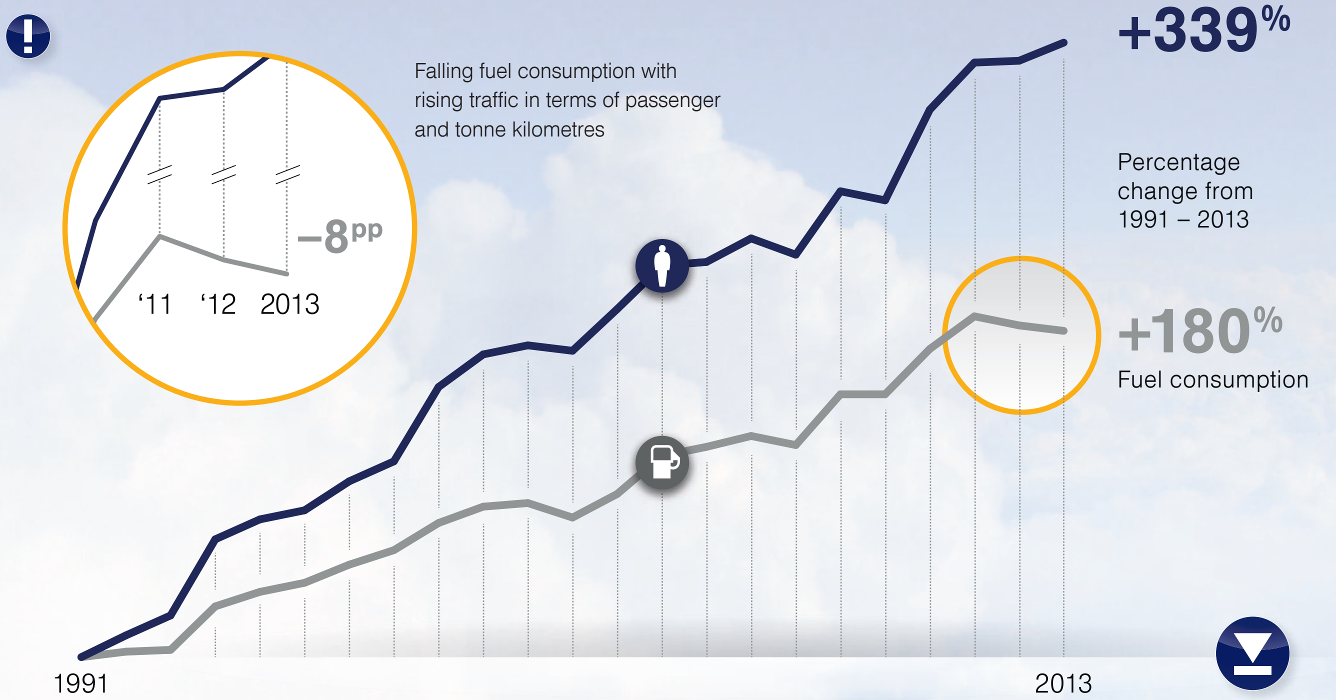
Lufthansa Group

Policy Brief 3/2014

For decision makers in politics, media and business

Lufthansa Group is reducing its fuel consumption

In 2013, the airlines of the Lufthansa Group consumed less fuel than in the previous year; already for decades now, the trend in consumption has been disporportionately lower than traffic in terms of passenger and tonne kilometres – an indication of the steady improvement in our fuel efficiency.



July 2014

Dear Readers,

Carsten Spohr

Chairman of the Executive Board and
CEO Lufthansa Group

Perhaps like no other economy, Germany relies on its role as a globally successful export nation for its economic strength. Not only multinational corporations but also a host of small and medium-sized companies in particular are international leaders due to their capacity to innovate. For these companies, logistics is the gateway to the world, and aviation is key to logistics.

In terms of value, air cargo accounts for approx. 30 percent of the goods transported in world trade. Also for millions of business travellers, good flight connections are indispensible. The hubs in Europe are an important location factor, also in deciding where to build production sites, establish headquarters, or hold trade fairs. At the same time, nonstop connections to Europe's metropolises and direct flights from Germany to Asia and America are not the only consideration that goes into the decision-making. Feeder flights to our hubs ensure a tight network of intra-German and intra-European links. Precisely these flights are vital for Germany and the European Single market.

Aviation's strength is the shared success of business leaders and policy makers, who set the stage early on for privatization and competition in Germany. So when today heavily supported state-owned airlines – above all, from the Gulf states – invest enormous sums to create artificial hubs in sparsely populated regions while tacitly accepting the violation of prevailing competition rules, a great deal is at stake for Europe. The World Trade Organization (WTO), which in most sectors serves as a guarantor of fair conditions for global competition, does not have jurisdiction over the airlines – much to the disadvantage of a well-functioning, market-driven system. Competition in the aviation sector is governed in particular by bilateral agreements and state-aid provisions, which, however, are increasingly being circumvented. That is also why Europe's airlines, along with Africa's, are now bringing up the rear in terms of growth and profitability.

We are confident in our ability to compete, but the rules have to apply to everyone. It is essential for Europe to consistently enforce existing state-aid rules and applicable agreements in the strategically important aviation sector and to eliminate competitive disadvantages facing local businesses. My fellow Executive Board members and I are looking forward to working together with the new European Commission and members of European Parliament, as well as with the German Government, the German Bundestag, and the German state parliaments. Together, we can make European aviation fit for the future and ensure that we do not one day find ourselves standing on the sidelines, gradually watching others fly by.

Carsten Spohr

Carsten Spohr:
Invitation to engage in dialogue

Carsten Spohr' Profile

2014 Chairman of the Executive Board and CEO of Deutsche Lufthansa AG

2011 Member of the Executive Board of Deutsche Lufthansa AG and CEO of the Lufthansa Passenger business

2007 Chairman of the Executive Board of Lufthansa Cargo AG

2004 Management board of Lufthansa Passenger Airlines

2003 Placed in charge of Passenger Airline strategy

2000 Served as head of Star Alliance management

1998 Assumed responsibility for the regional Lufthansa partnerships in Europe

1995 Served as personal assistant to the CEO

1994 Earned commercial pilot's license at the Lufthansa Flight Training Pilot School in Bremen and the Airline Training Center in Phoenix; became head of central personnel marketing of Deutsche Lufthansa

1991 Received degree in industrial engineering from the University of Karlsruhe

Born December 16, 1966, in Wanne-Eickel; married; two daughters

Successful economies rely on an intensive exchange between policy makers and business leaders. Through discourse, stakeholders can create the conditions to ensure jobs and prosperity. Deutsche Lufthansa has long engaged in dialogue with political decision makers in this spirit. And under the leadership of the 47-year-old Carsten Spohr, who has been Chairman of the Executive Board and CEO of Europe's largest aviation group since May 2014, the company will actively maintain and foster this culture of partnership.

CEO, industrial engineer, and Pilot

Carsten Spohr and Deutsche Lufthansa share a history spanning over 20 years. Trained at the Lufthansa Flight Training Pilot School in Bremen and the Airline Training Centre in Phoenix, Arizona, in the U.S., he flew for the airline between 1996 and 2006. After starting out as an industrial engineer and serving in various leadership functions, Spohr became CEO of Lufthansa Passenger Airlines in 2011. In this role, he was responsible for over half of the Group's revenues. To be able to stand up to intense competition from low-cost airlines in Europe and the heavily expanding state-owned airlines from the Persian Gulf, he slimmed down the business segment to become more efficient. At the same time, he forged ahead in building up the new Germanwings and advanced the modernisation of the Lufthansa aircraft fleet. The order for 59 ultra-modern and fuel-efficient long-haul aircraft in September 2013 was the largest in the Group's history – including 25 Airbus A350s from European production.

Lufthansa, Germanwings, Swiss, Austrian Airlines, and Brussels Airlines – the airlines of Deutsche Lufthansa AG – are the indisputable market leaders in their home markets. Overall, 54,700 people work at the Group airlines. Add to that, 32,300 employees at the world's largest catering company LSG Sky Chefs, 19,900 at Lufthansa Technik, 4,600 at Lufthansa Cargo, and some 6,700 at other companies of the Lufthansa Group – for a total of more than 118,000 worldwide.

This importance comes with a special responsibility. For decades, the company has stood for a cooperative employment policy. It is only owing to its strength that the Lufthansa Group is able to reconcile environmental responsibility with sustainable growth through the purchase of the most technologically modern aircraft. It goes without saying that these company principles also require appropriate political framework conditions. As Carsten Spohr aptly put it: "The dialogue between the EU, the German federal and state governments, airports, and airlines is more important than ever. I would like to invite political decision makers to engage in this dialogue so that, together, we can meet our responsibility to help shape the future for Germany."

Lufthansa Group:
Employment and mobility for Europe

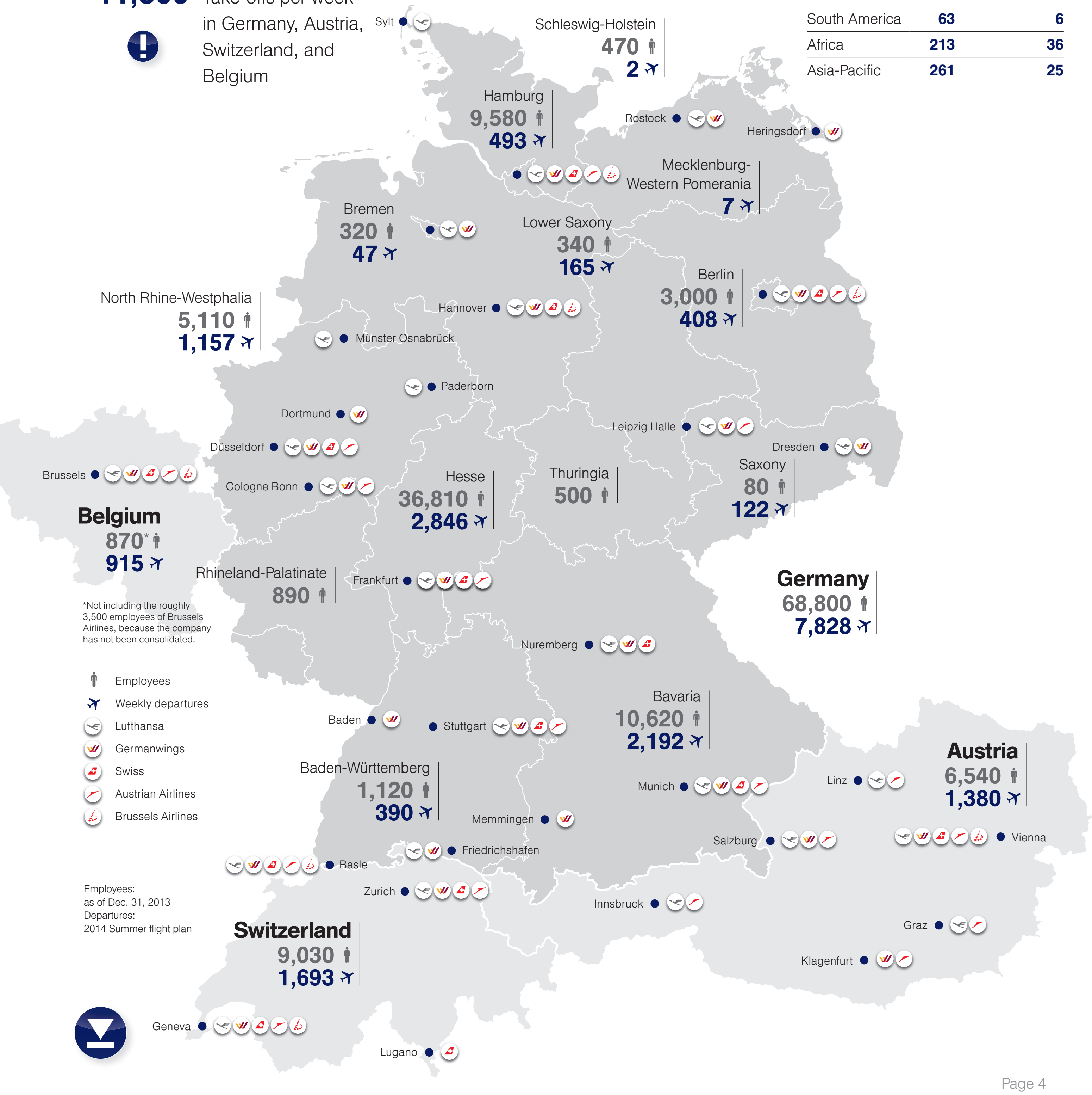
118,200 Employees worldwide

66,800 Employees in Germany

11,800 Take-offs per week in Germany, Austria, Switzerland, and Belgium

Lufthansa Group connections from Europe to all over the world

	Flights	Destinations
North America	379	37
South America	63	6
Africa	213	36
Asia-Pacific	261	25



*Not including the roughly 3,500 employees of Brussels Airlines, because the company has not been consolidated.

Employees: as of Dec. 31, 2013
Departures: 2014 Summer flight plan

USA: Lufthansa Group an important airline partner in North America

The EU and the United States are currently negotiating a comprehensive trade and investment agreement (the Transatlantic Trade and Investment Partnership – TTIP). If the parties reach agreement, the accord will create the world's largest free trade area with some 800 million people. TTIP would thus provide strong impetus for growth and prosperity. Close transatlantic economic relations strengthen both Europe and the United States. To that end, the EU-U.S. Open Skies Agreement, which has been in place since 2008, can, in many ways, serve as a blueprint.

The Lufthansa Group in the U.S.

Apart from Europe, the U.S. is the largest market for the Lufthansa Group. The aviation group transports roughly 10,000 passengers daily to the United States. Overall, the Lufthansa Group generates approx. 15 percent of its revenues in the U.S., and all its business segments are represented there. Take, for example, Lufthansa Technik: The company is currently building a new site in Puerto Rico for the overhaul of short and medium-haul aircraft, which will employ approx. 400 workers. This is one of the Lufthansa Group's most significant investments on the U.S. market.

The Lufthansa Group engagement on the American continent:

- **Employer:** The Lufthansa Group already today employs over 10,000 people in several U.S. states. Alone the group subsidiary LSG Sky Chefs, the world's largest catering business, supplies 24 U.S. airlines through 40 operations.
- **Value-added:** The Group is a major customer of numerous U.S. businesses. In 2013, for example, the Lufthansa Group airlines ordered a total of 40 new aircraft from the Boeing-777 family.
- **Air links:** The Lufthansa Group airlines provide service to 19 destinations in the U.S. with 325 flights per week, and the trend is moving upwards. For example, starting in July, Austrian Airlines will for the first time include Newark Liberty International Airport, which lies south of Manhattan, in its flight plan.

Open skies agreement as a blueprint for TTIP

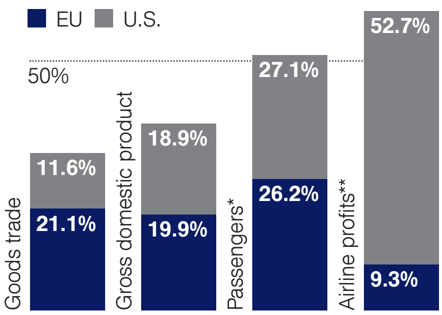
Political framework conditions are one reason for the Lufthansa Group's success in the U.S. In the aviation sector, the EU and the U.S. have already been linked through the Open Skies Agreement since 2008. Because the agreement regulates competition on two comparably large markets and binds them together, the EU-U.S. cooperation in aviation has worked superbly for years. In addition, the regulatory authorities on both sides of the Atlantic are working ever more closely together to secure conditions for fair competition in the private sector. In this market, it's a reality other sectors can only dream of.

Engaging in a lively dialogue

Together with other international business leaders, Carsten Spohr, Chairman of the Executive Board and CEO of the Lufthansa Group, met with U.S. President Barak Obama in mid-May. The main topic of the meeting was foreign direct investment in the U.S.

In April, Spohr had already met with, among other U.S. political leaders, Transportation Secretary Anthony Foxx and Commerce Secretary Penny Pritzker. Those talks centred on questions concerning the competitiveness of the EU-U.S. aviation economy as well as infrastructure, environmental, and security issues.

The relative weight of the EU and the U.S. in the world



* Europe and North America
** Estimates for 2013
Sources: Air Transport Action Group (ATAG), Germany Ministry for Economic Affairs and Energy, International Air Transport Association (IATA), March 2014

Further information on TTIP

Unfair competition:
Responses to strategic challenges

Promoting effective competition and open markets is a fundamental principle of the European economic and social model. Yet just as in sports, competition only works if everyone plays by the rules. In this sense, unfair subsidies and the exclusion of competitors through essentially state-funded predatory pricing are a form of doping. Preventing these unfair practices from occurring is among the major tasks of the World Trade Organization (WTO). But the WTO does not have jurisdiction over the aviation sector, because aviation is still in the hands of the state in many parts of the world, and states do not like to be told what to do in this strategic sector.

Air service agreements ensure fair competition

Privatized airlines, in Europe, for example, are increasingly facing national carriers in countries who see their state-owned airlines as part of a site strategy and provide them with massive government support, including through subsidies. As a result of this unfair competition, European hubs already now are significantly waning in importance in global air transport. Only the clauses contained in bilateral air service agreements that provide for mutual fairness can ensure fair competition. Yet they are increasingly being disregarded or rejected. The EU and its member states must defend the European economic and social model.

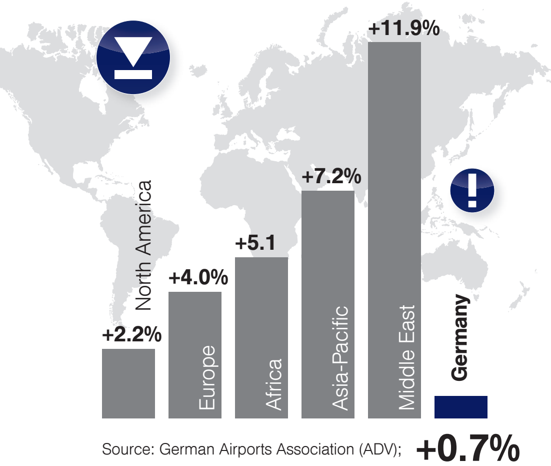
State-owned Gulf airlines vigorously pushing into Europe

Countries along the Persian Gulf in particular and the state-owned airlines domiciled there are working with a vengeance to divert passengers from other parts of the world to their hubs. To that end, they are building up long-haul fleets and airports at an unprecedented rate and magnitude. Take, for example, Emirates Airline from the small sheikhdom of Dubai: With a home market of roughly nine million people, the airline has ordered a total of 140 Airbus A380 aircraft. Lufthansa, by comparison, has ordered 14 Airbus A380s, with a home market of approx. 80 million. To achieve the same ratio of A380 aircraft to resident population, Lufthansa, believe it or not, would have to order 1,300 A380s. This example shows what dimensions the offensive of the Gulf state-owned airlines has taken on. The market to and from Europe is being flooded with unprecedented capacity, which will result in government-fuelled, ruinous dumping prices on flight connections to the Middle East, Southeast Asia, India, and Australia. Such disproportionate growth violates in the most egregious manner the balance of opportunities and benefits normally prevailing in bilateral air service agreements between states.

Etihad also has big plans. The state-owned airline out of Abu Dhabi ordered 199 aircraft in November 2013 alone. Moreover, the group is buying itself a feeder network by taking legally dubious minority stakes in largely distressed European airlines. Parts of Air Berlin, Aer Lingus, Darwin Airline (CH), and Air

Stagnating growth in German aviation

Passenger volume at German airports rose merely 0.7 percent in 2013. German domestic air traffic even fell 3.6 percent.



Source: German Airports Association (ADV); Transport Association (IATA), March 2014

Gulf airlines expansion in the news:

dpa/tmn
Starting December 1, Air Berlin plans to fly from Stuttgart to Abu Dhabi

APA
Niki planning flights to Etihad hub in Abu Dhabi starting this winter

dpa
Emirates now flying to Frankfurt with A380

Reuters
Dust-up over alleged secret loan to Etihad Airlines

Comparison of site conditions

Taxes	Germany	Dubai
Air travel tax	yes	no
Tax on earnings	yes	no
Income tax Employees	yes	no
Value-added tax on national flights	yes	no
Fees		
Airport charges	high	low
Air traffic control charges	high	low
Aviation security charges	high	low
Environment		
Emissions trading	yes	no
Noise abatement	yes	no
Noise-based fees	yes	no
Bans on night flights	yes	no
Labour market		
Unions	yes	no
Right to strike	yes	no

The commitment to home-based aviation is worthwhile

Case in point: For decades, Hamburg has pursued an economic policy which is geared towards the needs of the aviation sector, thus enabling the hanseatic city to establish itself as the world's third largest aviation centre, behind only Seattle in the U.S. and Toulouse in France. With 40,000 employees – 10,000 of whom work for the Lufthansa Group – aviation is the largest industrial sector in the region.

Serbia already belong to the Etihad portfolio, and Alitalia could follow. The EU member states would be wise to follow through on their advocacy of fair competition here as well, because Etihad is relying on enormous infusions of state financing. According to media reports, the state-owned airline is said to have received U.S.$3 billion in interest-free loans from the ruling family, payable in 2027. The lack of interest, combined with the long maturity and the inflation rate, will ensure that a considerable portion of the loan will not even be paid back in real terms. Without this state money, Etihad would hardly be on a shopping spree through Europe.

Demand fair competition

As long as it is not possible to enforce fair competition through the WTO, then it can only be guaranteed through market access set forth in air service agreements, which, in turn, must be based on these major premises:

- **Balance of opportunities and benefits:** The aviation sector should be further liberalised only if liberalisation is beneficial to both parties, specifically if the two sides have comparable markets and sophisticated regulatory frameworks. Otherwise, caution is advised and rules must be enforced.
- **Compliance with ownership and control provisions:** Under Regulation (EU) 1008/2008, an EU airline must be more than 50-percent owned by EU nationals ("ownership"). In addition, EU nationals must have effective control over the airline ("control"). Both conditions must be met to receive an EU licence, because market participants will take responsibility for security and commercial conduct only if there is clear accountability. Is Etihad's shopping spree in Europe in legal conformity with this provision?

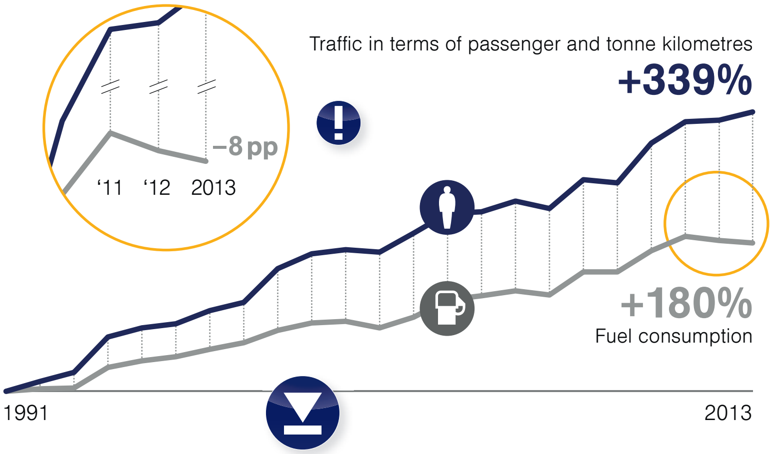
Regulatory framework in need of rigorous self-assessment

It is also clear, however, that policy makers should improve site conditions in Europe, as Professor Bert Rürup concluded in a recent study examining the framework conditions of eight international airlines. His findings: German airlines operate under by far the most difficult conditions, while the Gulf state airlines enjoy the most optimal business environment.

In its agreement between the coalition parties, the German federal government unequivocally pledged that "we will strengthen Germany as an aviation hub and strive to maintain its international competitiveness." It is high time that the Christian democrats and social democrats kept this promise – in respect to fees, taxes, and implementing international law.

Efficiency record: 3.91 litres of kerosene per passenger and 100 kilometres

Falling fuel consumption with rising traffic in terms of passenger and tonne kilometres



Air traffic is on a growth course worldwide, and the Lufthansa Group airlines are proving that growth is possible even with fewer emissions.

3.91 Litres per passenger and 100 kilometres

In 2013, the passenger airlines of the Lufthansa Group consumed an average of only 3.91 litres of fuel per passenger and 100 kilometres, which represents an increase in efficiency of 3.8 percent relative to 2012. This improvement is more than double the target of 1.5 percent per year which the industry voluntarily set for itself.

114,000 Tonnes less kerosene

Thanks to this progress in efficiency, the Lufthansa Group airlines are able to grow and at the same time even reduce their emissions in absolute terms. In 2013, for example, the Lufthansa Group increased its seat-kilometres sold by 2.3 percent. In the same period, the Group – for the second time in a row – reduced its absolute fuel consumption by 114,000 tonnes relative to the previous year. That translates into roughly 360,000 tonnes of CO_2 – the same amount that 50,000 single-family homes emit per year by burning heating oil.

Investing billions for more efficiency

A major reason why the Lufthansa Group is able to improve efficiency is that it is investing in fleet modernisation. In 2013 alone, the airlines replaced 41 older model aircraft with new more fuel-efficient and markedly quieter ones. Further efficiency records are within reach: In 2014, the Lufthansa Group will take delivery of 23 new aircraft, so that it will have a total of 261 latest-generation planes by 2025, according to the current order list. Based on the list prices, the investment volume will total approx. 32 billion euros. The new long-haul jets (34 Boeing 777-9X and 25 Airbus A350-900), which consume only 2.9 litres of kerosene per passenger and 100 kilometres and will be delivered starting in 2016, with many new, exciting features also for customers, are a special highlight of the modernised fleet.

Lufthansa, however, has to earn the money for this modernisation in tough competition – and then be able to invest it. Taxes, which diminish these funds, are thus poison to the environment. Environmental and fiscal policy therefore have to be coordinated.

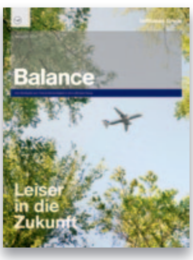
Environmentally sustainable flying: Lufthansa in first place

In early May, the Focus Money magazine published the study "In Good Conscience". In the report, 16,500 people evaluated, among other things, 17 airlines on the basis of ecological, economical, and social responsibility – here, Lufthansa took first place.

1st place:	**Lufthansa**
2nd place:	Condor
3rd place:	TUIfly
...	...
17th place:	Ryanair

Source: Focus Money, 2014

2014 Sustainability report of the Lufthansa Group



Facts and figures about the Lufthansa Group fleet

News

Punctuality: Lufthansa hubs receive top scores

The hubs of the Lufthansa Group occupy top spots when it comes to punctuality, the Association of European Airlines (AEA) says in its analysis for the first quarter of 2014. Frankfurt, Munich, Vienna, and Zurich were able to improve their scores by at least 10 percentage points each over the same period in the prior year. These leading positions are all the more remarkable given that the Munich Airport is currently among Europe's largest construction sites due to the building of the new satellite facility on the airport apron and the airlines in Frankfurt are having to operate within difficult constraints due to the restrictive ban on night flights.

Top 5 Airports in Europe

Percentage of flights departing on time in the first quarter of 2014

Munich	93.3%
Vienna	92.3%
Frankfurt	92.2%
Madrid	90.9%
Zurich	89.5%

■ Lufthansa hubs
■ Other hubs

Source: AEA, 2014

Milestone: Lufthansa takes delivery of 1,500th jumbo jet from Boeing

In late June 2014, Boeing and Lufthansa celebrated a milestone in the history of aviation: The 1,500th jumbo jet manufactured by Boeing was delivered to Lufthansa in Everett, Washington, on June 28. The Boeing 747-8, whose tail number is D-ABYP, is an ultra-modern aircraft, which – apart from the typical silhouette with the jumbo "hump" – has little in common with the original version. Lufthansa has purchased 76 jumbos from Boeing since the early 1970s. With this 1,500th aircraft, Lufthansa now operates a total of 14 jumbo jets of the -8 series, which is quieter, consumes less fuel, and produces fewer carbon emissions. These jets are equipped with the latest in-flight products in First, Business, and Economy Class. In future, this jet will be deployed in North America, where it will replace an older 747-400 model.

Electromobility: "E-Port An" project wins GreenTec Award

Not only in the air but also on the ground, the Lufthansa Group wants to further reduce its emissions. The Group is working with airport operator Fraport AG, the German state of Hesse, and the Rhine-Main electromobility pilot region on the "E-Port An" program, where conventional vehicles in operation at the Frankfurt Airport are potentially to be replaced by largely electric vehicles. The array of projects and pilot series is vast and diverse, ranging from electric towing of heavy long-haul aircraft, to independent, electric taxiing of smaller, short-haul aircraft, to electric vehicles in catering and cargo operations, to solar-powered passenger stairways. The potential for reductions in noise and carbon emissions is considerable, because the energy demand and harmful emissions at large airports are comparable to those of a small city.

Lufthansa's engagement has gained recognition: In early May, the "E-Port An" initiative won the GreenTec Award, considered Europe's largest environmental and economic prize.

Customer satisfaction: German air transport enjoys top ratings

According to the current consumer report, 90 percent of passengers in Germany were satisfied or very satisfied with their last flight, for a 2 percent gain over the previous year. Here, an overview of the ratings for the major criteria:

Sense of safety and security	96%
Cleanliness on board	96%
Friendliness of staff	95%
Fast security checks	91%
Value for the money	88%

■ Travellers are quite satisfied

Source: German Aviation Association (BDL)

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