the economic downturn in its home markets prices and tough competition on European short-haul routes, especially in Germany and Austria. The share price fell by a total of 26% in the first nine months of the year. In the fourth quarter it recovered significantly, rising by 13%, lifted primarily by the prospect of greater capacity discipline in the industry and a calmer oil market.

The share reached its high price for the year on 26 February 2019 at EUR 23.51, followed by the low for the year on 15 August 2019 at EUR 12.85. As of year-end, the Lufthansa share traded at EUR 16.41. This represented a loss of 17% in financial year 2019. Over the same period the DAX index performed positively, rising by 26%. The poorer performance compared with key competitors, which saw price increases of between 5% and 39%, is due to structural differences in the business models, especially the share of business travellers, which is much higher at the Network Airlines of the Lufthansa Group than at their competitors. In addition, the Lufthansa Group is more dependent on the German and Austrian markets, where the economic downturn was particularly steep and competition was toughest.

OUTLOOK

Spread of the coronavirus has significant effect on the Group's performance in 2020

The airline industry is affected more directly and severely by the global spread of the coronavirus than other sectors of the economy. Around the world, the coronavirus has resulted in travel restrictions at many companies, the cancellation of larger events and great uncertainty among consumers. Some countries, including the USA, have imposed a travel ban on passengers from Germany. The impact on demand for flights and the services of other Group companies is therefore significant. As a result, Group revenue is expected to be significantly lower in 2020 than the previous year.

The Lufthansa Group assumes that the effects of the crisis will influence the Group's performance in all segments and all regions in 2020. It is not currently possible to say how long these adverse effects will last, since they depend largely on the progression of the crisis and consumers' reactions to the spread of the virus.

Lufthansa Group responds to fall in demand with capacity cuts and additional cost savings

The Group is addressing this challenge by adapting flight capacities as flexibly as possible to falling demand and limiting its costs to the minimum necessary for operations. Changes in demand on individual routes are analysed on a daily basis in order to identify negative developments as quickly as possible and implement countermeasures accordingly. This includes exchanging larger aircraft for smaller ones, reducing the frequency of flights or suspending the route concerned altogether. On 13 March 2020 the Group announced that it was reducing capacity by up to 70%. → Press release

The Group therefore assumes that the airlines' available capacity (ASK) will be down on the year in 2020. Furthermore, the Group has decided to stop new recruitment, to extend offers for part-time work and unpaid leave and to reduce project and operating budgets. Options for short-time work are currently under review in various areas.

Significant year-on-year fall in Adjusted EBIT expected

The impact of the spread of the virus on demand and the corresponding capacity cuts will have a significant effect on the Group's earnings performance. Adjusted EBIT is forecast to fall significantly year on year. Cost savings will only partly make up for the adverse effects. The precise extent of the fall depends above all on the further spread of the virus, the necessary capacity adjustments, the scope and impact of the cost-cutting measures, and the development of fuel costs. The Group intends to provide a more detailed financial outlook over the course of the year, as soon as it has greater visibility on the factors mentioned.

Forecast revenue and earnings performance in the segments matches the outlook for the Group as a whole

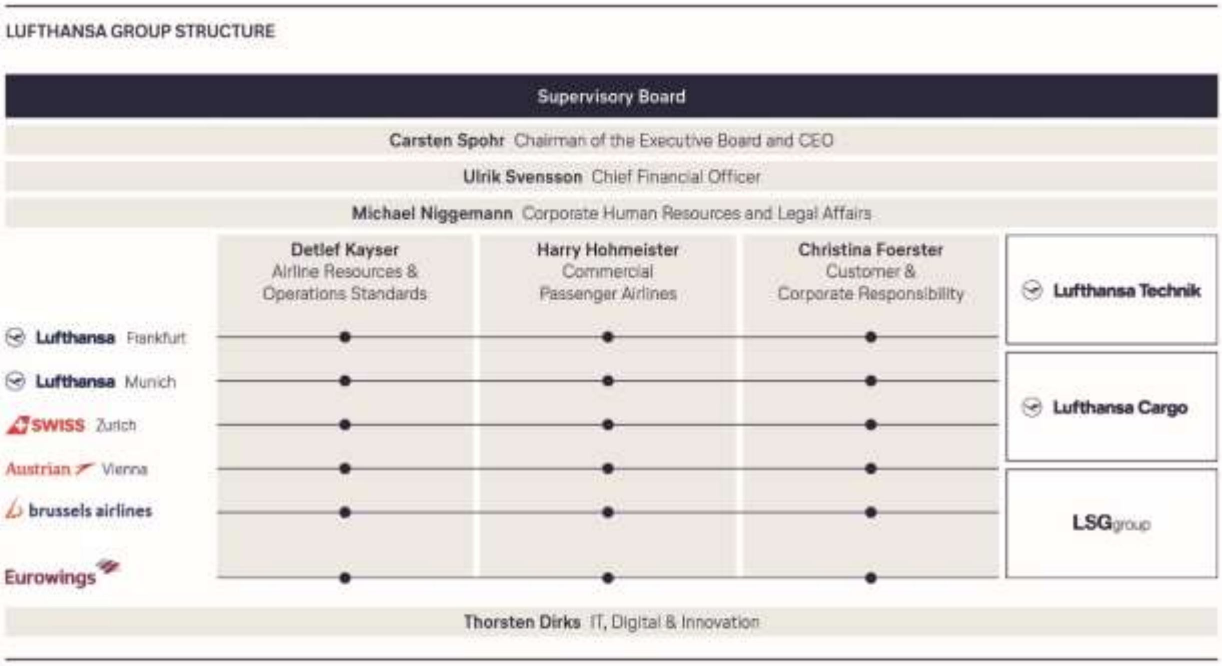
A significant year-on-year fall in revenue and earnings is expected for the individual segments – Network Airlines, Eurowings, Logistics, MRO, Catering and Additional Businesses and Group Functions – in line with the expectation for the Group as a whole.

FURTHER TOPICS

Management

Executive Board was restructured

The Executive Board of Deutsche Lufthansa AG was restructured in terms of responsibilities and individuals as of 1 January 2020. Its new formation reflects the strategic transition of the Lufthansa Group from an aviation group to an airline group. This should serve to sharpen customer focus, strengthen digitalisation endeavours and establish social and environmental responsibility at Executive Board level.



Carsten Spohr continues to chair the Executive Board. Thorsten Dirks, whose contract was renewed ahead of schedule in 2019 until 30 April 2023, is responsible for the new IT, Digital and Innovation function going into 2020. He was responsible for Eurowings until the end of 2019. Christina Foerster, formerly CEO of Brussels Airlines, was appointed to the Executive Board for three years by the Supervisory Board and has been responsible for the new Customer & Corporate Responsibility function since the start of 2020. As the new Executive Board member for Commercial Passenger Airlines, Harry Hohmeister is responsible as of the beginning of 2020 for coordinating network planning and revenue management and for distribution and sales for all the passenger airlines in the Lufthansa Group. Until the end of 2019, Harry Hohmeister was Chief Commercial Officer Network Airlines and responsible for the commercial management of the Network Airlines. Detlef Kayser remains responsible for Airline Resources & Operations Standards. Michael Niggemann, formerly CFO of SWISS, was also newly appointed to the Executive Board for three years by the Supervisory Board and has been responsible for the Corporate Human Resources and Legal Affairs function since the start of 2020. The position was previously held by Bettina Volkens, who left the Company by mutual agreement as of 31 December 2019. Ulrik Svensson, whose contract was renewed ahead of schedule until 31 December 2022 by the Supervisory Board in the reporting year, continues as Chief Financial Officer.

→ Press release

Business segments

LSG group’s European business to be sold to gategroup

The Lufthansa Group and gategroup signed a sales agreement for the LSG group’s European business on 6/7 December 2019. In addition to the European catering facilities, the contract covers the lounge business and the European activities of the convenience food specialist Evertaste, the SPIRIANT equipment business and the Ringeltaube retail outlets. With the sale, the strategic transition of the Lufthansa Group from an aviation group to an airline group will be accelerated.

Also part of the sales agreement is a long-term catering contract with Lufthansa German Airlines for the hubs in Frankfurt and Munich. At the two plants in Frankfurt and Munich, which provide the in-flight service there for Lufthansa German Airlines flights, the Lufthansa Group will retain a minority interest in a new joint venture that is being established. This will ensure a seamless handover of the catering business and a successful start to the partnership.

Around 8,800 employees work at the divisions that have been sold. They generated revenue of some EUR 1.1bn in 2019, around one third of the LSG group’s total revenue. The transaction has no material impact on Adjusted EBIT or net profit/loss for the period in 2019 or 2020 at the Lufthansa Group.

The sale is still subject to the approval of the competition authorities.

→ Press release

Employees

Agreement with UFO on resolution process for collective bargaining dispute

The Lufthansa Group and the independent flight attendants’ union UFO agreed on 31 January 2020 on a multi-stage process to resolve the collective bargaining dispute.

The process provides for a separation of wage and non-wage topics in three stages: mediation, arbitration and an out-of-court settlement. In the mediation process, questions of cooperation will be discussed, with a focus on future dealings with one another, and solutions found. At the same time the parties will begin a comprehensive arbitration process covering the wage claims made by UFO and other collective bargaining topics. In a separate, out-of-court settlement process, the specific legal affairs of both parties and individual officials will be presented to a labour law judge, ideally resulting in definitive solutions.

CONTACT

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