Annual General Meeting of Fraport AG

held virtually on May 26, 2020

Speech by Dr. Stefan Schulte, Chairman of the Executive Board, Fraport AG

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The spoken word on the day of the Annual General Meeting takes precedence over this written form

(The AGM will be held in German only without simultaneous translation)

I. Current Situation: Effects of the COVID-19 Pandemic

Dear shareholders, ladies and gentlemen,

I also warmly welcome you to Fraport AG's Annual General Meeting, which this year is virtual-only for the first time ever. I would have liked to have personally welcomed you to the Frankfurt Jahrhunderthalle, as in previous years. Unfortunately, this is still not possible in these times.

Therefore, we are all the more pleased that the lawmakers made it possible for Annual General Meetings to be held in this way, and that we were not forced to postpone the event. Because especially in this severe crisis, in which the entire aviation sector is stuck, it is important that we report and account to you on the situation of your company, on the measures the company executives have taken, and how we see the future development. On the flip side, it is equally important for you to be able to exercise your rights as shareholders. For you to ask questions, submit requests, and vote on the agenda items.

We are broadcasting the Annual General Meeting today from a conference room at our corporate headquarters. To adhere to the current recommendations, we have kept the physical attendance of the Executive Board and Supervisory Board to a minimum. My colleagues on the Executive Board – Anke Giesen, Michael Müller, Dr. Pierre Dominique Prümm, and Dr. Matthias Zieschang – will follow the Annual General Meeting online just as the remaining members of the Supervisory Board.

Dear shareholders, a year ago at the Annual General Meeting, our discussions focused on how we would even be able to cope with the strong growth in Frankfurt. How the industry overall could increase punctuality and reliability, despite high utilization rates at the time. Today, planes are parked on Frankfurt's Runway Northwest and the terminals are empty. No one could have imagined such images only three months ago.

We are in the midst of the severest crisis in modern aviation. The current situation makes even a massive slump, such as after the financial crisis, seem comparatively harmless. Before I talk about the 2019 fiscal year, I would like to give you an overview of the current situation.

During the course of the COVID-19 pandemic, travel restrictions have increased significantly worldwide since the beginning of March. As a result, airlines have repeatedly scaled back their flight schedules. For example, Lufthansa cut long-haul capacity by 50 percent since mid-March compared to its original planning, and then reduced flights down to 10 percent by the end of March. With its significantly reduced schedule, Lufthansa is ensuring at least a certain minimum level of flight connections, just like other airlines at Frankfurt Airport.

However, this number of flights is extremely low compared to normal times: in April, passenger numbers were about 97 percent lower compared to the same month last year. In total, we served about 188,000 passengers in the entire month. That's less than the passenger traffic we had on an average single day last year.

At least, and this is positive news during this difficult time, air cargo continues to run at a high capacity. The decline in volume of around 20 percent in April compared to the same month last year is mainly due to the lack of cargo capacities on passenger flights. Currently, there are significantly more cargo-only flights than usual. In some cases, airlines have even converted passenger aircraft for cargo transport. I would like to pay particular tribute to our employees in ground handling, some of whom are unloading and loading cargo out of the aircraft by hand. That's hard, physical work.

We are proud Frankfurt Airport, as a central cargo hub, ensures the supply of the people in Germany with important goods. These include protective masks, medicine, and medical equipment, but also important components for industrial production. The airport's great importance for the region – and Germany as a whole – is also a vital reason for us to keep the airport open, even if it is not worthwhile from a financial point of view. This is because normally the revenue share of the cargo business from airport fees for us in Frankfurt is only one percent.

Let's look at the situation at our international airport locations. There, too, air traffic has largely come to a standstill. For the most part, there are severe travel restrictions. And in some cases, operations at the airports have been temporarily suspended completely at the order of local governments. As a result, depending on the airport passenger figures decreased by 92.1 to 99.9 percent in April, compared to same month last year. Only Xi'an Airport in China posted noticeable traffic with around 1.4 million passengers, representing a decline of 64.1 percent.

We responded to this drop in traffic at an early stage and took comprehensive measures to reduce costs. This applies both to our global airports and to our Frankfurt home airport. Since the end of March, over 18,000 of our more than 20,000 employees in Frankfurt have been working in short-time shifts. On average, working hours across the entire workforce at the Frankfurt location have been reduced by about 60 percent, and up to 100 percent in individual areas. Although we have voluntarily increased the statutory short-time working allowance, we are aware that this loss of income hits many of our employees hard. But this measure is necessary to keep our company viable in this crisis and to maintain as many jobs as possible.

In addition to personnel costs, we have also eliminated all operationally non-essential non-staff costs as much as possible. We have reduced or delayed planned capital expenditures at the existing terminals and on ramp areas. And, of course, we have adjusted the utilization of our infrastructure to reduce operating costs.

On the airside, we temporarily shut down two of our four runways. You have already seen the photo of parked planes on Runway Northwest. We also temporarily closed Runway South, due to urgent refurbishing works. We brought this project forward, because we were able to implement it faster and a bit cheaper during this period of low traffic. In the meantime, renovations have been completed and Runway South is back in operation. In addition to Runway Northwest, Runway West is also currently not being used.

We have also temporarily closed down large parts of the passenger terminals in order to reduce operating costs. Since the beginning of April, Terminal 2 has not been used for passengers. The remaining flights are only handled in Terminals 1A and B.

You can see from these examples that we are at a stage in which we are taking a very critical look at all costs and pending capital expenditure. Nevertheless, we are committed to building Terminal 3. There are two key reasons for this. First, we are convinced that we will again see long-term growth in air traffic. A new terminal is not built on an outlook of just two or three years, but rather for the decades to come. Secondly, from a technical and economic point of view it would be grossly negligent to temporarily put such a large-scale project on hold, and ramp it up again later. This would cause enormous additional costs and lead to massive technical and structural risks. This is why we are continuing construction. The special civil engineering was completed last year, and the structural engineering and the technical installations are currently being carried out. In addition, this year we started to build the car park and the connection to the passenger transport system. However, we are also noticing at the moment that, due to the coronavirus crisis, the availability of material and personnel, in particular, on the part of service providers and subcontractors is limited at times. This leads to delays of individual construction measures, which we have to accept.

But we are preparing your company and Frankfurt Airport for a successful future not only with the construction of Terminal 3. There has been a lot happening at our existing terminals in recent weeks, as well. We have used the time to make our airport ready for restarting operations under new, significantly stricter hygiene conditions. There is no question that the health and safety of our passengers and employees is always our top priority. This is in our DNA at Fraport, as well as the entire aviation industry.

In Terminal 1, we have already implemented numerous measures: floor markings and adapted passenger guidance in waiting areas, plexiglas dividers as protection at the counters, stands with disinfectants, signs and regular announcements regarding rules of behavior. In addition, trained staff are available to alert travelers if rules are not being followed. The use of check-in counters, security checkpoints, baggage belts, and passenger buses has been adapted and organized in such a way as to prevent larger groups gathering and to ensure adherence to the distancing rules.

Employees who, due to their activities, are unable to comply with the applicable distancing regulations, such as at the security checkpoints, wear face masks. Passengers are currently required to wear protective masks in passenger buses and in shops at the airport. We currently assume that the responsible authorities will declare it mandatory for all passengers, guests, and employees to wear a mask when entering the terminal.

The airlines have also taken comprehensive measures during flights. The bottom line is that, and I say this with complete conviction, the aircraft is also and especially during this pandemic, a very safe means of transportation. We hope that we will soon see an easing of measures in air traffic as well and that travel restrictions will be gradually reduced. After all, a well-functioning aviation sector is crucial to revitalize economic life and limit the negative consequences for the global economy.

II. Review of the 2019 Fiscal Year and the Current Financial Situation

Following this overview of the current situation, we now come to the financial situation of your company. Let’s start by taking a look at the past fiscal year. The key figures show that 2019 was a successful year. The bottom line is that we achieved all of our financial goals. This is a strong performance, which we owe above all to our more than 22,000 employees. On behalf of the entire Executive Board I would like to thank our employees for their commitment and efforts.

Passenger numbers increased both in Frankfurt as well as at most of the international Group airports. Accordingly, Group revenue rose by 4.5 percent to just under 3.3 billion euros. This amount is adjusted for the contract revenues relating to capacitive capital expenditure, based on the application of IFRIC 12, totaling 446.3 million euros.

Operating earnings before interest, taxes, depreciation and amortization, EBITDA, rose by 4.5 percent to just under 1.2 billion euros. Overall, the Group result fell by 10.2 percent to 454.3 million euros. However, this was mainly due to a one-off effect: in 2018, the disposal of the shares in Flughafen Hannover-Langenhagen GmbH contributed around 75.9 million euros to the Group result. Adjusted for this one-off effect, the Group result would have also increased last year.

Fraport's international investments, which have continually made an increasing contribution to revenue and results in recent years, once again made a significant contribution to this strong development.

An important key figure, that we are exceptionally pleased to see decline, is the CO_2 emissions of your company, Fraport AG. Last year, we reduced emissions by almost 10 percent at the Frankfurt location. So we are completely on track. Despite the current crisis, we are of course sticking to our climate protection goals! By 2030, we will substantially reduce our CO_2 emissions here at Frankfurt Airport to 80,000 metric tons. By 2050, we want to be CO_2 free, meaning no CO_2 emissions at all. In order to achieve this goal, we must continue to act now.

In addition to other measures, we plan to conclude a power purchase agreement with an offshore wind farm. Such an agreement on a future purchase volume paves the way for us to meet our electricity demand at the Frankfurt location with renewable energies. In addition, one of the first large-scale photovoltaic systems is currently being built at Frankfurt Airport on a new cargo hall in CargoCity South.

This is our review of 2019, which was consistently positive. The results of the first quarter of 2020 underscore how important it is that we have performed successfully in recent years and created a solid basis for the future. Although passenger traffic in January and February was still relatively normal despite the initial declines in traffic to Asia and only came to a real slump in March, our Group result was negative in the first quarter – for the first time since our IPO in 2001. The negative result amounted to minus 35.7 million euros, compared to a positive Group result of 28.0 million euros in the same quarter of the previous year.

Dear shareholders, we would like to present the current economic and financial situation of your company as transparently as possible. Despite massive measures to reduce costs, we currently – that is, as long as we operate our Group airports without significant passenger traffic – have a negative free cash flow of around 155 million euros per month. This amount is broken down with approximately 110 million euros for the Frankfurt location and approximately 45 million euros for our international airports. Of course, this is only a rough estimate that depends on many factors. The savings already achieved in operating costs of around 30 percent and a reduction in capital expenditure of around 25 million euros per month have already been taken into account here.

Despite these massive cash outflows, your company has sufficient liquidity to survive the current situation for many months to come. By conducting comprehensive financing measures, we were able to increase liquidity reserves even during the crisis. In total, we borrowed around 1.2 billion euros in additional loans in the first four months of the year. As of April 30, 2020, we had around 2.4 billion euros in cash and cash equivalents, as well as committed credit lines. This is an increase of around 700 million euros compared to 1.7 billion euros as of December 31, 2019 – despite the free cash flow that was already negative in the first four months. This shows that we are able to finance our business under favorable market terms even during these difficult times. We will continue to make use of financing activities in the coming weeks and months to set up your company in a crisis-proof position for the long term.

To further ensure the financial stability of your company, in an extraordinary meeting at the end of March 2020 the Executive Board decided to propose to the Supervisory Board and to you, the Annual General Meeting, to forgo the dividend payment for the 2019 fiscal year. Instead, the proposal is to allocate it to the revenue reserves in accordance with Agenda Item 2, and thus strengthen the base of shareholders' equity.

Dear shareholders, this step was not easy for us. But, in our view, the decision was necessary and sensible.

Looking at the share price development: all stock indices worldwide have experienced massive slumps in the wake of the COVID-19 pandemic. And companies in the aviation industry have been hit particularly hard. This is because we were among the first companies to be affected by the crisis, and we will probably be among the last to ramp up our business afterwards. This has been clearly seen in the share price, which has accordingly slumped even more than the market-wide indices such as the DAX30 or the MDAX.

III. Outlook

And this brings me to the question: what will happen next, and what are the prospects for our company and for the aviation sector as a whole? Global travel restrictions are still largely in effect, but public life is increasingly returning to normal. And we can see the first glimmers of hope for the aviation industry, such as announcements from various airlines about gradually expanding their flight schedules.

Nevertheless, the uncertainties are still so high that we are not yet able to give a specific forecast for the current fiscal year. It is clear that traffic figures in Frankfurt will be well below the previous year’s level. As of today, it is very difficult to say how far traffic will fall.

However, the development so far and the signals we are getting from the market suggest that a decline in passenger traffic in Frankfurt in the order of 60 percent or even more seems realistic. But these are only indications and not a reliable outlook. Accordingly, we expect all financial performance indicators to show a significantly negative development in the 2020 fiscal year. Based on this forecast, we expect Group EBITDA and EBIT overall to decline sharply. Due to depreciation and amortization and interest expenses, we expect the Group result to be clearly negative. For the second quarter, it is already clear that the economic impact of the coronavirus pandemic will affect us considerably harder than in the first quarter.

With regard to the dividend for the current year, we will also propose to the Supervisory Board and the upcoming Annual General Meeting that no dividend be paid. Anything else would be irresponsible, given the expected negative result. Nevertheless, dividend continuity remains a very important goal for us in the future and a cornerstone of our strategy.

The medium- and long-term outlook is also still very uncertain. However, some structural developments that will shape the post-crisis period are already foreseeable. We expect to see consolidation on the supply side. Not every airline will survive this crisis. Many airlines that survive will have to reduce their capacities and thus their flight offers. And they will bear a heavy debt burden. With fewer offers and less competition, there are fears that ticket prices will tend to rise.

On the demand side, a distinction must be made between business customers and passengers traveling for private reasons. In the business sector, demand will be lower. To reduce spending, many companies will initially be more restrictive in their approach to business travel by their employees. Some companies will also continue to use the possibilities tested in the current exceptional situation, such as virtual meetings, and flying less. Nevertheless, personal exchange remains important in a global economy, and we will continue to see business travel on a relevant scale.

In the private sector, we are very confident that people want to continue flying. They want to explore the world and get to know other countries. But perhaps not everyone will want or be able to afford a trip at first. Above all, it is important whether and to what extent unemployment rises and disposable income declines.

At the moment, we expect that even in 2022/2023 we will still be below the previous high-levels for passenger traffic. At the moment, a decline of about 15 to 20 percent compared to the 2019 figure of around 70.5 million passengers in Frankfurt seems realistic to us. This is what we are preparing your company and Frankfurt Airport for. This also means that we need to adapt existing resources and capacities beyond the current measures.

All this is aimed at keeping your company viable in the future. This is in the interests of our customers, our employees, and in your interests, dear shareholders. We are in a good position to benefit from the restart of air traffic and the global trends that will remain intact in the long term. It is also clear, however, that we will have to reestablish your company Fraport for the future after coronavirus – in order to remain competitive. In doing so, we rely on your support – stay with us.

Finally, I would like to take this opportunity to thank a man who through his dedicated help and support over the past 16 years has shaped the destiny of your company more than almost anyone else. Dear Mr. Weimar: You announced in February that you would be stepping down from the Supervisory Board at the end of today's Annual General Meeting. On behalf of the entire Fraport team, I would like to thank you, Mr. Weimar, for your unwavering commitment to Fraport AG. You have managed to overcome even the most challenging obstacles and moments with your foresight, your expertise, your well-balanced nature, and your perseverance. The success that Fraport AG has enjoyed in recent years is in no small part down to you. You have promoted and supported the international development of Fraport through investments worldwide. And you have continuously developed our Frankfurt homebase: by closely supervising and advancing the construction of new Pier A+, Runway Northwest and Terminal 3.

Even though we would like to continue benefiting from your experience, especially during this severe crisis: with 70 years of age, you have more than earned the right to relax a bit and spend more time with your family. Dear Mr. Weimar, thank you for 16 fascinating, instructive and successful years together at Fraport AG!

Dear shareholders, thank you for your attention and stay healthy!