

Luxembourg, 16 June 2017

Annual Report 2016

2016 was a challenging year

Positive results despite adverse geopolitical and local context.

LuxairGroup

In 2016, LuxairGroup registered an operating profit of 1.3 million Euros compared to 6.4 million Euros in 2015. Turnover decreased slightly, from 505,435,089 Euros in 2015 to 497,877,044 Euros in 2016.

LuxairGroup is facing considerable pressure in an unpredictable political and economic environment. It is having to face massive competition mainly from low-cost carriers in its home-market, ever-changing travel behavior of customers, as well as unpredictable fluctuations in the air-cargo business etc.

LuxairGroup can meet these challenges, as it is a financially sound company with dedicated and highly qualified staff, and in the past it has proven that it can adapt to new situations quickly.

“LuxairGroup is constantly having to change, to be more innovative and to anticipate trends. Today, reaction is no longer sufficient!” states Adrien Ney, President, Chief Executive Officer of LuxairGroup.

LuxairGroup needs to make significant investments in infrastructure, IT solutions and the renewal of its fleet etc., in order to stay competitive and to face the challenges the future holds.

An operational profit of 1.3 million Euros, despite the adverse environment, could be perceived as being a good performance but this result is very fragile considering future investments that need to be made. LuxairGroup is a key player in the Luxembourgish and Greater Region's economy. It is fully aware of its commitment to business and civil communities. The company directly employs up to 2,800 staff members, of which 2/3 live in the Grand-Duchy of Luxembourg.

“Innovation, boldness, differentiation and high quality are the keys to a sustainable future for LuxairGroup – which will be beneficial for our customers, our staff, as well as the Greater Region's social and economic fabric,” states Paul Helminger, Chairman of the Board of Directors.

Luxair Luxembourg Airlines

Luxair Luxembourg Airlines' passenger numbers increased modestly in 2016 by 1%. However, 2016 would have shown positive results in terms of passenger numbers of 10%, without the loss of the Frankfurt route, which was taken over by Lufthansa.

Seat capacity was increased by 7%, due to all Embraer aircraft being replaced with larger Bombardier aircraft. This was mainly absorbed by the market. 1,217,620 passengers were transported by Luxair Luxembourg Airlines from 1 January to 31 December 2016.

The Airline reviewed its destination network and fare structures in 2016. Entry-price tickets represented 65% of all point-to-point tickets sold.

2016 was marked by a significant number of competitors entering our local market, which were mainly low-cost airlines.

Increasing competition on our key routes has had an adverse impact on the Airline's operating results, which could not follow the positive trend of 2015. This result is in line with business expectations, considering our higher production costs compared to competitors, the loss of the Frankfurt route, the fierce competition on the Munich route, as well as the aftermath of the Saarbrücken accident in 2015. This delayed schedule and network optimization. The 2016 financial year ended with a loss of 8.8 million Euros compared to a loss of 3.6 million Euros in 2015.

LuxairTours

2016 proved to be as difficult a financial year as predicted. Terrorism has become a global phenomenon and the incalculable geopolitical context and instability has had an impact on travelers' behavior.

Destinations in Egypt and in Turkey literally collapsed (Passenger numbers decreased by 99%, and 72% respectively), which meant that LuxairTours had to shift offers to popular and trusted destinations. General flight overcapacity to these European holiday destinations brought down flight prices, whereas limited hotel capacity led to a significant price increase. LuxairTours packages and pricing structures therefore needed to be adjusted accordingly.

619,836 passengers were transported by LuxairTours in 2016, +2% compared to 2015.

The number of Flight only tickets increased by 18%, whilst packages decreased by 2%. Load factor almost remained stable, 76.6% compared to 76.1% for 2015.

The financial results were nonetheless crushed and operating results dropped to 2.2 million Euros, after having reached 3.9 million Euros in 2015.

LuxairCARGO

The Cargo handling business unit outperformed itself in 2016.

822,000 tons were handled, close to the record levels achieved in 2007. The turnover increased by 8% compared to 2015. 5,840 aircraft movements were registered, a +10% increase compared to 2015.

LuxairCARGO realized a significant upturn in the second semester of 2016, which was then completed by an extraordinary +27% volume increase in December compared to 2015.

LuxairCARGO reconfirmed its position amongst the top ten largest European cargo hubs and moved up to 6th place.

High pressure was put on margins, due to overcapacity hitting the cargo handling business market. Operating results nevertheless remained stable, at 2.6 million Euros, compared to 2.7 million Euros in 2015.

The increase in LuxairCARGO's activities has also had a positive effect on employment. In 2016, 153 staff members were hired and at least another 120 jobs will be created by LuxairCARGO in 2017. LuxairCARGO works in close collaboration with the ADEM (Luxembourgish State Employment Agency) for recruitment.

LuxairServices

LuxairServices managed to sign long-term contracts with all the airlines present at Luxembourg Airport, despite another Handling Agent also receiving a valid license to operate at Luxembourg Airport. The quality and service we provide are recognized and valued by all our clients. In July 2016, one of our busiest periods, LuxairServices was nominated as "handling agent of the month" by Swiss.

Over 45,000 commercial aircraft movements were handled in 2016, a +9 % increase compared to 2015.

Passenger numbers transiting via Luxembourg Airport increased by 12%, which meant that over 3,000,000 passengers travelled through Luxembourg. LuxairServices nevertheless managed to maintain and provide high quality services and even reduce waiting times.

Catering services served 2,006,000 meals in 2016, which is a 1% increase compared to 2015.

Perspectives

The start of 2017 proved to be rather satisfactory, despite continued geopolitical and economic instability, as well as the fragile international context.

Luxair Luxembourg Airlines saw an increase of +7% in passenger numbers from January to March 2017, despite continuously increasing competition.

LuxairTours is experiencing the same trend as in 2016, with a 17% increase in "Flight only" tickets during the first five months, whilst packages increased by only 2%. In general, geopolitical instability will still influence customers' behavior.

LuxairTours is confident that its new www.luxairtours.lu website should attract new customers.

LuxairCARGO started the year with a spectacular increase of almost 17% in handled cargo volumes compared to 2016. Several record performance months have been registered since the beginning of the year. If there is no economic backlash this year, the 900,000 ton record of handled goods in 2007 may be achieved once again. This extraordinary performance has had a positive impact on employment, as at least 120 new staff members will be hired to cope with this increase.

The full version of the 2016 Annual Report is available on www.luxairgroup.lu.