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Balanced Scorecard: Lufthansa



COMPANY PORTRAIT

“Say yes to the world”



- Funded January 6, 1953
- Corporate headquarters in Cologne.
- Chairman and CEO : Carsten Spohr
- Member of Star Alliance

- **Key figures**

388 airports served

259 aircraft in 2019

	2019	2020
Turnover	36,424 millions €	13,589 millions €
Number of passengers	145.3 millions	36.4 millions
Employees	138,353	110,065



COMPANY HISTORY



- **Key dates**

1933 : Collaboration with the Reich Air Ministry

1967 : First non-US airline to launch a new Boeing model

1997 : Becomes totally private -> further expansion

- **COVID situation**

2020 : Lufthansa cancelled 95 percent of all flights

incurred losses of 1 million euros per hour

2021 : The entire currently stored Airbus A340-600 fleet (17 aircraft) will be retired



MISSIONS, VALUES, VISIONS

BEFORE COVID-19

Vision :

To become a leading name in the world of air travel.

Mission :

To assure safety and reliability for its customers and be the top preference of customers and shareholders all over the world.

Core values :

- Integrity
- Excellence and Success

AFTER COVID-19

Vision :

To become structurally profitable by 2024

Mission :

To maintain as many jobs as possible and to transform the way they connect people, cultures and economies in a sustainable way.



STRATEGIES PURSUED UNTIL COVID-19

The Lufthansa Group objectives

- leading European Airline Group→ networks in their home markets of Germany, Austria, Switzerland, Belgium and northern Italy
- flexibility enables rapid reactions in a dynamic environment
- digitalization to be improved further
 - boosting efficiency and revenues in the core business
 - establishing innovative new business models
- quality strategy and improve cost effectiveness
 - offering of locally differentiated premium product to pursue a consistent quality strategy and make optimal use of the attractive customer potential in its own markets
 - 5 rating stars→ efficient proof



Comparison with original forecast

- Lufthansa prepared its 2020 report in 19 March of 2020, at the beginning of the pandemic. The uncertainty concerning the course of the pandemic, the imposition of travel restrictions and the impact of the pandemic on customer confidence and demand for air travel meant that **expectations were going to be severely affected**
- The forecast on Earning was adjusted to accommodate double-digit shifts
- Capital expenditure was forecasted to be significantly in **decline**
- **Debt levels** were expected to raise.
- Even **carbon emissions** per passenger-km increased by 14%, due to comparatively more short-haul flights.





COVID 19 Impact on Financial aspects

In the total industry there has been a general fall of **66%** on the Km of flight sold to customers.



Lufthansa has been badly hit by the restrictions on flight with a fall in Traffic Revenue of **68% year on year**; Total Revenue fell by **63%** ; from **36 in 2019 to 13.5 billion EUR**

The group was able to contain expenses, with a reduction of **44%** compared to the previous year due to the high level of variable cost in the airline industry, notably expenses on fuel mounted to **-72%**; fees **-60%**, external services of repair **-40%** and indirect and external staff to **-59%**. Leading to total expenses of 20 billion EUR in 2020 compared with 37 billion in 2019

The overall impact on Earnings was a loss of **5 billion EUR**, **-40%** compared to 2019



Data

T019 REVENUE AND INCOME

	2020 in €m	2019 in €m	Change in %
Traffic revenue	9,078	28,136	-68
Other revenue	4,511	8,288	-46
Total revenue	13,589	36,424	-63
Changes in inventories and work performed by the entity and capitalised	175	685	-74
Other operating income ¹⁾	1,830	1,830	-
Total operating income	15,594	38,939	-60

	2020 in €m	2019 in €m	Change in %
Cost of materials and services	8,453	19,827	-57
of which fuel	1,875	6,715	-72
of which fees and charges	1,796	4,523	-60
of which external services MRO	1,139	1,911	-40
of which charter expenses	469	814	-42
Staff costs ¹⁾	6,405	9,111	-30
Depreciation ²⁾	2,561	2,692	-5
Other operating expenses ³⁾	3,427	5,494	-38
of which indirect staff costs and external staff	543	1,201	-55
of which rental and maintenance expenses	603	742	-19
Total operating expenses	20,846	37,124	-44



Reaction of financial aspects to Covid19

In order to ensure the liquidity of the group a deal with the Economic Stabilisation Fund WSF was made on 25/05/2020 which ensured loans of up to **9 billion euros** thanks to the participation of Germany, Switzerland, Austria and Belgium.

2 Bonds adding up to an increase in liquidity of **1.6 billion euros** were also issued.

The Group has also accelerated the rollout of the ReNew programme aiming at a capacity reduction of 150 passenger aircraft, with the early departure of older long-haul passenger aircrafts.

Investment spending was also reduced to **1.2 billion EUR** a **reduction of 64%** from 3.6 billion of 2019

Thanks to all these measures the group has been able to retain liquidity of **10 billion euros**, although having to suspend dividends until further stabilisation measures will be implemented.



Effect on the share Price



Covid has impacted badly the share price of Lufthansa, during march the share price dropped to 50% its historical mean and has not yet fully recovered. Investors however believe in the company; the share is slowly going back after the autumn restriction and, the deal with WSF pushed the share price over the 10 EUR mark for a few weeks.



Steps towards recovery

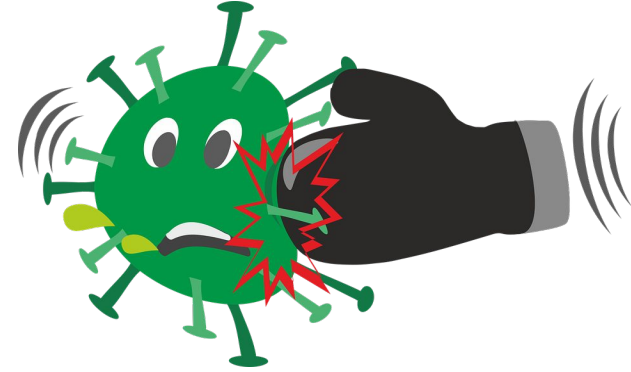
- Lufthansa Group and trade unions conclude crisis agreements
- Personnel changes and reallocation of responsibilities in the Executive Board
- Change in the Supervisory Board of Lufthansa
→ Christina Weber and Christian Hirsch left the Supervisory Board of the Company. They were replaced by Jürgen Jennerke (by court appointment) and Birgit Spineux
- LSG (catering) group's European business sold to gategroup→ On 2 December 2020, the sale of LSG group's European business to gategroup was finalised after the buyer fulfilled the conditions imposed by the EU Commission



NEW STRATEGIES AFTER COVID-19

ReNew Program

- improve profitability and cash flow
- refinance and repaying the funding from government support package
- goals: catch up with leading competitors
- main focus: implementation of more efficient production



1. **ReOrg**→ to implement a more efficient organisational structure, including turning Lufthansa German Airlines into an autonomous company as well as restructuring the Group Functions and matrix process organisation
2. **ReFocus**→ to focus the Lufthansa Group even more sharply on its core airline business, so that the portfolio of operating segments is made up exclusively of synergistic units.
3. **RePay**→ aims to plan, coordinate and implement the refinancing and prompt repayment of all the funding from the government support packages and existing financial liabilities on the best possible terms



CONCLUSIONS



- The aspects of **corporate responsibility** were significantly affected in the reporting year by the dramatic impact the coronavirus pandemic made on global air traffic and thus also on the Lufthansa Group.
- Many activities and initiatives **could not** be carried out as planned, or could only be continued in restricted form.
- Nevertheless, a responsible and **sustainable approach** to resources, the environment, customers, employees and suppliers remains an indispensable condition for the acceptance of the Lufthansa Group's business model, its attractiveness to its stakeholders and ultimately also for its long-term financial stability.
- The Lufthansa Group **aims**, as ever, to strengthen the positive effects of its business activities and further reduce the negative impacts wherever possible in order to consolidate its position as a leading player in the airline industry, including in terms of corporate responsibility.



THANK YOU!

	Strategic Objectives	Measures	Target	Initiatives/Actions
Financial perspective	→ Reduce costs and maintain liquidity	Reduction in personnel costs ratio	10% by the end of 2023	Reduce surplus staff
	→ ensure the Company's solvency	Sustainable equity ratio	25% in 2021	Cost cutting on many sectors Usage of part of the loans
	→ capacity to meet reduced demand, cutting costs,	new data-driven decision-making tools that have an increasing influence on airlines' distribution and increased activity from aircraft and engine manufacturers in the maintenance business	Demand will not regain its pre-crisis level any earlier than 2024.	Raising new funds, particularly in the form of government stabilisation measures. Early implementation of RePay, agreement on additional loans, temporary layoffs.
Customer perspective	→ Increase the number of flights and ticket sales	Ratio of sale offer	70% by summer 2021	Free tickets cancellations and refunds Improve digitalisation and sustainability aspects
	→ Aviation carbon neutral by 2050	Reduction of its carbon footprint ratio	50% by 2030	Promote the use of sustainable carbon