LUFTHANSA GROUP

PRESS RELEASE

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Lufthansa Group Adjusted EBIT for 2018 only slightly below prior year despite higher fuel and one-off costs

Results for 2018:

- **Adjusted EBIT of EUR 2.8 billion**
- **Higher fuel costs, one-off costs from the integration of parts of the former Air Berlin fleet and increased expenses from delays and cancellations largely offset**
- **Network Airlines report improved Adjusted EBIT**
- **Adjusted unit costs reduced by 1.7 percent**
- **Dividend again proposed at EUR 0.80 per share**

Forecast for 2019:

- **Adjusted EBIT margin of between 6.5 and 8 percent**
- **Capacity growth in summer further reduced to 1.9 percent**
- **Further reduction in unit costs**
- **Substantial profit improvement expected at Eurowings**

"2018 was another successful year for the Lufthansa Group in financial terms," says Carsten Spohr, Chairman of the Executive Board & CEO of Deutsche Lufthansa AG. "We generated the second-best result in the history of our company. This is a great teamwork achievement by all the 135,000 people who make up our group workforce."

Total Group revenues for 2018 were a six-percent increase on the previous year. Burdened by the first-time application of the IFRS 15 accounting standard, total revenues were one percent up on 2017, at EUR 35.8 billion. The Adjusted EBIT for the year of around EUR 2.8 billion was only slightly below the record EUR 3.0 billion of the previous year, despite an increase of some EUR 850 million in fuel costs and EUR 518 million of expenses incurred through delays and cancellations (up a substantial 70 percent from the EUR 304 million of the prior year). In addition, the Eurowings result was burdened by some EUR 170 million one-off costs related to the integration of parts of the former Air Berlin fleet. Adjusted EBIT margin amounted to 7.9 percent (prior year: 8.3 percent). The net Group result for the year declined slightly to EUR 2.2 billion (prior year: EUR 2.3 billion).

Adjusted EBIT was affected by a change in the accounting of engine overhauls, which increased Adjusted EBIT for 2018 by EUR 122 million and decreased Adjusted EBIT for 2017 by EUR 4 million. Without this accounting change, Adjusted EBIT for 2018 would have amounted to EUR 2.7 billion.

Unit revenues adjusted for the first-time adoption of IFRS 15 and currency effects declined 0.5 percent for 2018 owing to lower unit revenues at Eurowings. Unit revenues were slightly above their prior-year level at the Group's Network Airlines, where higher unit revenues on long-haul routes (over the North Atlantic and to and from Asia) more than made up for lower short-haul unit revenues, especially in the second half of the year.

Profitable growth and cost reductions supported earnings trends. Unit costs adjusted for fuel price and currency movements were 1.7 percent down from their 2017 level (or 1.2 percent down excluding the change in the accounting of engine overhauls). The Network Airlines made an above-average contribution to the overall unit cost reduction.

"We continue to work on further reducing our unit costs year by year," confirms Ulrik Svensson, Chief Financial Officer of Deutsche Lufthansa AG. "We managed to do so in 2018 for the third year in a row. We are well equipped to invest in profitable growth and simultaneously further enhance our cost efficiency in the future, too."

The Lufthansa Group invested EUR 3.8 billion in 2018, a large part thereof in new more cost- and fuel-efficient aircraft. EUR 470 million of this amount is attributable to the changed accounting of engine overhauls. The Group's total aircraft fleet grew by 35 planes and numbered 763 aircraft at the end of the year.

"For our customers, we want to be the best airline group in Europe," explains Carsten Spohr. "At the same time, we are fully aware of maintaining sustainable business activities. This is why we continue to invest in advanced, low-noise and fuel-efficient aircraft. The 40 state-of-the-art long-haul planes that we ordered yesterday will replace the significantly less efficient four-engined aircraft in our fleet. As a result, we will have totally modernized our entire long-haul fleet by the mid-2020s." The fuel savings from this alone will amount to 500,000 tonnes a year, equaling 1.5 million tonnes of less carbon dioxide emissions.

The Lufthansa Group is able to make such investments because of the continuously strong balance sheet. Net financial debt rose 21 percent in 2018 to some EUR 3.5 billion (prior year: EUR 2.9 billion). However, the debt ratio (adjusted net debt in relation to Adjusted EBITDA) of 1.8 (prior year: 1.5) remained well below the Group's target maximum debt ratio of 3.5.

Free cash flow declined to EUR 250 million (prior year: EUR 2.1 billion). In addition to the slight earnings decline, this was primarily due to non-recurring working capital effects in the prior-year result. 2018 also saw increases in both variable compensation and taxes paid, which were both the result of the substantial earnings improvements of the previous year.

Pension provisions increased 15 percent to EUR 5.8 billion (prior year: EUR 5.1 billion), owing primarily to the challenging capital market environment. Return on capital employed (Adjusted ROCE) after taxes declined 1.3 percentage points to 10.6 percent (prior year: 11.9 percent), but remained well above capital costs.

“In view of these favorable results, which were achieved in a challenging market environment, we will propose to the 2019 Annual General Meeting that a stable dividend of 80 cents per share be distributed for the 2018 financial year,” says Ulrik Svensson. “This will both enable our shareholders to participate appropriately in our company’s success, while still giving us the strength to invest in our future growth.” A dividend of EUR 0.80 per share corresponds to a dividend ratio of 13 percent of consolidated EBIT for the year.

Network Airlines
The Group’s Network Airlines – Lufthansa, SWISS and Austrian Airlines – achieved an aggregate Adjusted EBIT for 2018 of EUR 2.4 billion, a further six-percent increase on the record EUR 2.3 billion of the previous year. Adjusted EBIT margin amounted to 10.7 percent (prior year: 9.8 percent), an improvement of 0.9 percentage points. Unit revenues (adjusted for currency movements) for the year were up 0.3 percent, owing mainly to increases in long-haul operations. Unit costs (adjusted for fuel and currency influences and excluding the impact of the change in accounting) declined by 1.7 percent.

Eurowings
Earnings at Eurowings in 2018 reflected the growth leap that the airline experienced through its integration of large parts of the former Air Berlin fleet, and were burdened in particular by some EUR 170 million in non-recurring associated costs. The integration was completed by the end of the third-quarter period. Adjusted EBIT for the year declined to EUR -231 million (prior year: EUR 60 million), and Adjusted EBIT margin fell accordingly to -5.5 percent, a decline of 7.0 percentage points (prior year: 1.5 percent). Unit revenues (adjusted for currency movements) were 2.9 percent down on 2017, owing largely to the tough prior year comparison base. Unit costs (adjusted for fuel and currency influences and excluding the impact of the change in accounting) were 1.9 percent above their prior-year level. Excluding the non-recurring integration expense, however, such unit costs were 2.9 percent below their 2017 level.

Aviation Services
The Group’s logistics, technical services and catering business segments all raised their earnings for the year.

The logistics segment with Lufthansa Cargo increased its record Adjusted EBIT of 2017 by a further two percent to EUR 268 million (prior year: EUR 263 million).

Adjusted EBIT for Lufthansa Technik was also two percent up at EUR 425 million (prior year: EUR 415 million).

The catering business of the LSG Group achieved an Adjusted EBIT for 2018 of EUR 115 million (prior year: EUR 66 million), a year-on-year increase of 74 percent.

The Adjusted EBIT for Additional Businesses & Group Functions declined 45 percent to EUR -189 million (prior year: EUR -130 million), primarily affected by the non-recurrence of positive effects in the prior year.

Outlook
The Lufthansa Group will be focusing in 2019 on achieving sustainable quality growth. Therefore, the Group is further reducing the capacity growth for its airlines for the upcoming summer to 1.9 percent. Despite this, the Group expects to report mid-single-digit percentage annual revenue growth.

Cost reductions will make a sizeable contribution to offsetting the EUR 650 million of additional costs that are expected to be incurred by the airlines owing to higher fuel costs. Overall, the Group expects to post an Adjusted EBIT margin for the year of between 6.5 and 8.0 percent. Eurowings is expected to achieve a breakeven Adjusted EBIT, which would be a substantial improvement on its 2018 earnings result.

Further information
The Lufthansa Group 2018 Annual Report will be published simultaneously with this press release on www.lufthansagroup.com/investor-relations at 07:00 CET on 14 March 2018. The Lufthansa Group's Annual Results Media Conference will be broadcast live online at www.lufthansagroup.com from 10:00 CET onwards.

The Lufthansa Group[1]		January – December			October – December		
		2018	2017	Δ	2018	2017	Δ
Revenue and earnings							
Total revenues	EUR m	35,844	35,579	+6%[2]	8,947	8,817	+6%[3]
of which traffic revenues	EUR m	28,103	28,399	+7%[4]	6,959	7,038	+6%[5]
EBIT	EUR m	2,974	3,297	-10%	516	886	-42%
Adjusted EBIT	EUR m	**2,836**	**2,969**	**-4%**	**378**	**423**	**-11%**
Net result	EUR m	2,163	2,340	-8%	343	560	-39%
Earnings per share	EUR	4.58	4.98	-8%	0.73	1.19	-39%
Balance Sheet and Cash Flow							
Balance sheet total	EUR m	38,213	35,778	+7%			
Cash flow from operations	EUR m	4,109	5,368	-24%	-15	673	-
Investments (gross)[6]	EUR m	3,757	3,474	+8%	908	1,276	-29%
Free cash flow	EUR m	**250**	**2,117**	**-88%**	-902	-559	-38%
Profitability and value creation indicators							
Adjusted EBIT margin	in %	7.9	8.3	-0.4 pts.	4.4	4.8	-0.4 pts.
Adjusted ROCE (after taxes)	in %	10.6	11.9	-1.3 pts.			
Personnel							
Employees at year-end		135,534	129,424	+6,110			

Media Relations
Lufthansa Group
Helmut Tolksdorf
Phone +49 69 696 38643 / 2999
helmut.tolksdorf@dlh.de
http://newsroom.lufthansagroup.com/

[1] The figures presented for 2017 and 2018 include the effects of the first-time adoption of new accounting standards and other changes to accounting principles. For further details please see Page 29ff. of the 2018 Annual Report.
[2] Including effect of IFRS 15: +1%
[3] Including effect of IFRS 15: +1%
[4] Including effect of IFRS 15: -1%
[5] Including effect of IFRS 15: -1%
[6] Excluding equity acquisitions

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