



PRESS RELEASE

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All Lufthansa Group airlines achieve substantial growth in the first half of 2018

- **Number of passengers and flights as well as seat load factors all reach new record levels**
- **Network Airlines and Eurowings grow unit revenues while significantly expanding capacity**
- **Network Airlines' unit cost reduction of 2.1 percent exceeds target and supports 26-percent results improvement**
- **Adjusted EBIT for the Lufthansa Group of EUR 1,008 million only just below prior-year period despite substantially higher fuel costs**
- **Full-year revenue projection raised and earnings forecast reaffirmed: Adjusted EBIT only slightly below previous year**



Lufthansa Group increased its total first half-year revenues by 5.2 percent in 2018, excluding the impact of the first-time application of the IFRS 15 accounting standard. Reported total first half-year revenues amounted to EUR 16.9 billion, broadly in line with the prior-year level. Traffic revenue for the first six months totaled EUR 13.2 billion, which, excluding the first-time impact of IFRS 15, represents an increase of 7.0 percent. Adjusted EBIT – the key profit metric of Lufthansa Group – was roughly at its prior-year level at EUR 1,008 million. Adjusted EBIT margin amounted to 6.0 percent (compared to 6.1 percent in the first half year of 2017). Net income for the period also remained broadly stable at EUR 677 million (prior-year period: EUR 672 million).

“The prime features of Lufthansa Group’s development in the first half of 2018 were strong growth and a simultaneous improvement in our unit revenues. Achieving both simultaneously is a significant success,” says Ulrik Svensson, Chief Financial Officer of Deutsche Lufthansa AG. “At our Network Airlines, we were able to more than offset the added burden imposed by higher fuel costs through structural cost reductions and improved results by 26 percent. Without the integration costs at Eurowings, which we willingly accepted to further strengthen our market position in Europe, the Group’s result would have grown.”

The airlines' performance was the key driver of the Group's results in the first half year. Some 67 million passengers were carried, a new record for the period. Capacity, volumes sold and seat load factor were also all at new record highs. The biggest driver here was the Network Airlines, with both Lufthansa German Airlines and SWISS making positive earnings contributions by achieving not only higher unit revenues but above all substantial reductions in their unit costs.

First half-year fuel costs rose by EUR 216 million to EUR 2.8 billion. The increase is attributable to both the higher volumes and a higher fuel price.

An increase in the costs incurred through delays and flight cancellations had a negative impact on first half-year earnings. The main causes of these irregularities were strike action and the infrastructural inadequacies of Europe's aviation systems, such as the current capacity problems at the continent's national air navigation services providers. Extreme weather (such as storms) also adversely affected flight operations far more than usual in the first half-year period. The impact of these trends was felt by all airlines, not only the Lufthansa Group. However, Group earnings for the period were also depressed by the expense of integrating the aircraft formerly operated by Air Berlin into the Eurowings fleet – a process which is unprecedented in its scope within the European airline industry and took longer than originally envisaged.

Despite these adversities, unit costs were reduced by 0.6 percent in the first six months – thanks primarily to efficiency enhancements at the Network Airlines, which benefited from the comprehensive modernization of their aircraft fleets, the collective labor agreements reached last year with large parts of the workforce and a streamlining of operational processes and management structures. As a result of all these positive influences, first half-year unit costs at the Network Airlines (excluding currency factors and fuel) were 2.1 percent below their prior-year level.

Network Airlines

The Network Airlines' focus on sustainable cost reductions and revenue growth was reflected in their earnings results for the first half-year period. Reported total revenues declined 3.9 percent to EUR 10.7 billion. However, excluding the effect of the first-time application of IFRS 15, the Network Airlines' total first half-year revenues increased 3.2 percent on the same period last year. Unit revenues (excluding currency factors) were also up 1.4 percent, thanks to higher load factors and improved yields, with North Atlantic and European routes seeing particularly strong customer demand. Adjusted EBIT increased by 25.6 percent to EUR 951 million. And Adjusted EBIT margin improved accordingly, rising 2.1 percentage points to 8.9 percent.

Lufthansa German Airlines raised its Adjusted EBIT by 16.0 percent to EUR 660 million in the first six months.

SWISS increased its first half-year Adjusted EBIT by 56.7 percent to EUR 293 million.

Despite favorable earnings in the second-quarter period, Austrian Airlines reported a first half-year Adjusted EBIT of EUR -3 million, a EUR 6 million decline on the prior-year period that is attributable to the flight cancellations suffered in the first three months of the year.

Eurowings

Eurowings raised its total first half-year revenues to EUR 1.9 billion, a 9.2 percent increase on the prior-year period, or a 25.2 percent improvement excluding the impact of the first-time application of IFRS 15. Along with the sizeable capacity expansion, revenue was also boosted by a 3.4 percent increase in unit revenues (excluding currency factors). The decline in Adjusted EBIT for the period to EUR -199 million is largely attributable to the one-off effects of integrating parts of the former Air Berlin aircraft fleet, and particularly to the higher technical, charter and leasing costs incurred to achieve the capacity expansion required within such a short time. Lufthansa Group expects these additional integration expenses to continue to depress earnings at Eurowings in the third quarter of 2018, but not beyond. Further costs were also incurred at Eurowings as a result of flight delays and cancellations whose causes were largely beyond Lufthansa Group's control.

Aviation Services

Within Aviation Services, the first half-year results for Lufthansa Cargo showed particularly sizeable growth, reflecting continuing strong demand for airfreight service products. Lufthansa Technik also saw business pick up tangibly in the second quarter after a weaker start to the year.

First half-year Adjusted EBIT for Lufthansa Cargo amounted to EUR 125 million, a 60.3 percent improvement on the prior-year period.

Lufthansa Technik posted an Adjusted EBIT of EUR 218 million for the first-half period, 1.8 percent below its 2017 level.

The LSG Group raised its first half-year Adjusted EBIT to EUR 40 million, a 207.7 percent year-on-year improvement.

Other Businesses & Group Functions reported a EUR 119 million decline to EUR -78 million Adjusted EBIT in the first half year, owing primarily to the non-recurrence of currency gains recorded in 2017.

Key financial indicators

Operating cash flow declined 6.4 percent to EUR 3.0 billion. With substantially higher investments in the aircraft fleet, free cash flow declined 53.3 percent to EUR 977 million.

Pension fund provisions increased 5.9 percent to EUR 5.4 billion, in response to a lowering of the discount rate from 2.0 to 1.9 percent and a negative development of the pension plan assets.

Net financial debt declined 11.4 percent from its level at the end of 2017 to EUR 2.6 billion. The equity ratio decreased by 1.5 percentage points over the same period to 25.0 percent, following the increase in total assets. However, the equity ratio on 30 June 2018 was still 5.6 percentage points above the same date last year, primarily thanks to the positive earnings contribution over the last twelve months.

Full-year outlook for 2018

Lufthansa Group reaffirms its previous forecast for 2018. Full-year capacity will increase by around 8 percent – slightly less than the earlier forecast of 8.5 percent growth. Fuel costs are expected to be some EUR 850 million higher than in 2017. However, Lufthansa Group now expects a slight increase of unit revenues for the full year. The reduction in unit costs (excluding currency factors and fuel) is expected to amount to around one percent – negatively affected by higher-than-planned integration costs at Eurowings. The Group is also expecting a slight reduction in earnings for Aviation Services now, in light of the earnings decline at Other Businesses & Group Functions in the first half year period, which was driven by the non-recurrence of prior year currency gains. Overall, however, Lufthansa Group still expects an Adjusted EBIT for 2018 that is only slightly below 2017's record level.

“With continuing strong demand, we are confident that, despite a challenging prior-year basis for comparison, we will be able to report solid revenue trends for the second half of 2018, too,” confirms Group CFO Ulrik Svensson. “We will also continue to benefit from the substantial improvements in the cost efficiency of our Network Airlines. With Eurowings, following its sizeable capacity increase, our prime objective is to return to profitability next year. We will also create the

structures to raise Eurowings' profitability to the levels of its prime competitors over the next three to four years."

IFRS 15

Lufthansa Group's adoption of the IFRS 15 "Revenue from Contracts with Customers" reporting standard entails changes in revenue and cost positions, especially at its Network Airlines and Eurowings. Passenger-based fees and charges, which were previously accounted on both the income and the expenditure side, are now netted in the profit and loss account. This reduces both income and expenditure. Since EBIT is not affected, EBIT margin increases mathematically. Prior-year figures have not been restated.

Lufthansa Group		January to June		Change		Q2	Q2	Change	
		2018	2017	as reported	excl. IFRS 15	2018	2017	as reported	excl. IFRS 15
Total revenues	EUR m	16,938	16,951	-0.1%	+5.2%	9,298	9,260	+0.4%	+5.8%
of which traffic revenue	EUR m	13,156	13,293	-1.0%	+7.0%	7,371	7,485	-1.5%	+6.3%
EBIT	EUR m	1,010	1,031	-2.0%		983	1,015	-3.2%	
Adjusted EBIT	EUR m	1,008	1,042	-3.3%		982	1,017	-3.4%	
Adjusted EBIT margin		6.0%	6.1%	-0.1 pts.		10.6%	11.0%	-0.4 pts.	
Net income	EUR m	677	672	+0.7%		734	740	-0.8%	
Gross investments ¹⁾	EUR m	1,927	1,397	+37.9%					
Operating cash flow	EUR m	3,018	3,226	-6.4%					
Employees as of 30 June		134,399	128,472	+5,927					
Earnings per share	EUR	1.44	1.43	+0.7%		1.56	1.58	-1.3%	

¹⁾ excluding cash-out from equity investments

Only the 2018 figures are stated in accordance with IFRS 15. Prior-year figures have not been restated.

Lufthansa Group's interim report for the first half of 2018 will be published simultaneously with this press release, and will be available at <https://investor-relations.lufthansagroup.com/en.html> on Tuesday 31 July from 07:30 CEST onwards.

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