



**Lufthansa**

Annual Report 2008

A group of Lufthansa staff members, including pilots, cabin crew, and ground crew, are standing in front of a large aircraft engine. They are holding a large yellow sign that reads "Our strengths in detail". The staff are dressed in their respective uniforms, including dark blue suits, high-visibility vests, and pilot uniforms. The aircraft's tail fin with the Lufthansa crane logo is visible in the background.

Our strengths  
in **detail**

# Lufthansa Group overview

## Key data \*

		2008	2007	Change in %
<b>Revenue and result</b>				
Revenue	€m	24,870	22,420	10.9
- of which traffic revenue	€m	19,998	17,568	13.8
Operating result	€m	1,354	1,378	- 1.7
EBIT	€m	976	1,807	- 46.0
EBITDA	€m	2,421	3,023	- 19.9
Net profit for the period	€m	599	1,655	- 63.8
<b>Key balance sheet and cash flow statement figures</b>				
Total assets	€m	22,408	22,320	0.4
Equity ratio	%	30.9	30.9	
Net liquidity	€m	125	768	- 83.7
Cash flow from operating activities	€m	2,473	2,862	- 13.6
Capital expenditure	€m	2,154	1,378	56.3
<b>Key profitability and value creation figures</b>				
Adjusted operating margin**	%	6.1	6.9	- 0.8 pts
EBITDA margin	%	9.7	13.5	- 3.8 pts
CVA	€m	654	1,546	- 57.7
CFROI	%	12.5	17.2	- 4.7 pts
<b>The Lufthansa share</b>				
Share price at year end	€	11.19	18.22	- 38.6
Earnings per share	€	1.31	3.61	- 63.7
Suggested dividend per share	€	0.70	1.25	- 44.0
<b>Traffic figures***</b>				
Passengers	thousands	70,543	62,894	12.2
Freight/mail	thousand tonnes	1,919	1,911	0.4
Passenger load factor	%	78.9	79.8	- 0.9 pts
Cargo load factor	%	62.9	67.4	- 4.5 pts
Number of flights		830,819	749,431	10.9
<b>Employees</b>				
Average number of employees	number	108,123	100,779	7.3

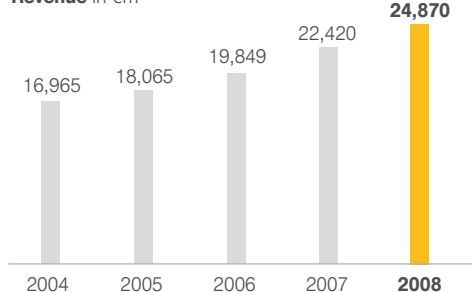
\* This Annual Report covering the period from 1 January to 31 December 2008 was drawn up in accordance with International Financial Reporting Standards (IFRS) taking into account the standards applicable since 1 January 2008. Last year's key data has been adjusted. This may lead to deviations from the results published a year ago.

\*\* Ratio for comparability with other airlines: (operating result + reversals of provisions)/revenue.

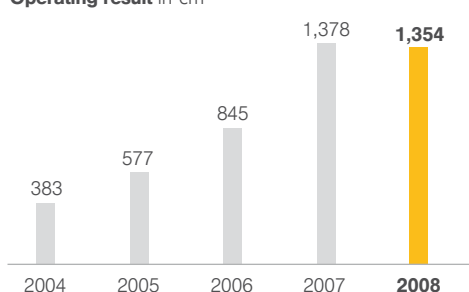
Date of disclosure: 11 March 2009

\*\*\* Since 1 January 2008 revenue passenger figures have been calculated in the LufthansaGroupon the basis of the ICAO standard. The figures from the previous year have been adjusted accordingly.

## Revenue in €m



## Operating result in €m



# Lufthansa business segments overview

<b>Passenger Transportation</b>		<b>2008</b>	Change in %
Revenue	€m	18,393	15.3
- of which external revenue	€m	17,730	15.4
Operating result	€m	722	- 12.6
Adjusted operating margin	%	4.6	- 1.4 pts
Segment result	€m	788	- 31.2
EBITDA *	€m	1,948	- 4.8
CVA	€m	346	- 54.9
Segment capital expenditure	€m	1,390	13.2
Employees as of 31.12	number	48,599	2.9

\* Before profit transfer from other business segments.

<b>Logistics</b>		<b>2008</b>	Change in %
Revenue	€m	2,907	6.3
- of which external revenue	€m	2,882	6.0
Operating result	€m	164	20.6
Adjusted operating margin	%	6.2	0.5 pts
Segment result	€m	201	18.2
EBITDA	€m	323	8.0
CVA	€m	71	20.3
Segment capital expenditure	€m	22	22.2
Employees as of 31.12	number	4,655	1.0

<b>MRO</b>		<b>2008</b>	Change in %
Revenue	€m	3,717	4.1
- of which external revenue	€m	2,216	1.4
Operating result	€m	299	2.0
Adjusted operating margin	%	8.8	0.1 pts
Segment result	€m	329	3.1
EBITDA	€m	425	4.7
CVA	€m	188	- 8.3
Segment capital expenditure	€m	122	- 37.1
Employees as of 31.12	number	19,804	4.8

<b>IT Services</b>		<b>2008</b>	Change in %
Revenue	€m	657	- 3.2
- of which external revenue	€m	279	- 0.7
Operating result	€m	40	73.9
Adjusted operating margin	%	6.2	2.5 pts
Segment result	€m	39	
EBITDA	€m	78	100.0
CVA	€m	29	
Segment capital expenditure	€m	58	7.4
Employees as of 31.12	number	3,033	- 2.2

<b>Catering</b>		<b>2008</b>	Change in %
Revenue	€m	2,325	- 3.0
- of which external revenue	€m	1,763	- 5.7
Operating result	€m	70	- 30.0
Adjusted operating margin	%	3.1	- 1.1 pts
Segment result	€m	94	- 19.0
EBITDA	€m	166	- 0.6
CVA	€m	- 17	
Segment capital expenditure	€m	116	- 24.2
Employees as of 31.12	number	30,273	0.6

**Passenger Transportation** The business segment reported a good performance. In an increasingly difficult environment our airlines were able to hold their own and build on their leading position. The foundations for the good result stem from our clear focus on customer utility, quality and a demand-oriented capacity strategy.

**Logistics** Lufthansa Cargo exceeded its targets for the financial year. The segment generated its second best operating result since it was established in 1994. With its innovative products Lufthansa Cargo also strengthened its customer base and took key steps towards industry leadership thanks to strategic projects.

**MRO** In a shrinking overall MRO market Lufthansa Technik was again able to develop its pole position in the maintenance, repair and overhaul of civilian aircraft and increase revenue and earnings. In the reporting year more than 500 new contracts were signed.

**IT Services** Lufthansa Systems has made its name, particularly in the aviation sector, with innovative IT solutions which help companies to deploy their resources efficiently and again acquired important new customers in 2008. At the same time productivity was increased again and profitability improved.

**Catering** Under challenging conditions LSG Sky Chefs expanded moderately in growth markets and consistently reduced its involvement in unprofitable activities. Productivity was also increased and the basis laid for the Company's long-term success by opening more efficient production facilities.

## Highlights Group

# 24.9

Revenue in EUR bn

# 1.35

Operating result  
in EUR bn

# 654

Cash Value Added  
in EUR m

# 6.3

Dividend yield  
in per cent

# 30.9

Equity ratio  
in per cent

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Our success story continues: We are maintaining our course in difficult conditions. This is due, to a very great extent, to the commitment of our staff and management team in all business segments. Thanks to their professionalism and experience, the Lufthansa crane stands for top performance in all areas – in quality and service as well as in profitability. In the face of the turbulence ahead, we still remain true to our ambition of sustainable value creation.

**Our strengths in detail!**

Ladies and Gentlemen,

Lufthansa held its own very well in 2008. Although the second half-year, in particular, was defined by market uncertainty, the consequences of the strike activities in the summer and the worsening financial and economic crisis, we are nevertheless able to present a top-class result for the full financial year. An operating profit of EUR 1.35bn is only just below the record figure of the previous year and is the second-best result in the history of your Company. This result has a very special quality in view of the worldwide economic turmoil. We have achieved or even exceeded important targets despite adverse conditions, and are much better placed than our main competitors.

Lufthansa is well prepared – strategically, financially and operationally.

- Our financial basis is solid: we run our business with prudence and foresight – profitability has priority over size.
- Our strategic orientation is paying off: we focus on developing our core business, the airlines, and in the current environment benefit from the Group's business segments at the same time.
- The number of passengers broke new records, reaching 70.5 million for the Group. Lufthansa enjoys outstanding customer loyalty and in 2008 again received best marks for customer satisfaction.
- The Lufthansa brand is stronger than ever. It stands for trust and reliability, for quality and safety, for technical competence and willingness to serve – in all business segments.

The Lufthansa crane is valued and appreciated, too, as a business partner and an employer. Before the crisis unfolded we were able to recruit 4,000 new staff in the first half-year – people who want to assume responsibility and make a contribution to mobility.

In addition to flexible clauses in wage agreements, a far-sighted fleet policy and strictly market-oriented capacity and revenue management, we are also continuing to work on currently about 120 projects to safeguard and increase profitability lastingly as part of the "Upgrade to Industry Leadership" initiative launched in 2007.

Altogether, we are very pleased with the Company's performance in 2008, but we are working on the assumption that 2009 will be one of the most economically difficult years for the whole industry – with major challenges for Lufthansa as well. Given the tense economic situation worldwide and the uncertainties on the financial markets, but also appropriately for the very good result, the Supervisory Board and Executive Board are proposing a dividend of 70 cents for your consideration.





**Wolfgang Mayrhuber**

Chairman of the Executive Board and Chief Executive Officer, born 1947, engineer, Board Member since 2001, Chairman since 2003, appointed until 31 December 2010, with Lufthansa since 1970.

**Stefan Lauer**

Member of the Executive Board, Chief Officer Aviation Services and Human Resources, born 1955, lawyer, Board Member since 2000, appointed until 30 April 2010, with Lufthansa since 1990.

**Stephan Gemkow**

Member of the Executive Board, Chief Financial Officer, born 1960, Degree in Business Administration, Board Member since 2006, appointed until 31 May 2014, with Lufthansa since 1990.

It is gratifying that all the business segments in the Lufthansa Group have positioned themselves well and held their own in the market.

The Passenger Transportation business segment has put in a stable performance and delivered good results. SWISS plays a special role in this respect, having become a central pillar of our airline group and having made a key contribution to the good operating result for the whole segment.

At the end of the financial year we deliberately reduced thrust on our growth track in order to respond flexibly to market changes. But this does not mean that we are casting our strategic orientation overboard. We remain convinced that air traffic will continue to grow over the medium and long term. We therefore review carefully the additional growth opportunities which arise, through partnerships for instance, and also through acquisitions, where they make sense.

Lufthansa made a number of key decisions concerning the consolidation process in 2008. The agreement on the phased acquisition of Brussels Airlines and the planned takeover of Austrian Airlines were important milestones. These acquisitions are still pending, as a number of conditions have not yet been met. When all obstacles have been successfully cleared, both airlines will provide us with the chance to connect the Belgian and Austrian markets better with the Lufthansa network. With its strong presence in Africa, Brussels Airlines is a valuable partner for us, and with Austrian Airlines we would gain another mainstay in Eastern Europe.

Lufthansa is also making a commitment to the Italian market. With Lufthansa Italia and a considerably broader range of direct flights to European destinations, we are making ourselves more attractive to our customers. The first flights started in February 2009.

The Group's other business segments also have good news to report. They have all contributed to our remarkable overall result.

Lufthansa Cargo has stayed very firm in an increasingly difficult market environment. Our Logistics business segment was able to improve again on the previous year's good operating result. Cargo's profitability has developed positively and our freight company has set itself up well for the future by building on its strategic partnerships. We are countering the persistent weakness in demand for global airfreight, which began to bite in the final quarter of 2008, by reducing freighter capacities and by introducing short-time work.

Lufthansa Technik performed well despite difficult conditions, such as the depreciation of the US dollar, and was able to improve its operating result compared with the previous year. It is world market leader in its segment and well prepared for the future thanks to its modern product portfolio, low-cost locations and numerous programmes to cut costs and increase efficiency.

Lufthansa Systems substantially improved its result, which was impaired by write-downs in the previous year. Our IT business segment consolidated its strong market position, made progress on product developments and was increasingly able to market its expertise in other sectors with comparable requirements, such as health care or media. In the medium term the proportion of external clients is to increase to 60 per cent.



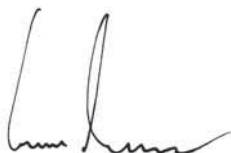
The world market leader in catering, LSG Sky Chefs, continued successfully to implement its strategy in 2008. Unprofitable activities were cut back and our caterers underwent moderate expansion in growth markets. After many years of sometimes heady growth the global airline catering market has been in retreat since the end of 2008. In view of the difficult overall conditions LSG Sky Chefs achieved a good operating result, but one that was lower than in the previous year.

Despite all these positive developments, our Company's market value declined in 2008, as did that of all other publicly listed companies. The share price fell by nearly 39 per cent. This is a bitter reality, expressing as it does the fact that macroeconomic conditions count for much more than our own performance in this difficult environment. The share price reflects neither the sound foundations of the entire Group and its stable earnings development, nor our potential for the future. Even so, we have still managed to increase the distance between ourselves and our competitors on the stock market in 2008.

In the future, we will continue to act prudently, adjust capacities to requirements and keep costs in line with income, which cannot be taken for granted in our industry given the heavy dependence on fixed costs. But we will manage that, too, and continue on our strategic course.

We want to justify your trust as shareholders and that of our customers in the future as well, by our thorough and judicious work. The year 2009 will make great demands of us all. No one can predict how long the global economic crisis will last and what profound hardship it will yet cause. We are realists. We are adaptable. And we remain confident, because we can count on a practised, dependable and highly motivated team of staff and managers. We want to continue to impress with our quality and performance. We want to make the successful Lufthansa brand even stronger worldwide. We feel an obligation to our locations and will, therefore, continue to be active in the political arena, for example in Brussels and Berlin, in the interests of fair competition.

Crises are always also times of momentous decisions. We intend to make the right decisions so that you, our shareholders, and our clients and staff can all benefit equally. Please accompany us as we move forward. Stay with us!



Wolfgang Mayrhofer  
Chairman of the Executive Board and CEO of Deutsche Lufthansa AG

# Annual review



## Q1/2008

- Lufthansa acquires a stake in the American airline JetBlue Airways, thereby closing the transaction announced in December 2007. The two partners start to define their further collaboration.
- Lufthansa Technik sets milestones for its future maintenance capacities. It opens the first construction section of the new A380 maintenance hangar in Frankfurt. Two Airbus A380s or three Boeing 747s can be serviced simultaneously there on its floor area of 25,000 square metres. The foundations are laid in Hamburg for a new engine overhaul hangar, which is due to expand capacities from spring 2009.
- SWISS was once more given the title of Best Airline for Europe at the Business Traveller Awards. It therefore repeats its successes at this award ceremony of previous years.
- The frequent flyer programme Miles & More celebrates its 15th anniversary. Lufthansa launched its customer loyalty programme in 1993 in Germany with seven partners from the hotel and car hire industries. Today, Miles & More is the largest frequent flyer programme in Europe, with 16 million members worldwide and more than 200 partners from numerous industries.



## Q2/2008

- Lufthansa Cargo and Krasnoyarsk Airport sign an agreement on strategic collaboration. This will enable Lufthansa Cargo to use the Siberian airport of Krasnoyarsk for stopovers on its flights to and from Asia from mid-2009.
- The mobile Internet portal [mobile.lufthansa.com](http://mobile.lufthansa.com) is given the "made for mobile" award at the Media Forum NRW. Mobile telephone users can not only book tickets and seats quickly and easily via the portal but can also access up-to-date arrival and departure times.
- Lufthansa Cargo strengthens its presence at its home airport Frankfurt/Main by commencing construction work in CargoCity Süd. A new building will mainly be used for handling airfreight deliveries from medium-sized freight forwarders and partner airlines from autumn 2009.
- Lufthansa sets itself ambitious goals with its Strategic Environment Programme. Fifteen principles define how Lufthansa is to achieve further significant progress in its environmental efficiency by 2020. They include cutting CO<sub>2</sub> emissions per kilometre flown by 25 per cent compared with 2006.



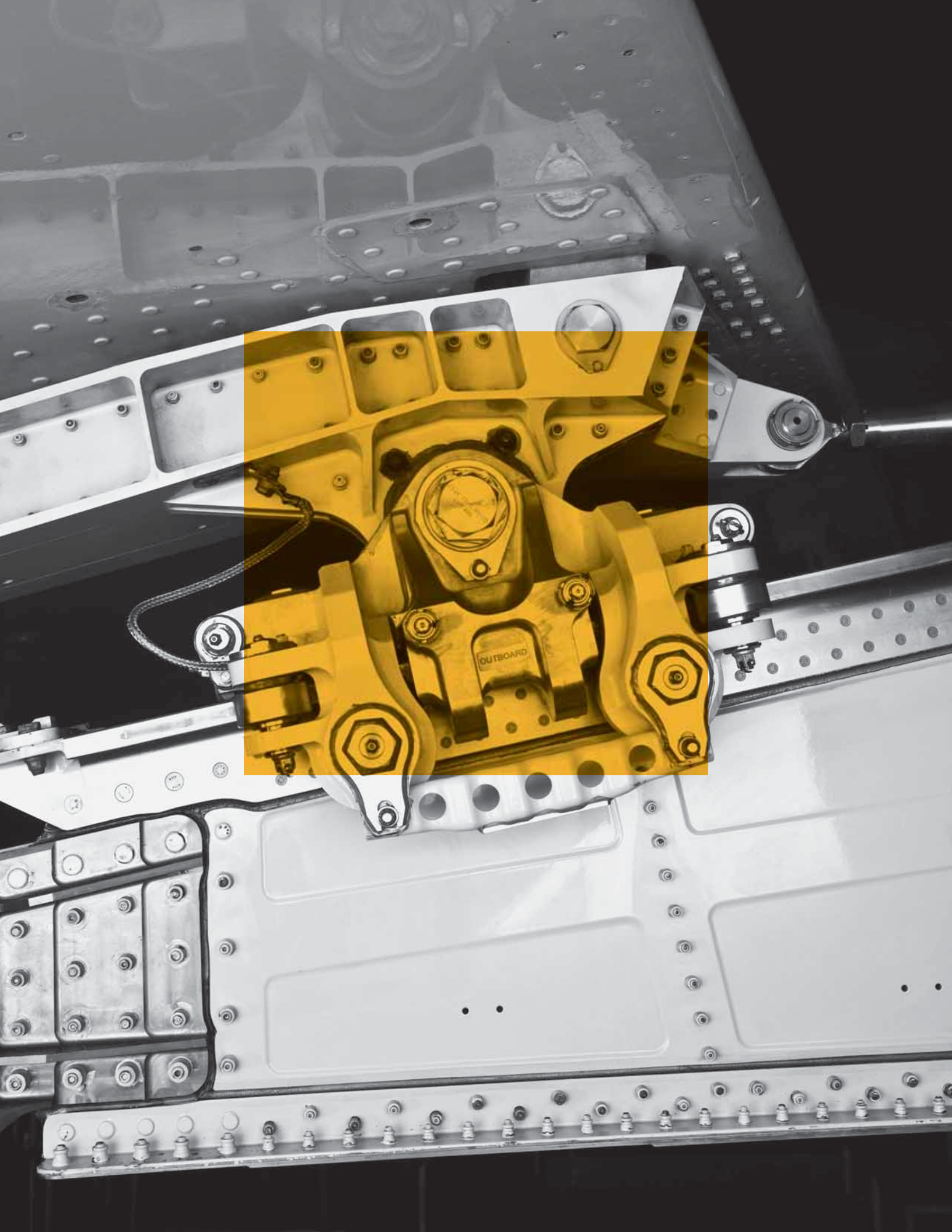
## Q3/2008

- Lufthansa is voted best European airline out of 59 candidates at the World Airline Awards 2008. More than 15 million passengers took part in the survey carried out by the specialist agency Skytrax. SWISS also did well, taking fourth place in the Europe category.
- Lufthansa Cargo AG secures long-term growth at its second German freighter hub in Leipzig. Lufthansa Cargo's freight handling will be transferred to the World Cargo Center when the new freight airline AeroLogic is launched in 2009.
- Lufthansa is again confirmed as a member of the Dow Jones Sustainability Index (DJSI) and the FTSE4Good index. Both sustainability indices attest to Lufthansa's responsible attitude towards the environment, its staff and society.
- Lufthansa signs an agreement to acquire a strategic interest of initially 45 per cent in SN Airholding SA/NV, the parent company of Brussels Airlines. The airline was not previously a member of any alliance and serves destinations in Europe and Africa from its hub in Brussels. Brussels Airlines will join Star Alliance over the course of the next year. Full integration is possible after the air traffic rights have been secured.

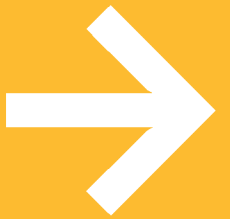


## Q4/2008

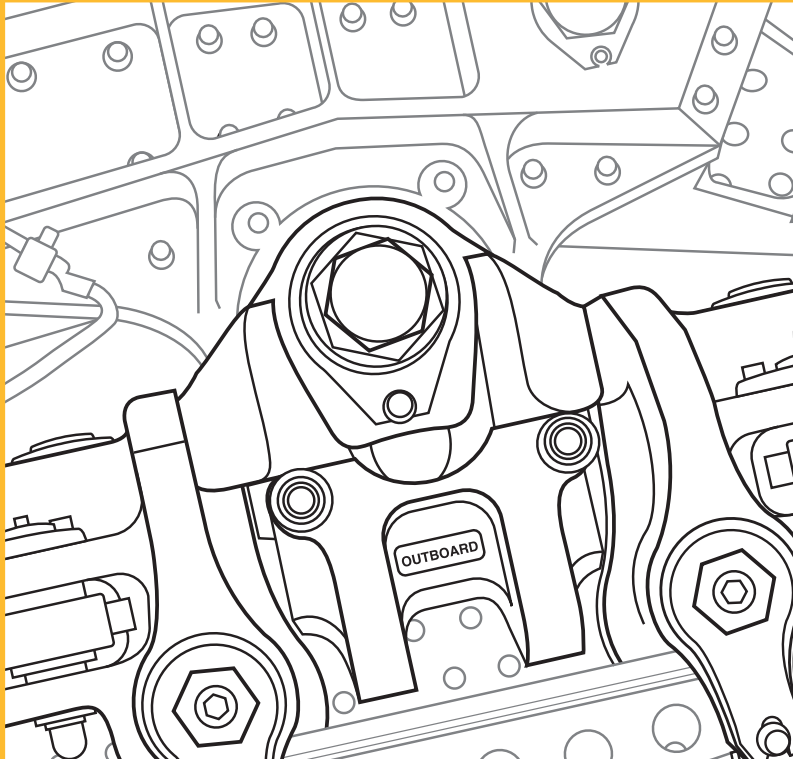
- Lufthansa adjusts its growth path in several stages to economic forecasts. For 2009 growth in passenger traffic is reduced to 0.8 per cent (1.2 per cent including SWISS). Lufthansa Cargo is cutting its freighter capacities by around 10 per cent in 2009.
- Sir Michael Bishop, the majority shareholder of British Midland plc (bmi), exercises a put option enabling Lufthansa to acquire 50 per cent of bmi plus one share in early 2009. Future possible structures and options for bmi are being jointly reviewed.
- Lufthansa presents the new brand "Lufthansa Italia" in Milan. It will be offering a new, substantially broader range of direct flights to major European cities from here starting in February 2009. Lufthansa Italia combines classical Lufthansa values with Italian flair.
- Lufthansa signs an agreement to acquire Austrian Airlines (AUA). Following the purchase of the shares held by the Austrian industrial holding company ÖIAG, Lufthansa will make a purchase offer to all AUA shareholders. The transaction is subject to competition and regulatory approval. The aim is to integrate AUA into the Lufthansa airline group.



**Flexible** flying







<< The carriage is the part of an aircraft wing which ensures that the flaps can be optimally set to the respective flight position for take-off and landing. Extending and retracting the flaps alters the wing's profile and gives the aircraft the necessary lift for take-off and landing. Even in poor weather conditions and on challenging runways (e.g. at altitude) this ensures that the flaps are in the best possible position and therefore improves the aerodynamics of the aircraft.

# Flexibility ensures profitability and long-term Company success



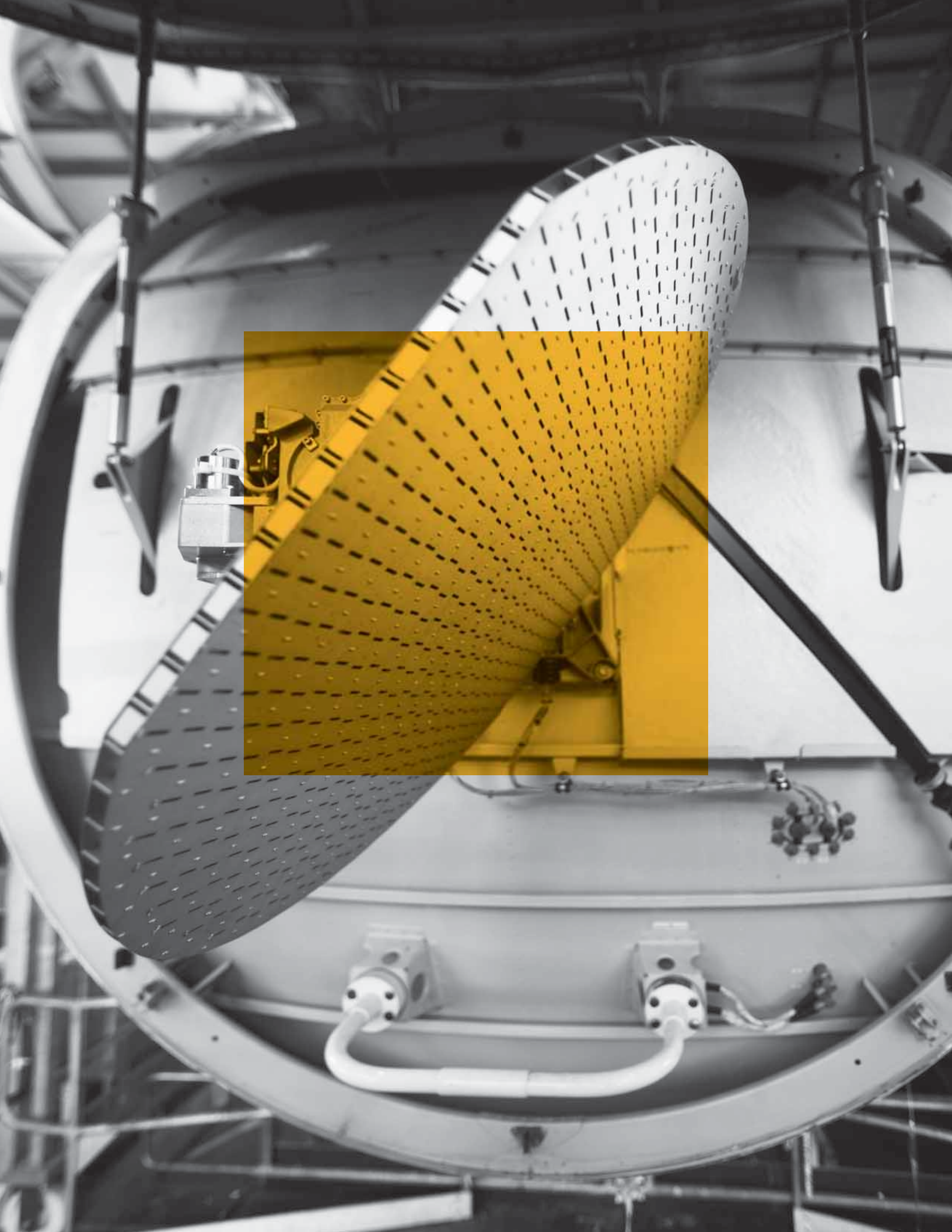
Turbulence is part and parcel of flying. It is also a permanent feature of the airline industry. Despite these recurrent short-term fluctuations, however, aviation remains a growth industry. We would like to gain an above-average share of this growth. We have learnt from past turbulences and substantially increased our flexibility. In order to emerge from these dynamic sector and market developments as a winner, and to ensure profitability and the long-term success of the Company, it is crucial to be able to respond as effectively as possible to lower, but also to higher, demand. This applies equally to capacity growth and to the cost base.

Our aircrafts are at the centre of our flexible capacity planning. Thanks to our largely unencumbered aircraft fleet we have earned ourselves an extremely high degree of flexibility beyond usual capacity management. About 70 per cent of the Group's fleet is owned and is not subject to costs or conditions from leasing contracts or collateral agreements. Given our conservative depreciation policy, a large proportion has already been written down. This fleet gives us the greatest possible flexibility to adapt capacity growth to predominant market conditions at short notice by adjusting roll-over times. This means that aircraft deliveries increase cost

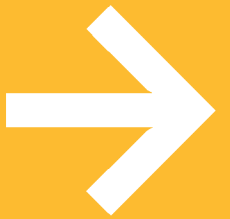
efficiency in difficult times, but not automatically the capacities. Capacity can therefore be reduced at very short notice by advancing routine inspections or phasing out an aircraft earlier than planned. We are also able to increase growth again at equally short notice by postponing the decommissioning of aircraft. This flexibility is the foundation for Lufthansa's demand-driven capacity strategy.

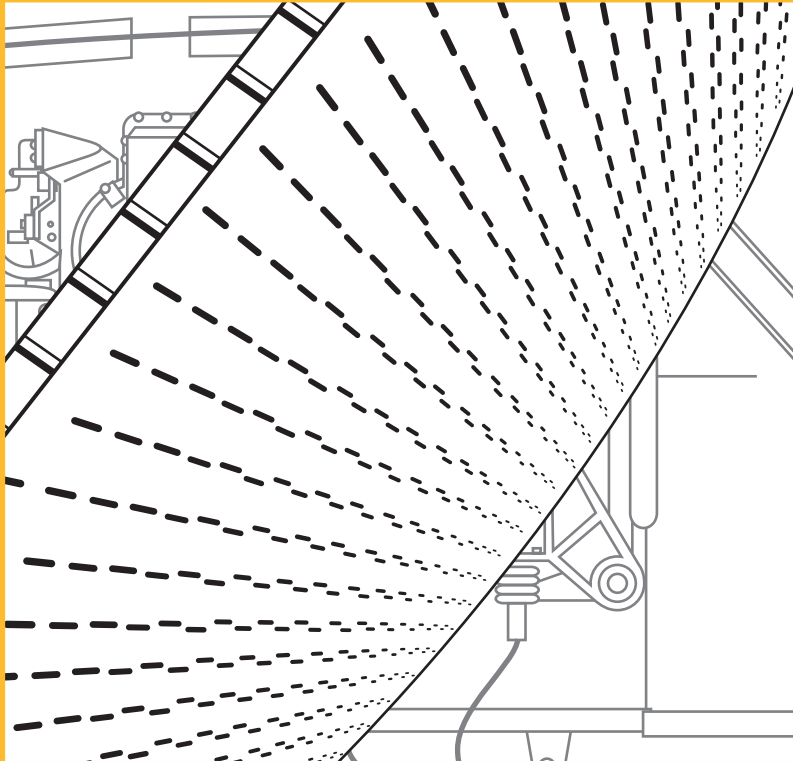
The Group's cost base requires similar flexibility. In recent years, we have significantly reduced the proportion of fixed costs in all business segments. Today, all five segments are much better able to adjust their external and staff costs to demand. Innovative flexitime models, for instance, include callable services above a fixed volume of hours, or long-term working-hours accounts with which working hours can be adapted to cover peak workloads or times of lower capacity without causing additional or redundant expenses. In addition, all business segments have crisis clauses in their wage agreements, which provide the opportunity to react at short notice according to predefined criteria and therefore reduce the risk of more drastic measures.

More information can be found in the comments on the business segments.



Acting with  
**foresight**





<< The weather radar in the nose of an Airbus A340-300 has a diameter of 72 centimetres. This enables the pilots to continuously observe the weather situation within a radius of up to 320 nautical miles around the aircraft. The required focussing of the radar beam in the aircraft is achieved by interconnecting many small antennas. In comparison with a parabolic antenna, this type of radar saves space and requires less maintenance.



## Creating value with foresight



Just like an aircraft at an altitude of 10,000 metres, the aviation industry is permanently exposed to a variety of changing external influences. In order to (re)act appropriately in this environment it is vital for the Group management to be aware of developments in the Company's nearer and wider sphere. Acting with foresight therefore plays a crucial role in all Company developments and decisions. Only then are we able to maintain our chosen course even in poor visibility, to identify risks in time and to take either preventive measures or predetermined evasion manoeuvres as necessary. It also enables us to recognise opportunities at an early stage and, after an appropriate analysis of their risk-return profile, to make use of them.

The significance of this far-sightedness for strategic decisions can be illustrated by several examples from the past. Twelve years ago for instance Lufthansa was the driving force behind and co-founder of the first global airline alliance, in early recognition of the necessity of being able to offer passengers a worldwide network. Today, the Star Alliance is the largest network by far and a vital reason for our success. That is because these cooperations enable us to gain swift market access, while limiting capital expenditure and the risks of market entry at the same time.

We are also ready to invest in a deeper partnership wherever it appears to make strategic and economic sense. The takeover and successful integration of SWISS was an example of this foresight. Today, the transaction is seen as exemplary for takeovers in the aviation sector, as both companies complement each other excellently and wide-ranging synergies are being realised. Our planned investments in Brussels Airlines and Austrian Airlines follow the same risk-return principles. By contrast, in Italy we decided to develop our own strong brand.

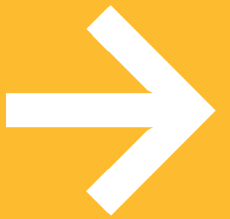
Foresight also plays a key role for us in managing the wide range of financial risks. Systematically hedging currency and fuel price risks, for instance, makes these factors less volatile and more predictable as a result and our minimum liquidity is always available to use when needed. It thereby allows us to maintain our chosen course longer and gives us more time to react appropriately to changes in external circumstances.

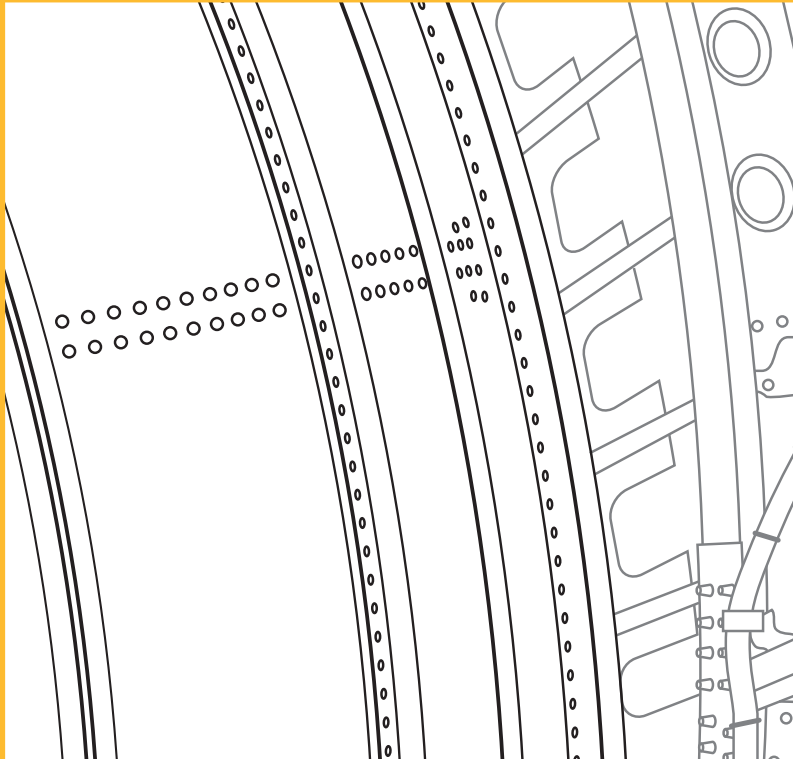
In future, too, we will make our corporate decisions with the necessary prudence and foresight and retain our focus on sustainable value creation.

More information can be found in the chapters "Group strategy" and "Risk report".



**Quality**  
for decades





<< The pressure bulkhead delimits the inner lining of an aircraft. It provides a seal between the cabin and the ambient pressure outside the aircraft. It is subject to high and continually varying strains due to the cabin pressure, causing it to expand and contract. The pressure bulkhead is nevertheless one of the few parts of an aircraft which is not replaced during the plane's entire life cycle. Its longevity and quality are outstanding, whether it is made of carbon fibre or sheet metal.

## Proven dimensions of quality



For us, high quality constitutes a decisive success factor. All Group companies offer their customers tailored, innovative and high-quality products. Quality has many dimensions for us. A vital one is network quality. Already today, our customers can fly to almost 1,000 destinations worldwide with Lufthansa and its partner airlines. Our well-positioned premium product is also part of our aspiration towards high quality. That is the reason why in recent years we have been able to increase the share of premium customers continuously. This segment now represents 52 per cent of intercontinental traffic revenue. Despite increasing economic weakness, premium demand grew again in 2008 significantly. This in turn had a highly positive effect on our traffic revenue.

We continue to refine our services on board and on the ground, ranging from a new SWISS First Class and Business Class (2009) and the new Lufthansa First Class (2010) to investments in our lounges around the world, which are to be refurbished for more than EUR 150m in the

period up to 2013. The fact that our frequent flyer programme Miles & More was recently able to greet its 16-millionth member speaks for the attractiveness and the quality of our products, as do constant increases in customer satisfaction across all product segments. At the same time, these are reasons for the relative stability of our revenue.

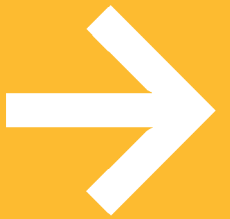
However, high quality is not limited to the transportation of our passengers; it is also a hallmark of Lufthansa Technik and each aircraft it services. At Lufthansa Cargo, punctual and safe delivery is at the centre point of the customer promise. A series of awards in 2008 demonstrate that these activities are successful, too. Lufthansa Cargo was voted "Best cargo airline worldwide" by the trade journal Air Cargo World. Lufthansa Technik received the "Best European Airline MRO Operation Award 2008" from the US trade magazine Aviation Week.

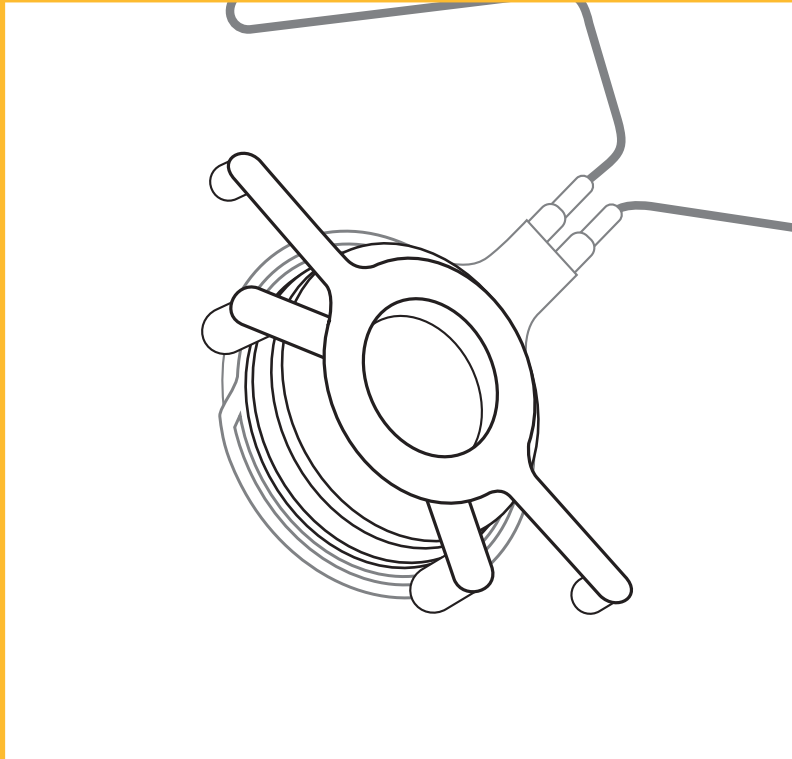
More information can be found in the comments on the business segments.





Leading by  
**innovation**





<< Trim panel speakers are a development which Lufthansa Technik has adapted and refined for aviation. They are primarily used in private jets and provide an even distribution of sound throughout the whole cabin, so that customers often compare them with a surround sound system. In technical terms, the panel speaker system works by attaching several transducers (shakers) of around five centimetres in diameter to the back of the aircraft's inner panelling. These make the interior panelling vibrate like giant speaker membranes. This turns the whole aircraft cabin into a sounding box, producing an even tone without distortions. In addition to its ease of installation, the particular advantages of this system are that it can be integrated into the cabin interior almost invisibly.

# Innovation for the customer pays off



Innovation has a long tradition at Lufthansa – whether pioneering feats of aviation, such as the spectacular East Asia Flying Expedition, which Lufthansa completed in ten stages to Beijing in 1926, the initiative to develop the Boeing 737 in the 1960s or the foundation of the first worldwide aviation alliance in 1997. Today, it still plays a vital role and forms the basis for our continued success. Investing in innovation is therefore a key performance driver for all Lufthansa business segments and pays its way – for the customers and for the Company.

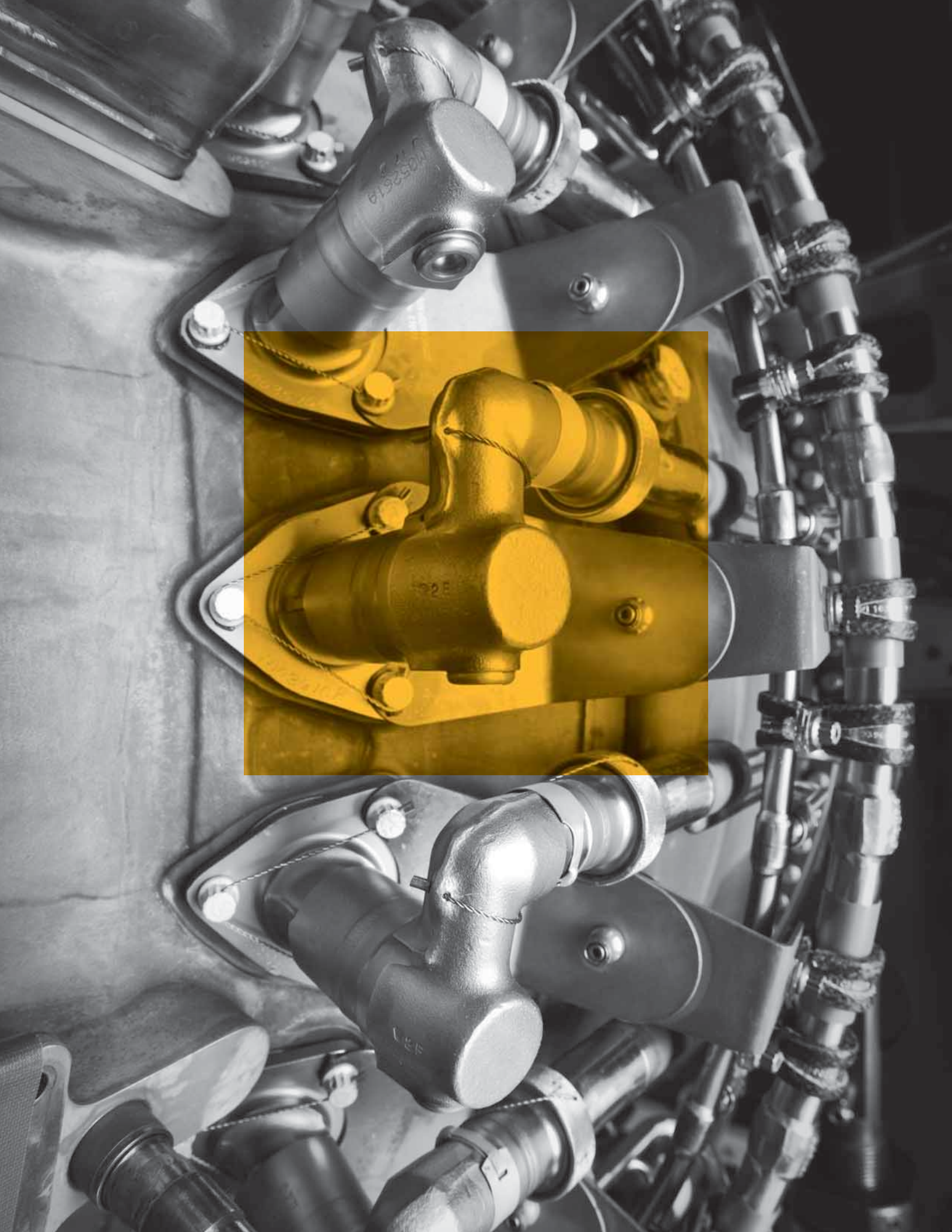
Our clients' requirements are the touchstone for our developments. Our First Class Terminal in Frankfurt, and the recently opened First Class Lounges, are perfectly tailored to the needs of frequent flyers. Of course, refining modern technologies has great potential as well. For example, we have been offering our passengers the opportunity of "paperless flying" since 2008, which makes travel even more flexible, simpler and more comfortable. The specially developed mobile Internet portal "mobile.lufthansa.com" sets standards in terms of design, functionality and user-friendliness, and was presented with the renowned "made for mobile" award. In addition, the service simplifies and accelerates the check-in process, which increases the efficiency of our processes.

Another impressive example for innovation at different levels can be seen at Lufthansa Technik AG. Its recently opened engine overhaul centre in Hamburg enables engines to be serviced with the latest processes and expertise in an area of 15,000 square metres. In conjunction with optimised logistics, this has significantly shortened servicing times for the engines. This effects production efficiency, but also results in greater utility for the client as the engines can recommence operations sooner.

These are just some examples of how, for us, increasing customer utility through innovative products, services and processes goes hand-in-hand with cost improvements and efficiency gains.

Innovations from Lufthansa are set to continue in 2009. At the beginning of the year Lufthansa Cargo AG and its subsidiary Jettainer GmbH are starting a series of trials with lightweight containers aimed at cutting the weight of conventional containers by 15 per cent. This would not only have a considerable effect on the environmental performance of airfreight traffic, but would also give Lufthansa Cargo a decisive cost advantage in an airfreight market subject to severe pricing pressure.

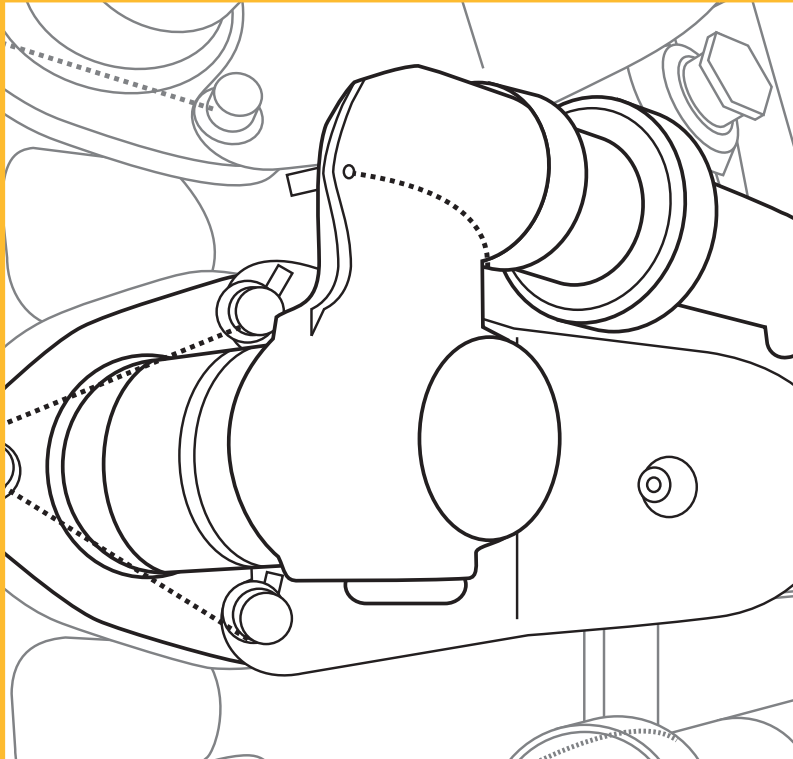
More information can be found in the comments on the business segments.





Full performance via  
**reliability**





<< The engine of a Boeing 747-400 has up to 30 evenly distributed individual fuel injection valves which feed the fuel into a ring-shaped combustion chamber. Aircraft engines like these have a combustion chamber which holds around 20 litres and burn up to 12,000 litres of kerosene per hour. This achieves much higher energy density and therefore greater performance than in other types of construction. In order to attain its full effect, the whole system has to function smoothly. This means that every component must work reliably. Only when every injection valve delivers its full performance does the engine develop maximum thrust and the ability to simultaneously operate at a high level of fuel economy.

## Reliability for all stakeholders as a basis for success



For Lufthansa, reliability is of crucial importance. We are convinced that we can only deliver full performance together with all our stakeholders. Therefore, it is important for us that all of them, from customers, staff, suppliers and partner airlines through to the shareholders in the Company, can trust the crane and consider us a reliable partner. Reliability is not only part of our brand values – it is also a key success factor and a competitive advantage.

Our customers can rely on the services of our business segments at all times. The promise of mobility made by the Group's flying companies and product quality are no more subject to debate in economically difficult times than technical maintenance work or the reliability of IT and catering services.

Our employees' qualifications, commitment, appetite for competition and performance, innovation and sense of responsibility are the keys to

our Company's success. A supportive working environment, with prospects in periods of growth and solidarity and flexibility in economically challenging times, is therefore at the core of a high-performance team. It is the foundation for staff satisfaction and a highly developed service culture.

It is also a sense of responsibility which brings us into an intense and active dialogue with our investors and shareholders. We are aware of the volatility in the industry and the resulting increased need for information. Contact and frank discussions as part of our investor and creditor relations activities, at conferences, investor days and in many individual meetings, create a high level of transparency and trust, thereby ensuring a common understanding of the prospects for the crane.

More information can be found in the chapters "Share" and "Staff", as well as in the comments on the business segments.

# The Lufthansa share:

## Outperformance in a weak market environment

The outperformance of the Lufthansa share compared against its competitors in 2008 was only a slight consolation, as the price sank by 38.6 per cent in a weak stock market environment. However, it does reflect how well we are set up relative to the peer group and the high level of investor confidence we enjoy. We stand by our aspiration of creating sustainable value, also for our shareholders. We therefore again intend to give our shareholders a share of profits earned that is appropriate under the circumstances. The proposed distribution of EUR 0.70 per share represents a dividend yield of 6.3 per cent.

### Performance of the Lufthansa share

What a year on the stock markets: Prices on the world markets went on a roller coaster ride, the Dow Jones index registered both the highest rise and steepest fall in its history in the same year, the composition of the DAX was changed several times, it also adopted new valuation rules, Volkswagen suddenly became the "most valuable" company in the world in autumn, and the Lufthansa share, despite the cyclical industry and economic downturn, was among the five shares with the lowest volatility in the DAX at the end of the year. These are just some impressions from an unusual but also very fragile stock market year. In the first half-year, the mood

on the global markets was marked by the sharp rise in commodity prices and fears of a spreading financial market crisis. Although the oil price dropped again sharply in the second half-year, the negative scenarios for the financial market crisis were at times eclipsed by an even more negative reality. This forced bail-outs and fire-sales of some banks; other financial institutions had to close completely. The economy took a nose-dive worldwide and a short-term recovery is currently not in sight. Over the course of the year, stock markets were therefore increasingly dominated by sales pressure, which meant that the DAX also shed a total of 40.4 per cent of its value.

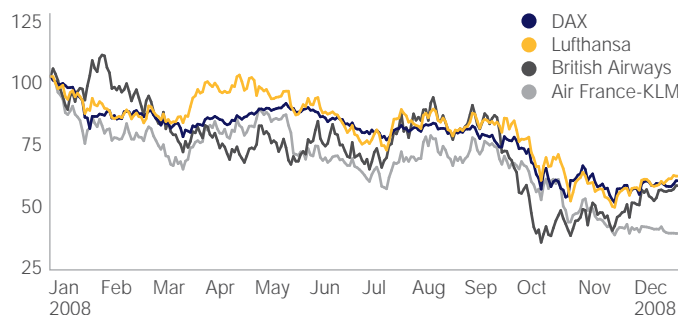
#### The Lufthansa share: key data

		2008	2007	2006	2005	2004
Year-end share price	€	11.19	18.22	20.85	12.51	10.55
Highest share price	€	18.32	22.72	21.03	12.51	15.21
Lowest share price	€	8.99	17.17	12.29	9.95	8.63
Number of shares	millions	457.9	457.9	457.9	457.9	457.9*
Market value at year end	€bn	5.1	8.3	9.6	5.7	4.8
Earnings per share	€	1.31	3.61	1.75	0.99	0.94
Cash flow from operating activities per share	€	5.40	6.25	4.60	4.27	4.11
Dividend per share	€	0.70	1.25	0.70	0.50	0.30
Dividend yield (gross)	%	6.3	6.9	3.4	4.0	2.8
Dividend	€m	320.5	572.4	321.0	229.0	137.0
Total shareholder return	%	- 31.7	- 9.3	+ 70.7	+ 21.4	- 20.4

\* After capital increase in June 2004.

Over the year the Lufthansa share moved in line with the market. In some periods it even outperformed the DAX by a considerable margin. After ground was lost at the start of the year, the Lufthansa share was able to make up for this almost fully during the first quarter. The price dropped by 6 per cent in total. After a short-lived high for the year of EUR 18.32 in April, concerns about the effects of the exceptionally high oil price led to stark reductions through July. After moving sideways through the third quarter, the Lufthansa share also responded to the escalating financial market crisis and the emerging global economic crisis with heavy losses from the end of September. Overall, the price of the Lufthansa share sank by up to 50.7 per cent at its low point and finished the year 38.6 per cent down at a closing price of EUR 11.19. This meant the fall was slightly less than that of the DAX.

**Lufthansa's share price trend** (indexed on 31.12.2007)  
compared with the DAX and competitors



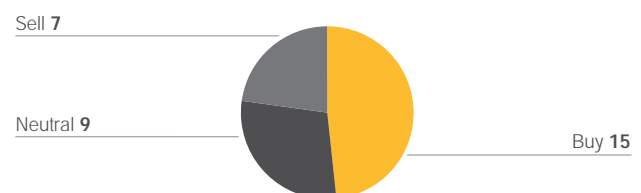
The difference to the main competitors is even wider, as British Airways and Air France-KLM suffered greater losses of 42.3 per cent and 60.8 per cent, respectively.

## Analysts' opinions

The outperformance of the Lufthansa share is backed by a large majority of analysts' commentaries. They do not see Company-specific reasons for the decline in the share price, but hold the current difficult market environment responsible. But it is precisely in this market that they see the Lufthansa Group in a significantly better operating position than many of its competitors due to its greater structural balance and flexibility. They also acknowledge our conservative financial profile, which shows itself to be an important safety net precisely in times of uncertainty on financial markets.

The analysts trust that this financial strength will be maintained, even in periods of accessible consolidation projects. While the integration of SWISS in 2005 was largely met with scepticism from the market, analysts' comments on the intended acquisitions of Brussels Airlines and Austrian Airlines underlined their confidence in Lufthansa's integrative strength. This meant that Lufthansa's relative position has also improved in the opinions of the analysts. Despite adjusting target prices to an average of EUR 13.22 in response to the changed market conditions, 48 per cent of analysts still recommend the Lufthansa share as a clear buy. The seven analysts (23 per cent) with sell recommendations all point out the mid-term opportunities for the crane, but base their studies on shorter-term criteria. We publish analysts' coverage on the Internet at [www.lufthansa.com/investor-relations](http://www.lufthansa.com/investor-relations) and update it regularly.

**Analyst ratings\*** as of 31.12.2008



\* Target price: 13.22 EUR, average of 31 analysts.  
Range: EUR 8.85–EUR 21.00.

## Dividend

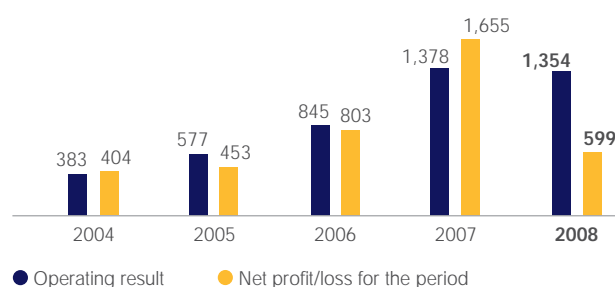
We pursue a dividend policy based on continuity. Dividends are primarily oriented towards the Group's operating performance. In recent years, we have distributed 30 to 40 per cent of the operating result to our shareholders. This presupposes, however, that a dividend can be made from the net profit as disclosed in the individual and consolidated financial statements of Deutsche Lufthansa AG. Extraordinary income, which can generally be used for higher distributions, did not occur in the reporting year. Our sense of responsibility rather requires us to take account of the current uncertain functioning of financial markets in view of the investment programme ahead in addition to the pillars of our dividend policy.

Having weighed all these factors, the Executive Board and Supervisory Board will be proposing a dividend of EUR 0.70 per share for the 2008 financial year at the Annual General Meeting to be held on 24 April 2009. This corresponds to a dividend yield of 6.3 per cent based on the closing share price for the year.

**Dividend in €  
and dividend yield in %**



**Operating result and net profit in €m**

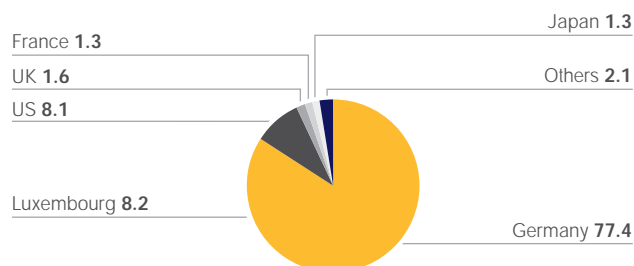


## Shareholder structure

In order to safeguard international air traffic rights and the operating licence, Lufthansa shares are traded as registered shares with transfer restrictions in accordance with the German Aviation Compliance Documentation Act (LuftNaSiG). This means that the breakdown of Lufthansa shareholders by nationality can be demonstrated and documentation provided proving that the majority of shares are held by German investors. Lufthansa's shareholder structure stayed relatively constant over the course of 2008. At year-end German investors held a large majority of 77.4 per cent.

The greater number of fund management companies set up in Luxembourg has led to an increase in investors registered there to 8.2 per cent of issued capital. Investors from the USA are similarly well represented (8.1 per cent). At a lower level, but well above prior years, are investors from Japan, whose share of issued capital rose to 1.3 per cent.

**Shareholder structure by nationality as of 31.12.2008 in %**



The largest shareholder is AXA Group with 10.56 per cent (as notified on 14 July 2006). Dr Lutz Helmig holds 3.11 per cent of the Lufthansa shares directly and indirectly (as notified on 15 January 2008). Other significant Lufthansa shareholders are Barclays Global Investors with 3.07 per cent (as notified on 13 November 2008) and Allianz SE via its subsidiary Süddeutsche-Industrie-Beteiligungs-GmbH with 3.06 per cent (as notified on 18 June 2008). As of the balance sheet date, institutional investors held 69.6 per cent of Lufthansa shares (previous year: 75.3 per cent). The proportion of shares held by private investors rose to 30.4 per cent (previous year: 24.7 per cent). This also includes the staff and management of Lufthansa who have invested in their Company by means of the stock programmes. Information on the stock programmes can be found in the Corporate governance chapter on page 34 or on the Internet at [www.lufthansa.com/investor-relations](http://www.lufthansa.com/investor-relations). The freefloat quota according to the standards of the Deutsche Börse was unchanged at 100 per cent.

## Investor relations

We remain true to our goal of informing all capital market participants comprehensively, transparently and in a timely manner of the Company's performance and the strategies and measures adopted. Especially in difficult economic times this is a prerequisite for gaining and retaining shareholders' trust. We therefore continued to develop our investor relations activities in 2008. The Executive Board and the Investor Relations team informed investors worldwide about the operative and strategic developments at Lufthansa in a total of 33 road shows and ten investor conferences. Altogether we held more than 450 individual and group meetings with institutional investors and analysts in the reporting period (previous year: 400). This was in addition to the regular face-to-face meetings and conference calls to comment on the quarterly financial statements.



We held our traditional Investor Day on 25 June 2008, at our Munich hub. The focus of the event was on providing greater insight into hub management, the cooperation and investment strategy and the Group initiative "Upgrade to Industry Leadership". We informed the capital markets in a timely fashion in the course of quarterly reporting and via the monthly Investor Info and other relevant news from the business segments. In addition to ongoing communications, credit investors were informed of the latest developments by three issues of our Creditor Info.

Private shareholders were notified of important events at Lufthansa by means of five issues of the shareholder Information. We also made Company presentations at three private shareholder forums with a total of 750 investors and provided detailed answers to their questions.

The Internet is becoming ever more important in terms of providing the capital markets with timely information. The number of visits to our website [www.lufthansa.com/investor-relations](http://www.lufthansa.com/investor-relations) remained very high at around one million visits in 2008. The online publication of communiqués, speeches and other important information is now taken for granted, not only at Lufthansa. The speeches of the Chairman of the Supervisory Board and the CEO at the Annual General Meeting can also be followed live on the Internet. We have also expanded our online services and restructured our website to enable rapid, user-friendly navigation. These are to be extended yet further in 2009 by additional features. Included will be an easily accessible online version of this Annual Report in accordance with the latest technical standards.

We give high priority to meeting all the relevant standards in capital market communications. These include the German Corporate Governance Code and the requirements of the Deutsche Börse. We have again been successful in doing so in 2008.

## Share indices and trading platforms

The Lufthansa share is included in many share indices. As a member of the DAX, Lufthansa is one of the 30 largest publicly listed companies in Germany. The Company was represented with a weighting of 1.16 per cent in the index as of the end of the year. It improved its ranking by one place to number 21. The Lufthansa share is also included in other international indices such as the Dow Jones EURO STOXX, MSCI Euro and FTSE Eurofirst 300.

Lufthansa's responsible approach to the environment, workforce and society was once again confirmed by its membership in the Dow Jones Sustainability World and FTSE4Good indices. In addition, Lufthansa is represented in the ASPI (Advanced Sustainable Performance Index) and the ESI (Ethibel Sustainability Index).

The year 2008 was also a year which saw high trading volumes for the share. A total of 1.6 billion Lufthansa shares changed hands, corresponding to a trading volume of EUR 24.2bn. In relation to the number of shares in circulation (457.9 million), this resulted in a turnover frequency of 3.5. The overwhelming majority (98.5 per cent) took place via the electronic trading platform Xetra. July and October were particularly active trading months with revenues of EUR 2.8bn and EUR 2.2bn, respectively.

In the USA, investors can also invest in Lufthansa via the Sponsored American Depositary Receipt Program (ADR). ADR trading volume currently amounts to less than 1 per cent of share capital.

Identification numbers for the Lufthansa share	
ISIN International Security Identification Number	DE0008232125
Security identification number	823212
ADR programme code	DLAKY
German stock exchange code	LHA
Reuters' code	LHAG.DE, Xetra
Bloomberg's code	LHA GY for Xetra, LHA GF, Frankfurt Stock, LHA GR, all LH share prices
Stock exchange centres	Frankfurt, Stuttgart, Munich, Hanover, Dusseldorf, Berlin, Bremen, Hamburg, Xetra
Prime sector	Transport & Logistics
Branch	Airlines
Indices	DAX, DivDAX, Dow Jones STOXX 600, Dow Jones EURO STOXX Mid, Dow Jones STOXX Global 1800, Dow Jones Sustainability Index World, FTSE4Good, FTSE Eurofirst 300, S&P Global 1200, S&P Europe 350, MSCI Euro

*Ladies and Gentlemen,*

Looking back at the past financial year we can see that 2008 was a successful year, but one which brought with it many challenges and important strategic decisions. We continued our close and trusting working relationship with the Executive Board in 2008. Throughout the year we carried out our duties in accordance with statutes, the Company's Articles of Association and its internal regulations. These are to monitor and advise on the work of the Executive Board.

As Chairman of the Supervisory Board I read the minutes of the Executive Board meetings and held discussions, primarily on Lufthansa's strategy and current course of business, with the Chief Executive Officer. The Executive Board also provided the entire Supervisory Board with regular written reports between meetings. The Executive Board's reporting obligations and the list of transactions requiring authorisation have been laid down in internal regulations.

The Executive Board provided us with full, timely information on the competitive environment, all significant strategic decisions and planned Company policy, as well as on projected capital expenditure and equity investments and the planned Group financing activities.

This time, the focus of the Supervisory Board meetings was primarily on the strategic options in the consolidation process underway in the European aviation industry, in addition to the economic development of Deutsche Lufthansa AG and its consolidated and affiliated companies. We supported the Executive Board's strategy of strengthening Lufthansa's competitive position by creating a European airline group of largely autonomous airlines. In this respect, the Supervisory Board gave its approval to the phased full takeover and integration of SN Airholding, the parent company of Brussels Airlines, and Austrian Airlines AG into the Lufthansa Group.

Other important decisions related to the investment in a new Business Class for the A340-300 fleet at SWISS and the purchase of reserve engines for the Embraer fleet. Furthermore, the Executive Board informed us in turn of changes in the shareholder structure, transactions with derivative instruments and of allocations to, and returns from, the Lufthansa pension fund. The statements made in the management reports by the Executive Board in accordance with Sections 289 (4) and 315 (4) German Commercial Code require no further explanation.

In 2008, the Supervisory Board held five ordinary meetings – on 10 March, 28 and 29 April, 24 September and 3 December – and one extraordinary meeting – on 17 May. No member of the Supervisory Board was present at fewer than half the meetings.

The five-year term of office of all the members of the Supervisory Board ended with the completion of the Annual General Meeting

on 29 April 2008. On behalf of the Supervisory Board I would like to thank the departing members Patricia Windaus and Sabine Wolbold, Dr Clemens Börsig, Manfred Calsow, Michael Diekmann, Robert Haller, Steffen Kühhirt, Dr Otto Graf Lambsdorff, Willi Rörig, Werner Schmidt, Thomas von Sturm, Dr Hans-Dietrich Winkhaus and Dr Klaus Zumwinkel for taking on this responsibility and for their commitment and ever constructive work.

The Nomination Committee, which consists unchanged of Messrs Hartmann, Dr Schlede and myself, met twice in spring to prepare the election of new Supervisory Board members. New shareholder representatives were then elected for five years at the Annual General Meeting 2008. This brought Dr Nicola Leibinger-Kammüller, John Allan, Dr Werner Brandt, Dr Jürgen Hambrecht, Dr Herbert Walter and Matthias Wissmann onto the Supervisory Board for the first time. The employees in the Lufthansa Group had previously elected Dominique Hiekel, Bernd Buresch, Jörg Cebulla, Eckhard Lieb, Wolf Liebetrau, Simon Reimann and Stefan Ziegler as new members of the Supervisory Board in spring 2008.

Mr Liebetrau retired with effect from 31 December 2008 and is therefore no longer a member of the Supervisory Board. He was replaced as of 1 January 2009 by the substitute member Marlies Rose, who was elected by the staff of the Lufthansa Group. The Supervisory Board thanks Mr Liebetrau for his responsible contribution to its work.

The election for the Chairman and Deputy Chairman of the Supervisory Board, held in the constitutive meeting of the newly elected Supervisory Board on 29 April 2008, was repeated in an extraordinary meeting held on 17 May due to an error of procedure. As a result, I was re-elected as Chairman of the Supervisory Board and Mr Bsirske was re-elected as Deputy Chairman of the Supervisory Board.

In addition to the Chairman and Deputy Chairman of the Supervisory Board, Mr Buresch and Dr Hambrecht were elected as members of the Steering Committee. The Steering Committee of the Supervisory Board held three meetings. In accordance with the latest recommendation of the German Corporate Governance Code the Steering Committee now only gives the Supervisory Board recommendations on the contents, form and signing of service contracts with the members of the Executive Board. However, the Steering Committee remains solely responsible for other staff matters regarding Executive Board members and senior managers. At the recommendation of the Steering Committee the Supervisory Board reappointed Mr Stephan Gemkow as Chief Financial Officer of Deutsche Lufthansa AG until 31 May 2014.

The obligatory Arbitration Committee required by Section 27 (3) of the German Codetermination Act, which is made up of the

Supervisory Board Chairman, the Deputy Chairman, Ms Hiekel and Dr Hambrecht, did not need to be convened in the reporting period.

A resolution was passed at the constitutive meeting of the Supervisory Board to increase the number of Audit Committee members from four to six, as the Committee's duties have become more and more extensive. Dr Schlede was elected as Chairman and Dr Brandt, Messrs Erwert, Hartmann, Lieb and Dr Wollstadt as members. The Committee met twice in the presence of the auditors.

Information on the committees' work was provided at the beginning of the Supervisory Board meetings. In September, the Supervisory Board reached a consensus on forgoing the use of free flights as provided for in the Articles of Association with immediate effect. In December, we reviewed the efficiency of our working practices and together with the Executive Board made an updated and unqualified declaration of compliance with the German Corporate Governance Code. There were no notifiable conflicts of interest in 2008.

We appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were elected as auditors for the parent company and the Group at the Annual General Meeting 2008, to audit the financial statements and consolidated financial statements, the management reports and the risk management system. The Audit Committee acknowledged the declaration of independence provided by PricewaterhouseCoopers and discussed the main topics of the audit. No potential grounds for disqualifying the auditors or doubting their impartiality occurred during the course of the audit.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The auditors audited the annual financial statements and consolidated financial statements of Deutsche Lufthansa AG and the corresponding management reports as of 31 December 2008 in accordance with the legal requirements, and had no reservations to make. They further confirmed that the risk management system set up by the Executive Board is suitable for the early identification of developments which could endanger the Company's continued existence. An updated risk report was presented to the Audit Committee in October. During their audit the auditor did not come across any facts in contradiction with the declaration of compliance.

In early March 2009, the Audit Committee discussed draft copies of the audit reports in detail. The auditors, the Chief Financial Officer and I were also present at the meeting. The auditors sent their reports to all members of the Supervisory Board in good time before the accounts meeting. The auditors who signed the annual financial statements took part in the accounts meeting. They reported on the findings of their audit and answered questions.



In the course of this meeting we examined the financial statements and the consolidated financial statements of Deutsche Lufthansa AG, the respective management reports and the proposal for profit distribution in detail and had no objections to make. The financial statements and the consolidated financial statements were approved. The 2008 annual financial statements of Deutsche Lufthansa AG as prepared by the Executive Board have thereby been adopted. We agree with the proposal for profit distribution.

We would especially like to thank the members of the Executive Board, and the employees of the whole Group and its associated companies for their personal contributions to the Company's impressive success in 2008.

Cologne, 10 March 2009

A handwritten signature in black ink, which appears to read 'J. Weber'.

For the Supervisory Board  
Jürgen Weber, Chairman

# Corporate governance

In its regular meeting on 6 June 2008 the Government Commission of the German Corporate Governance Code adopted an updated version of the Code. It was published on 8 August 2008 in the Federal Gazette, thereby taking effect. As in previous years, Lufthansa complies with all the recommendations of the Code and has issued an unqualified declaration of compliance.

## Declaration of Compliance with the German Corporate Governance Code

At their meeting on 3 December 2008, the Executive Board and Supervisory Board issued the following declaration of compliance with the German Corporate Governance Code: "In accordance with Section 161 of the German Stock Corporation Act, the Executive Board and Supervisory Board of Deutsche Lufthansa AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been complied with in full and will continue to be complied with in full". These recommendations and the Code's further suggestions, fulfilled voluntarily, are available for reference on our website [www.lufthansa.com/investor-relations](http://www.lufthansa.com/investor-relations).

## Shareholders and Annual General Meeting

Lufthansa shares are registered shares with transfer restrictions which all have the same voting rights. This means that shareholders take part in all fundamental Company decisions at the Annual General Meeting. Registration in the shareholders' register takes place by means of shareholder data provided electronically via banks and the clearing system. A peculiarity at Lufthansa is that in addition to the German Stock Corporation Act, the registration

requirements of the LuftNaSiG must also be met. Only shareholders registered in the share register can exercise their voting rights at the Annual General Meeting. As a service for our shareholders we arrange for them to be able to complete the registration process required by law via the Internet and give voting instructions until shortly before the Annual General Meeting. All the information can be found in the chapter "Share", on page 28.

## Executive Board and Supervisory Board

Both the Executive Board and the Supervisory Board of Deutsche Lufthansa AG have internal regulations governing the work within these boards and the cooperation between them. The three members of the Executive Board are jointly responsible for the management of the entire Company and inform each other of all significant activities and transactions. The Chief Executive Officer reports regularly to the Supervisory Board, which is made up of equal numbers of shareholder and employee representatives. He notifies the Chairman of the Supervisory Board of important matters.

The Executive Board takes decisions by simple majority of votes cast. There are a number of transactions for which the Executive Board requires the prior approval of the Supervisory Board. These particularly include: commencing new businesses, signing or cancelling control agreements and strategically important cooperation

agreements, long-term leasing of aircraft, establishing new companies above a certain value threshold, issuing bonds and long-term borrowing as well as investment in non-current assets. Four times a year the Executive Board informs the Supervisory Board on the course of the Group's business and that of its associated companies. Once a year it provides information on operational Group planning and financing.

The Supervisory Board elects a Steering Committee made up of four members with equal shareholder and employee representation, which makes recommendations to the Supervisory Board on the content, form and signing of service contracts with the Executive Board members. The Steering Committee is also responsible for other staff matters regarding Executive Board members and senior managers. A six-member Audit Committee with equal shareholder and employee representation is also elected, which is essentially responsible for matters relating to accounting principles, risk management and compliance. It also discusses the quarterly interim reports with the Executive Board before they are published. The three-member Nomination Committee has the task of suggesting suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting. The obligatory Arbitration Committee, required under Section 27 (3) of the Codetermination Act, is only convened when the necessary two thirds majority for appointing or revoking the appointment of a member of the Executive Board has not been reached. The Committee then has one month to make a proposal to the Supervisory Board.

Members of the Executive Board and Supervisory Board are personally liable to the Company for damages resulting from a culpable breach of their fiduciary responsibilities. A D&O (directors' and officers') liability insurance policy has been arranged for both boards with an appropriate excess.

The names of Executive Board and Supervisory Board members and their responsibilities, as well as the members and duties of committees set up by the Supervisory Board, are listed on page 201 et seq.

## Transparent accounting and financial communications

Lufthansa prepares the consolidated financial statements and the interim reports according to the International Financial Reporting Standards (IFRS). The recommendations of the International Financial Reporting Interpretations Committee (IFRIC) are also taken into account. The individual financial statements for Deutsche Lufthansa AG, which are required by law and are definitive for the dividend payment, are prepared according to the German Commercial Code (HGB). PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in Düsseldorf has been appointed

to audit the financial statements for 2008. The auditors' fees for the 2008 financial year are summarised in the notes to the consolidated financial statements, Note 53, page 199.

Lufthansa informs shareholders, analysts and the general public in a timely and equitable manner. More information on these activities can be found in the chapter "The Lufthansa share" and on the Internet at [www.lufthansa.com/investor-relations](http://www.lufthansa.com/investor-relations).

Trading in Lufthansa shares, options or other derivatives based on the Lufthansa share by members of the Executive Board, Supervisory Board and members of the Board of Lufthansa Passenger Airlines – known as directors' dealings – are announced straight away as soon as a threshold of EUR 5,000 p.a. is exceeded. This also applies to people and companies closely related to the group mentioned above. The value of all shares, options or derivatives held by members of the Executive and Supervisory Boards does not exceed that of 1 per cent of all shares issued by the Company.

## Executive Board and Supervisory Board remuneration

The Executive Board's remuneration consists of three components: fixed annual salary, a variable annual bonus and remuneration based on long-term incentives. The latter two each have an element of risk. In addition to their fixed salary the Supervisory Board members also receive remuneration based on the dividend payment. Detailed notes on the structure of Executive Board and Supervisory Board remuneration and on the amounts paid to the individual members are published in the notes to the consolidated financial statements starting on page 195, Note 51.

## Compliance

Compliance describes all measures taken to ensure the correct conduct of companies, their management and staff with respect to statutory obligations and prohibitions. The Lufthansa Compliance Programme is intended to prevent our staff from coming into conflict with the law and help them to apply statutory regulations correctly.

The Lufthansa Compliance Programme is made up of the following elements: Competition, Capital Markets, Integrity and Corporate Compliance. An ombudsmen system gives the staff the opportunity to report any suspicion of criminal activity or breaches of the compliance regulations. The central Compliance Office and the Compliance Officers in the Group companies ensure that the Compliance Programme is enforced throughout the Group. The Audit Committee is informed regularly by means of a Compliance Report.





# 1. The Lufthansa Group

## 1.1 Business activities

Deutsche Lufthansa AG is an aviation company with operations worldwide. The Group operates in five business segments, which provide mobility and services for airlines. They play a leading role in their respective segments. The Group includes more than 400 subsidiaries and associated companies.

With its strategic business segment Passenger Transportation and Logistics Lufthansa provides mobility for passengers and freight. The airlines in the Lufthansa Group are positioned as premium carriers in their respective segments, and are among the leaders in their industry. In the reporting year we began to expand the group of passenger airlines with new partners, which will further strengthen Lufthansa's position in its European home market in the future. Lufthansa Cargo is also a market leader in international airfreight. In addition to its global network, Lufthansa Cargo satisfies its clients with short transport times and high quality standards in many, sometimes highly specialised, product areas.

With the three business segments MRO, IT Services and Catering, Lufthansa also provides comprehensive services for its own airlines, and increasingly for those outside the Group. Lufthansa Technik is a global leader in the maintenance, repair and overhaul of civil aircraft. Its services cover the whole range from individual commissions to the complete servicing of whole fleets. Lufthansa Systems is one of the world's leading IT service providers for the aviation industry with a wide offering from customised IT solutions for airlines to operating entire IT infrastructures. LSG Sky Chefs is the global market leader in airline catering. The 124 companies in the Group supply nearly all international, and many of the national and regional, airlines. The LSG Sky Chefs Group, which has also established a reputation as a successful full-service supplier for in-flight management, i.e. services such as product design and management of in-flight sales, has nearly 500 clients. The individual business segments are described in detail in the "Business segments performance" chapter, from page 72.

In 2008, the Lufthansa Group had an average of 108,123 employees and generated revenue of some EUR 24.9bn.

### Organisational chart as of 31.12.2008



## 1.2 Organisation

As is common in Germany, Deutsche Lufthansa AG has separate management and supervisory structures. The Executive Board is responsible for managing the Company, determining its strategic orientation and ensuring that its value is increased sustainably. The Supervisory Board appoints, advises and supervises the Executive Board.

The Lufthansa Group is managed by three Executive Board members: the Chief Executive Officer, the Chief Financial Officer and the Chief Officer for Aviation Services and Human Resources. Responsibility for key corporate functions is divided among the three members. Deutsche Lufthansa AG acts as the parent company and at the same time is the largest single operating company in the Group. The individual business segments are run as separate Group companies, with the exception of Passenger Transportation.

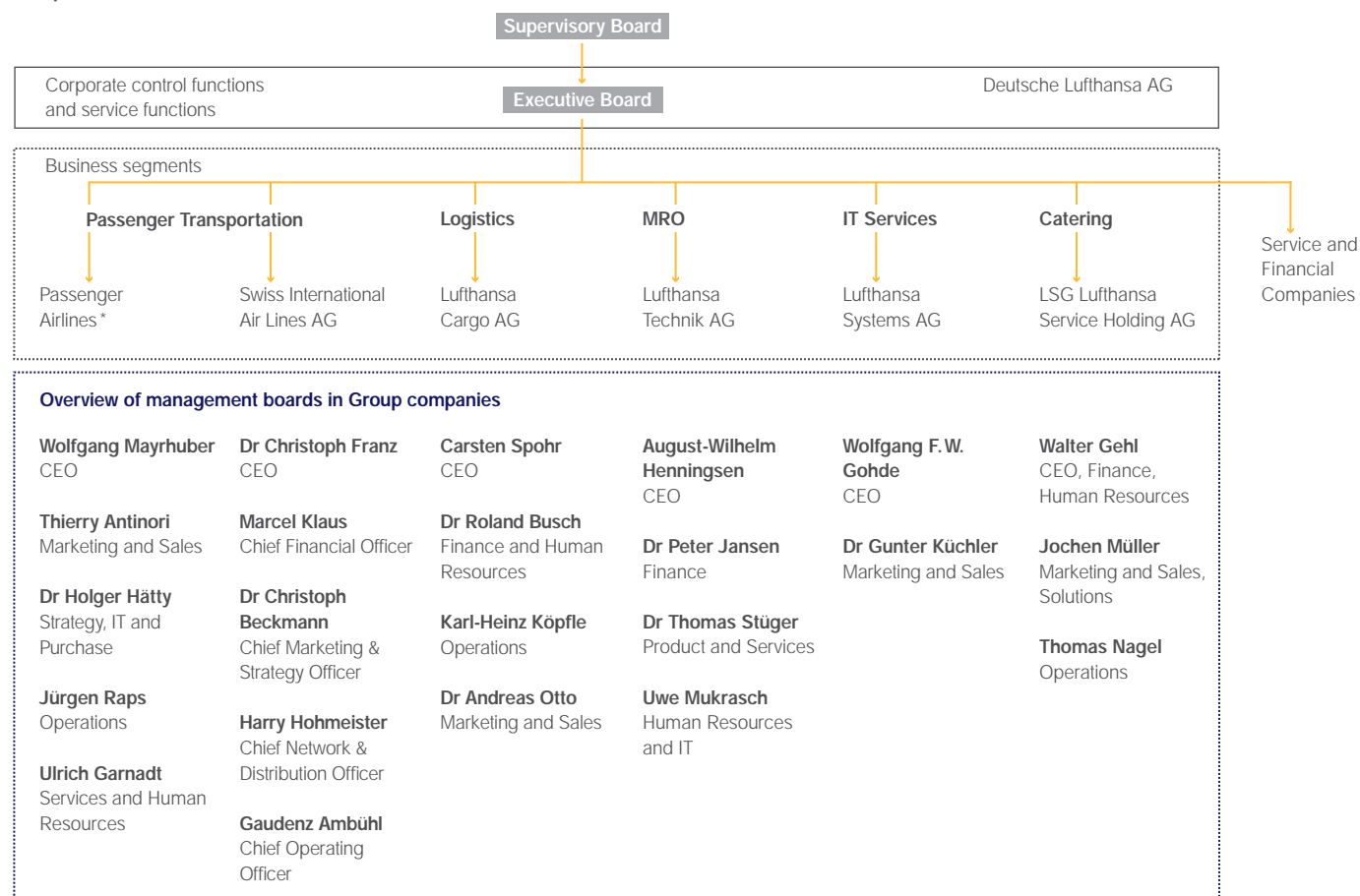
Control and profit and loss transfer agreements are in place. The companies are responsible for their own businesses and results. They are monitored by their own Supervisory Boards, in which members of the Group's Executive Board are represented.

More information is available in the notes to the consolidated financial statements, Note 51, starting on page 195.

## 1.3 Group strategy

**Strengthening the foundations for profitable growth** Despite the current turbulence from the financial and economic crisis, global aviation remains a fundamental growth industry. However, at present it is dominated by the effects of the economic cycle. The high oil price in conjunction with the effects of the economic crisis is having wide-reaching consequences for the sector. A series of regulatory and structural changes such as the liberalisation of air traffic between Europe and the USA have also left their mark.

### Group structure



\* Autonomous unit accountable for its own results.

These changes are explored in more detail in the “Sector developments” chapter (page 46). The current developments constitute a challenge for the industry, but also present opportunities for a profitable aviation company with global operations such as Lufthansa. This is because we are strategically, operationally and financially prepared for economic fluctuations. Our Group strategy, which is based on the following five pillars, aims for sustainable value creation and is an expression of our commitment to shareholder value. It remains the case that profitability has priority over size.

**Values** The foundation for all business segments and factors of their success are the brand values quality, reliability, innovation, trust and proximity to the customer. The segments also offer each other reciprocal support. For instance, Lufthansa Technik has had a decisive influence on our overall image in terms of quality, safety and reliability. These are success factors which are also appreciated by customers in the passenger and freight business. We create competitive advantages by means of constant innovations such as “paperless” flying in passenger transportation or the use of lighter cargo containers in logistics. We also consistently improve our proximity to the customer, whether by opening local production facilities in the catering sector or by expanding the connections for our passengers outside the hubs as well. The integration of our airline group partners also makes a contribution thanks to their competence in their home markets. The decentralised structures within the Group promote profit and loss responsibility and entrepreneurialism, and so also contribute to putting our values into practice in all areas and regions.

**Profitability** We are aiming for the pole position among European network carriers in terms of profitability. In order to meet this objective, even in the current difficult environment, the continual

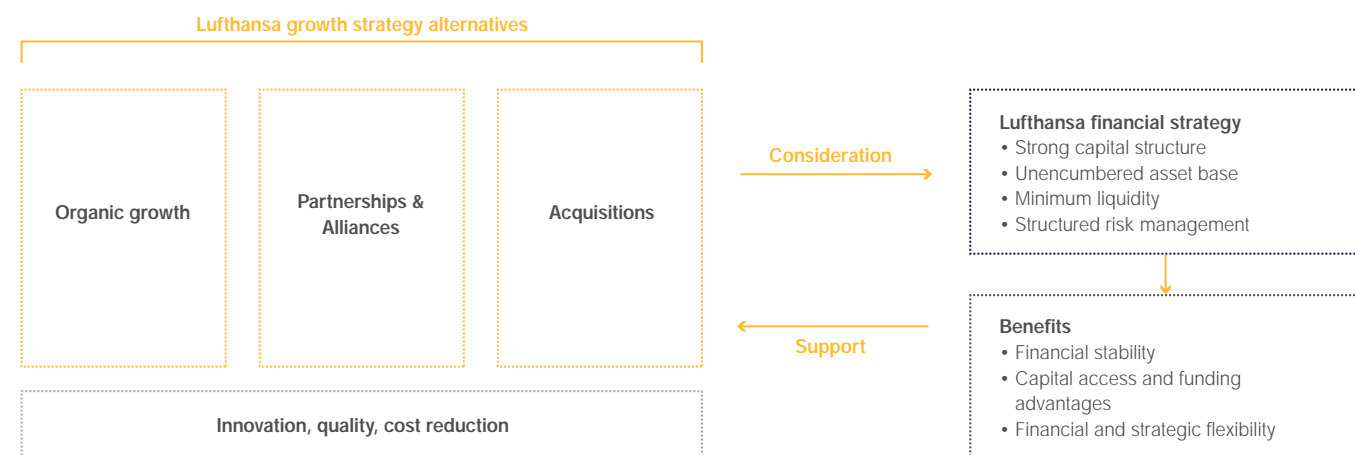
optimisation of income and costs is, for us, the highest priority. All business segments therefore run programmes intended to increase their revenue and sustainably reduce costs. Given the dependence on the state of the economy, a large portion of the efforts in all segments is spent on achieving further flexibility in cost structures. This is attained by innovative agreements in wage settlements, an intelligent fleet policy and capacity and revenue management which track the markets closely. In order to optimise income still further we also improve our products and service continuously and ensure that our offering is aligned with our clients’ requirements.

In addition, more than 100 projects are currently being pursued and implemented as part of the Group-wide initiative “Upgrade to Industry Leadership” launched in 2007, which will contribute to a lasting increase in profitability.

Due to their different cycles our portfolio of business segments also has a stabilising effect on the profitability of the Group as a whole and supports its sustainable development. All areas of the Company are committed to adding value and are managed according to the cash value added (CVA) concept. The CVA is anchored in all planning, management and reporting systems as a key performance indicator and is a decisive factor for capital expenditure and management remuneration (see also “Value-based management”, page 41).

**Growth** The long-term growth prospects for the aviation industry remain intact. All business segments in the Lufthansa Group have a sound base from which organic growth is possible. At the same time, they have achieved the necessary flexibility demanded by

#### Strategic perspectives: assessment of valid growth alternatives including financial implications



the cyclical nature of the industry to adjust their growth to market requirements and thereby be in a position to improve profitability. At Group and segment level we evaluate the opportunities and risks of the different markets in the same way, and adjust the growth scenarios accordingly. In 2008, for instance, as part of its demand-driven capacity strategy Lufthansa Passenger Airlines not only ramped up its capacities more aggressively than its competitors but also sold them at higher load factors. Over the course of the economic slowdown they have adjusted their planned capacity growth for 2008 and 2009 downwards in several stages (see Passenger Transportation business segment, page 72). However, in times like these the aim is also to further strengthen the basis for future profitable growth. We will therefore invest in modernising our fleet and making further improvements to our network quality in 2009 as well. This means that we are prepared to respond to any improvement in market conditions at relatively short notice and to benefit promptly by organic growth from a return to better times.

We are also continuing to extend and intensify our cooperation agreements and alliances. This has a number of advantages. Above all it enables rapid market access at lower investment volumes and with a limited market entry risk. In the Passenger Transportation business segment, for instance, we have gained new partners with strong positions in their home markets for the Star Alliance with Turkish Airlines, Egypt Air, Continental Airlines, TAM, Air India and Brussels Airlines.

Another growth alternative is active participation in the ongoing consolidation process. In this context we also examine opportunities for taking equity stakes in other companies, right up to a full takeover. Before a commitment of any kind is made, however, key conditions must be met: It must support Lufthansa's strategic lines of development and satisfy the business, cultural and economic criteria for successful collaboration. Our analysis is particularly focused on cost and income synergies, the profitability of the potential partner and the effects of a consolidation on the Group's balance sheet. Lufthansa has shown many times that it is capable of leading companies from difficult waters through to success and of integrating them into the Group.

**Focus on core competences** Growth in the strategic business segment Passenger Transportation follows a clear logic and requires free financial and management capacities to be created in other areas of the Company. For Lufthansa, Germany is an essential location, Europe is the home market and the world represents growth potential. A precondition for global growth is to secure and develop our position in the home market. This is because it is Lufthansa's pole position in Europe which makes us attractive and therefore relevant as a partner for growth markets outside Europe. For this reason, we will continue to permanently develop the Group and are preparing ourselves to lead a larger group with a stronger airline profile. Given the limited financial and management resources it is nevertheless necessary, now more than ever, to concentrate on core competences. This applies equally to the Group as a whole and to the individual business segments. Their relevance is largely determined by their importance for the competitiveness of, and their interdependency and "competence fit" with, the strategic business segment Passenger Transportation. If the activities of a business segment are less relevant for the position of Passenger Transportation, we also examine solutions for developing this segment outside the Lufthansa Group. In future portfolio management activities we will be guided as hitherto by a transaction's potential for increasing in value.

**Financial strength** The financial crisis has confirmed our view that financial flexibility and stability are decisive for maintaining our strategic freedom of action and making us less dependent on outside influences. Lufthansa's growth plans are therefore buttressed and secured by its solid financial profile. A minimum liquidity requirement which meets demanding criteria, a number of bilateral banking relationships, a solid capital structure, the investment-grade rating and a high level of financial and operating flexibility thanks to a largely unencumbered fleet typify the Group's financial situation. The high degree of volatility on crude oil markets has also impressively underlined the benefits for the Group's controlled development of our systematic approach to analysing and limiting financial risks, such as fuel costs. More information on the financial strategy is available in the "Financing" chapter (page 64).



## 1.4 Value-based management

### 1.4.1 Cash value added

We have been managing the Lufthansa Group according to the principles of value-based management since 1999. Our aim in doing so is to increase the Company's value durably. This approach is applied in all planning, management and controlling processes. This is aimed at securing targeted, long-term, continual growth in the value of the Company for investors and lenders. We continually measure the extent to which this target is met and provide information on it in internal and external reports. As this concept is anchored in the system of performance-related pay, we create an incentive for acting in the spirit of these corporate goals and showing entrepreneurial commitment.

The decisive parameter for measuring performance is cash value added (CVA). The CVA is based on the return expectations of all investors and lenders and gives information on whether value has been generated in a given period. When the CVA is positive we have achieved the goal of adding value.

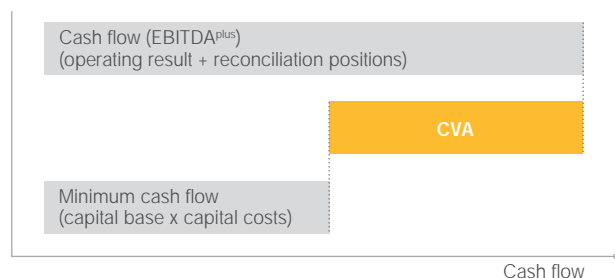
By using the value-based management system we ensure that the demands of investors and lenders are anchored in the management of the entire Company. Operating indicators and value drivers are derived from the CVA and used to manage operating performance in the respective business segments.

### 1.4.2 Calculating CVA

Cash value added is an absolute residual amount. To calculate the value created in a reporting period the cost of capital employed is deducted as a minimum required cash flow from the cash flow generated (EBITDA<sup>plus</sup> – as explained below). The CVA is positive when the actual cash flow is higher than the minimum cash flow required to cover the cost of capital employed and value is generated.

The following graph shows how the individual parameters are calculated:

#### Calculation of cash value added



The minimum required cash flow is the sum of the required return on capital employed, a capital recovery rate and the flat tax rate.

The capital base is the total of non-current and current assets less interest-free liabilities. In this approach the capital base is determined at historical cost, so that the calculation of value created and its evolution over time are independent of the depreciation or amortisation method applied.

The return on capital is calculated using the weighted average cost of capital (WACC), which includes both debt and equity. The factors entering into the cost of capital for 2008 are shown in the following table. They are reviewed and updated annually.

Return on capital 2008	
in %	
Risk-free market interest rate	4.2
Market risk premium	5.7
Beta factor	1.1
Proportion of equity	50
Proportion of debt	50
<b>Cost of equity</b>	<b>10.5</b>
<b>Cost of debt</b>	<b>5.4</b>

The calculation is based on a target capital structure of 50 per cent quoted equity and 50 per cent balance sheet debt for the Group and the business segments in line with the financial strategy. The cost of capital is differentiated according to the different business risks of the segments. These are reflected in the cost of capital in the form of beta factors. The beta factors are also regularly derived from an external peer comparison and an internal management survey. This involves assessing the specific segment risks in comparison to the DAX average. When the individual parameters were reviewed as scheduled in 2008, the overall result confirmed the WACC of 7.9 per cent. The following table illustrates the required return on capital for the Group and the individual business segments.

<b>Cost of capital (WACC)</b> for the Group and the business segments					
in %	2008	2007	2006	2005	2004
Group	7.9	7.9	7.9	8.6	8.6
Passenger Transportation	7.9	7.9	7.9	8.6	8.6
Logistics	8.2	8.2	8.2	8.9	8.9
MRO	7.6	7.6	7.6	8.3	8.3
IT Services	7.9	7.6	7.6	8.3	8.3
Catering	7.6	7.9	7.9	8.6	8.6

In addition to the return on capital, the declining value of assets (economic depreciation) is an additional component of the minimum required cash flow. This is measured by what is known as the capital recovery rate. If this is applied to the capital base, the result is the percentage of the historical cost of assets which needs to be earned annually over its useful life in order to recover the historical cost, after accounting for interest. Finally, the expected tax payment is added – in simplified form, by applying a surcharge of currently 1.2 per cent of the capital base. The minimum required cash flow for the reporting period was EUR 2.6bn.

EBITDA<sup>plus</sup> is the figure used in the CVA concept for the effectively generated cash flow. It is derived from the operating result by adjusting for non-cash items. These are mainly depreciation and amortisation and net changes to pension provisions. Other items are the pre-tax results of equity investments which are not fully consolidated and book gains on the disposal of non-current

assets. EBITDA<sup>plus</sup> therefore includes all cash-relevant items which are influenced by management. In the reporting year it came to EUR 3.2bn.

In order to obtain the CVA the minimum required cash flow is deducted from the EBITDA<sup>plus</sup>. In 2008, the Group generated a CVA of EUR 654m and the objective of creating value was met again. The figure is nevertheless below the amount for 2007 (EUR 1,546m), marked by the included portfolio measures. We endeavour to create value over each aviation cycle.

<b>Value creation (CVA) of the Lufthansa Group and the individual business segments</b>					
in €m	2008	2007	2006	2005	2004
Group	654	1,546	552	386	151
Passenger Transportation	346	768	317	– 53	64
Logistics	71	59	37	39	– 26
MRO	188	205	85	121	86
IT Services	29	– 16	32	36	40
Catering	– 17	21	– 50	– 71	– 274
Service and Financial Companies	54	7	– 88	239	403

### 1.4.3 Value-based management using operating indicators at all levels of management

In order to positively influence value creation and thereby the CVA in a targeted manner, the Lufthansa Group has developed a system of key performance indicators. It contains the main value levers which management can influence by its decisions. Changes in these value drivers have a direct effect on the operating result, the capital base and thus on the CVA.

<b>Reconciliation EBITDA<sup>plus</sup></b>		
in €m	2008	2007
Operating result	1,354	1,378
Depreciation/amortisation	1,274	1,160
Result from tangible asset disposal	– 3	13
Income from reversal of provisions	157	163
Impairment losses	– 15	– 44
Change in pension provisions before interest	168	190
<b>Cash flow from operating activities EBITDA<sup>plus</sup></b>	<b>2,935</b>	<b>2,860</b>
Pro rata results of non-consolidated subsidiaries	69	406
Interest income	175	186
Result from financial asset disposal	28	481
<b>Financial cash flow EBITDA</b>	<b>272</b>	<b>1,073</b>
<b>Cash flow EBITDA<sup>plus</sup></b>	<b>3,207</b>	<b>3,933</b>

## 1.5 Performance-related remuneration

Incentive programmes have a long tradition at Lufthansa as part of the remuneration of Executive Board members, managers and staff. There is a two-stage performance-related pay philosophy for managers in addition to basic salary.

Firstly the “LH-Bonus” programme pays a variable remuneration component relating to the reporting period and oriented towards the Company’s value creation (measured by the CVA) and the manager’s personal fulfilment of targets.

Since 1997, we have also offered our managers an overarching, longer-term component: the annually renewed stock programme “LH-Performance”. This programme combines a personal investment by the participants in Lufthansa shares with the granting of appreciation rights. The Executive Board members have also been able to take part in “LH-Performance” since 2002. In 2003, the programme was also extended to non-pay scale staff.

Lufthansa gives a discount on shares purchased as part of this programme. The shares may not be sold before the end of the programme. Since 2007, the appreciation rights granted with the investment in shares have consisted of a performance and an outperformance option. Lufthansa makes a payout on the performance option when the price of the Lufthansa share reaches a set hurdle over the three-year duration of the programme based on the cost of equity. The participants receive a payment from the outperformance option at the end of the programme if the Lufthansa share has performed better over the course of the programme than a basket made up of the shares of the main European competitors. The amount of the payment depends on the level of performance and outperformance up to a defined cap. This makes the participants shareholders on the one hand, with all the related risks and rewards, and also remunerates them for a specific Company performance acknowledged by the capital markets. More information on our share programmes is available at [www.lufthansa.com/investor-relations](http://www.lufthansa.com/investor-relations).

### Results “LH-Performance”

	Expiry of programme	Outperformance as of 31.12.2008 in %	Performance as of 31.12.2008 in %
LH-Performance 2008	2011	– 5.9	– 21.6
LH-Performance 2007	2010	14.6	– 41.6
LH-Performance 2006	2010	26.9	–
LH-Performance 2005	2008	56.3*	–
LH-Performance 2004	2008	58.8*	–

\* Figures as of programme expiry.

## 1.6 Remuneration report in accordance with Sec. 315 Para. 2 No. 4 HGB

The remuneration structure for the Executive Board strives to attribute roughly equal weight to the three components fixed annual salary, variable annual salary and remuneration with long-term effects incentive and risk character, in a situation where the operating result is satisfactory and the Lufthansa share performs well or outperforms the market. The members of the Supervisory Board receive a dividend-linked payment in addition to their fixed benefits. The detailed remuneration report and payments for the members of the Executive and Supervisory Boards are published in Note 51 to the consolidated financial statements, from page 195.

## 1.7 Disclosures in accordance with Sec. 315 Para. 4 HGB

### Composition of issued capital, types of shares, rights and duties

Deutsche Lufthansa AG’s issued capital amounts to EUR 1,172m and is divided into 457,937,572 registered shares. Each share corresponds to EUR 2.56 of the issued capital. The transfer of shares requires the Company’s authorisation (restriction of transferability). The Company may only withhold authorisation if registering the new shareholder in the share register could jeopardise the maintenance of air traffic rights. Each registered share is entitled to one vote. Shareholders exercise their rights and cast their votes at the Annual General Meeting in accordance with statutory regulations and the Company’s Articles of Association.

**Voting and transfer restrictions** For the Company to retain its aviation licence under European law, and the air traffic rights required to fly to international destinations outside Europe, the proportion of foreign shareholders may not exceed 50 per cent of the Company’s issued capital. If the proportion of foreign shareholders reaches 40 per cent, Deutsche Lufthansa AG is entitled under Sec. 4 Para. 1 German Aviation Compliance Documentation Act (LuftNaSiG) in conjunction with Sec. 71 Para. 1 No. 1 Stock Corporation Act (AktG) to acquire shares to avert imminent excessive foreign control. If the proportion of foreign shareholders in the share register reaches 45 per cent, the Company is authorised, subject to Supervisory Board approval, to increase the issued capital by issuing new shares for payment in cash by up to 10 per cent, without subscription rights for existing shareholders (Sec. 4 Para. 2 and 3 LuftNaSiG in conjunction with Sec. 4 Para. 4 of the Company’s Articles of Association). If the proportion of foreign shareholders approaches the 50 per cent threshold, the Company is entitled to withhold authorisation to register new foreign shareholders in the share register (Sec. 5 Para. 1 of the Company’s Articles of Association).

Should the proportion of foreign investors exceed 50 per cent despite these precautions, Deutsche Lufthansa AG is authorised, subject to the approval of the Supervisory Board, to require the most recently registered shareholders to sell their shares. If they do not comply with this requirement within four weeks, the Company is entitled, after a further notice period of three weeks, to declare the shares to be forfeited and to compensate the shareholders accordingly (Sec. 5 LuftNaSiG).

On 31 December 2008 the proportion of foreign shareholders was 22.6 per cent.

**Direct or indirect shareholdings with more than 10 per cent of voting rights** According to notification received by the Company on 7 July 2006, 10.56 per cent of the voting rights are held by AXA S.A., Paris, of which 10.09 per cent by its US subsidiary Alliance-Bernstein L.P. There are no other shareholders with a share of issued capital of more than 10 per cent.

**Holders of shares with special rights** Lufthansa has no shares with special rights.

**Control of voting rights for employee shares when control rights are exercised indirectly** This regulation is not applied in Germany.

**Statutory regulations and provisions of the Company's Articles of Association on the appointment and dismissal of members of the Executive Board, and amendments to the Company's Articles of Association** The Supervisory Board appoints the members of the Executive Board and decides how many board members there should be. The Supervisory Board can revoke appointments for board membership and to the position of Chairman of the Executive Board for good reason. All amendments to the Articles of Association must be approved by resolution of an Annual General Meeting, with a majority of at least three quarters of the issued capital present.

**Powers of the Executive Board (share buy-backs, share issues)** Deutsche Lufthansa has authorised capital of up to EUR 225m:

A resolution passed by the Annual General Meeting on 25 May 2005 authorised the Executive Board until 24 May 2010, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 200m, by issuing new registered shares for payment in cash or in kind (Authorised Capital A). Existing shareholders are to be granted subscription rights in principle.

A resolution passed by the Annual General Meeting on 16 June 2004 authorised the Executive Board until 15 June 2009, subject to approval by the Supervisory Board, to increase the issued capital on one or more occasions by up to EUR 25m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded.

The Executive Board is also authorised until 16 May 2011, to issue convertible bonds, bond/warrant packages or profit-sharing rights – or combinations of these – for a total nominal value of up to EUR 1.5bn, and to increase the issued capital by up to EUR 117,227,520 by issuing up to 45,792,000 new Lufthansa shares (around 10 per cent).

In addition, the Company is authorised by resolution of the Annual General Meeting on 29 April 2008 to buy back its own shares until 18 October 2009. The resolution can be used to expand the financing alternatives in the event that another company or an equity stake in a company is acquired. The proportion of shares acquired on the basis of this authorisation, along with any other Lufthansa shares that the Company has already acquired and still holds, must at no time amount to more than 10 per cent of issued capital.

Further information on authorised capital, contingent capital and share buy-backs is given in Note 34 to the consolidated financial statements, page 167.

**Change of control agreements relating to the parent company** No such agreements are in place at Lufthansa.

**Compensation agreements with members of the Executive Board or employees in the event of a takeover offer** In the event of a change of control at Deutsche Lufthansa AG defined more precisely in the employment contract, the Executive Board member and the Company are entitled to terminate the contract within twelve months of this change of control.

If the contract ends because the special termination right is exercised or the contract is revoked amicably within twelve months of and in connection with the change of control, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract.

In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract (Note 51 to the consolidated financial statements).

## 2. Economic environment

### 2.1 Macroeconomic situation

#### 2.1.1 Economic growth

GDP growth yoy					
in %	2008*	2007	2006	2005	2004
World	2.3	4.0	4.1	3.5	3.9
Europe	1.0	3.0	3.3	2.3	2.5
- Germany	1.0	2.6	3.2	1.0	0.7
North America	1.2	2.1	2.8	2.9	3.6
South America	3.9	5.4	5.4	4.5	5.6
Asia/Pacific	3.7	6.4	5.6	4.9	5.2
- China	9.0	13.0	11.6	10.4	10.1
Middle East	6.0	5.2	7.3	6.1	7.2
Africa	5.5	6.0	5.8	5.5	5.2

Source: Global Insight World Overview as of 14.2.2009.

\* Forecast.

In the second half-year of 2008 the global economy was dominated by the financial and property crisis and slowed considerably. The financial crisis worsened again sharply following the insolvency of several banks. In addition to substantial economic losses, this resulted in a breakdown of confidence in the financial markets worldwide. Financing conditions for companies and private households have similarly taken a turn for the worse. Billions in emergency funds were made available worldwide in response to this in order to ensure lending functions and combat the dearth of liquidity in the money markets. Furthermore, several central banks took concerted action to make sometimes massive cuts in their prime interest rates.

The effects on the real economy are nevertheless very tangible throughout the world. Many countries are in recession; some are on the brink of insolvency. In recent months, emerging markets have also been more severely hit by the turmoil on financial markets. This all took place in an environment in which the trend of the global economy to overheat in recent years had already prepared the way for a period of cyclical cooling down. According to preliminary figures global growth declined compared with the previous year to 2.3 per cent (previous year: 4.0 per cent), and is continuing to trend downwards. The state of the economy is a vital driver for air traffic and therefore also has a marked influence on the course of business and earnings development at the Lufthansa Group. Further comments on this subject can be found in the Risk report on page 114.

In the USA, the economic climate was determined by the worsening financial and property crisis, which resulted primarily in a credit crunch with negative consequences for consumer and investment demand. The US central bank and the US administration took wide-ranging measures. These included sharp cuts in interest rates, relieving banks of some of their credit risk and the preparation of a massive programme to stimulate the economy. Domestic demand faltered as a result of the crisis. Both private consumer expenditure, which makes up around 70 per cent of the gross domestic product in the USA and is therefore more important than in other countries, and industrial production sank sharply. The depreciation of the US dollar helped exports, which produced a slightly positive impetus. Economic growth of 1.3 per cent is forecast for 2008 (previous year: 2.0 per cent).

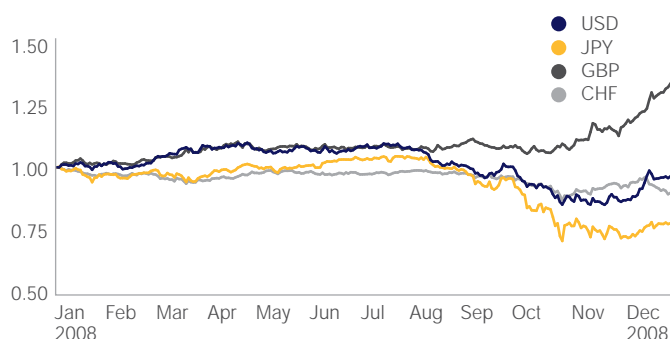
The economy also stumbled in the Asia/Pacific region, although countries there continued to exhibit varying rates of growth. Overall economic expansion in Asia dropped to 3.7 per cent compared with 6.4 per cent the previous year. Japan's export-led performance was hit particularly hard by the global economic downturn and the rise of the yen. Exports to the USA in particular showed a sharp fall. In 2008 its economic growth came to a standstill, slowing from 2.4 per cent in 2007 to a forecast -0.4 per cent in 2008. The Chinese economy too has been affected by the global economic slowdown. In recent years growth rates have always been in double figures (previous year: 13.0 per cent), but for 2008 growth of a mere 9.0 per cent is expected. A sharp fall in exports became particularly apparent towards the end of the year. However, higher incomes meant that consumer expenditure remained robust.

In Europe, a drop in the growth rate to 1.0 per cent is expected for 2008, after 3.0 per cent the previous year. Here too, the worldwide financial and property crisis weighed on the state of the economy. While countries such as Ireland and Spain, which had previously experienced a property boom, were tangibly affected by the correction in property prices, other countries such as Germany and Austria felt the indirect and delayed effects of the crisis in the form of weaker overseas demand. Thus the German economy began the year positively, before sharply losing momentum in the second half-year as well. The mood deteriorated rapidly in the final months of the year. Although domestic demand still delivered slight growth, external trade has recently no longer provided any stimulus. Adverse price movements have largely depleted rises in income due to higher employment and greater wage increases. Overall, growth of 1.0 per cent is expected for 2008 (previous year: 2.6 per cent).

### 2.1.2 Currency development

The US dollar has lost an annual average of around 8 per cent of its value against the euro. The negative effects on the income side were offset by positive effects on the expenses side and by capital expenditure in the fleet made in US dollars. The appreciation of the Japanese yen had a mildly positive effect for Lufthansa, as ticket income in this currency became more valuable, but the depreciation of the pound sterling had a negative effect on income. As a whole, the different currency developments had a mildly positive effect on the operating result of the Group.

Currency development 2008 1 EUR in foreign currency



Currency development € in foreign currency

	2008	2007	2006	2005	2004
USD	1.4743	1.3615	1.2565	1.2443	1.2440
JPY	153.59	161.04	146.14	136.85	134.41
GBP	0.7901	0.6807	0.6817	0.6836	0.6783
CHF	1.5896	1.6430	1.5730	1.5481	1.5432

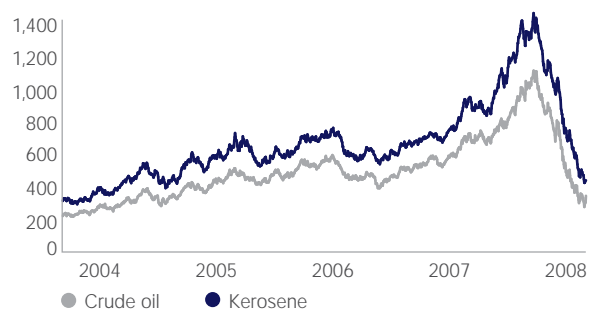
Source: Reuters, annual average daily price.

### 2.1.3 Oil price development

Strong fluctuations in oil prices with historically broad spreads also made 2008 a remarkable year. The first half of the year saw a historic price rise to USD 146.08/barrel at the peak, which was undone by an even steeper fall in prices in the second half-year. In the face of rapidly darkening prospects for the economy, oil prices came under sharp downward pressure from the middle of the year and plumbed a four-year low in December at USD 36.61/barrel. The average price was USD 99/bbl, which was 36 per cent above the previous year's already high level. The price fluctuations were exacerbated in both directions by the spread over the price for kerosene ("jet-fuel crack"). It rose at the peak by 174 per cent to USD 47/barrel but sank again due to the drop in demand to

USD 15/barrel (-68 per cent compared with previous year) at the end of 2008. The price of kerosene fluctuated overall between USD 423 and USD 1,452 per tonne. On average over the year, the price was around USD 1,001 per tonne and therefore around USD 294 per tonne or 42 per cent higher than in 2007. Given the great significance of fuel costs for Lufthansa's profitability, we deploy a hedging policy to reduce the extent of fluctuations. Its principles, instruments and effects are explained in more detail in the "Risk report", from page 114.

Price development of crude oil and kerosene in USD / t

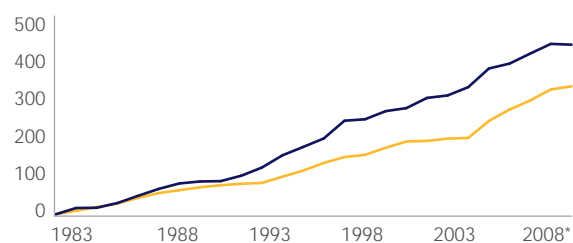


Source: Lufthansa based on market data.

## 2.2 Sector developments

### 2.2.1 Development of air traffic

Demand development in revenue passenger kilometres (RPK) and available cargo tonne-kilometres (FKT) indexed, 1983 = 100



\* Preliminary figures for FKT (IATA Economic Forecast)  
Source: ICAO News Release.

After years of growth the global economic downturn is now affecting the entire aviation industry. As well as the mature markets in Europe and North America, the growth markets in emerging economies, especially Asia, are also being hit. Neither the classic scheduled airlines nor the no-frills carriers can escape these developments. In the short term, declining demand is forecast, with the exception of the Middle East and South America. Over the medium and long term, however, the aviation sector is expected to experience continued dynamic growth. These developments could present opportunities as some competitors leave the market and the aviation industry consolidates further.



## 2.2.2 Current sector situation

As a result of slackening economic expansion the growth rate for international air traffic also sank in comparison with the previous year. Freight traffic is particularly affected. According to IATA calculations, passenger traffic grew by 1.6 per cent in 2008, while freight traffic shrank by 4.0 per cent.

Growth rates for passenger traffic in Europe and North America – which were still very sound at the beginning of the year – declined continuously over the course of the year. Overall these regions reported modest growth of 1.8 and 2.9 per cent, respectively. The Asian markets were initially adversely affected by various factors (e.g. earthquake in China, Tibet debate, visa restrictions in connection with the Olympic Games). The decline in global economic activity in the second half of the year also left its mark. As a result, passenger traffic dropped by 1.5 per cent. In contrast, growth by airlines from the Middle East continued despite the turbulence on world markets, and on the back of substantial capital expenditure in aircraft and airport infrastructure. In freight traffic the slump in demand continued apace in the fourth quarter, leading to negative growth rates for the full 2008 financial year in all regions with the exception of the Middle East. The fall in Asia was especially sharp at –6.6 per cent.

Sales growth 2008		
in % compared with previous year	Passenger-kilometres	Cargo tonne-kilometres
Europe	1.8	– 2.8
North America	2.9	– 1.9
Central and South America	10.2	– 13.5
Asia/Pacific	– 1.5	– 6.6
Middle East	7.0	6.3
Africa	– 4.0	– 2.5
Industry	1.6	– 4.0

Source: IATA Carrier Tracker 12/08.

IATA is anticipating losses for the industry of around USD 5bn for the 2008 financial year. This is due to the sharp rise in the oil price at the start of the year and the accelerating drop in demand in the second half-year.

## 2.2.3 Current challenges

In addition to economic influences, air traffic is also currently the subject of a number of regulatory and structural changes.

The liberalisation of air traffic, thanks to the Open Skies treaty between Europe and the USA in early 2008, intensified activity in transatlantic alliances. The high oil price up to the middle

of the year in conjunction with the effects of the economic crisis had even farther-reaching consequences. Instead of cooperation programmes and alliances it is now increasingly mergers between airlines which are taking on the global competition. British Airways and Iberia have been reviewing a merger since July, for instance. Together with American Airlines they have also signed a cooperation agreement for flights between Europe and North America. In the USA, the merger between Delta Air Lines and Northwest Airlines under the name of Delta was also completed in October 2008. The sale of Alitalia to a consortium of Italian investors (Compagnia Aerea Italiana) was closed in December. The privatisation of the Greek airline Olympic Airways and its subsequent restructuring are still being pursued.

Lufthansa also took an active part in the consolidation process in 2008. The acquisition of an initial 45 per cent stake in SN Airholding SA/NV, the parent company of Brussels Airlines, was decided in September. In December the Supervisory Board approved the planned takeover of Austrian Airlines. Both acquisitions are subject to a number of conditions, including the approval of the competition authorities and the European Commission for the necessary restructuring aid to Austrian Airlines. After acquiring the 41.56 per cent of AUA held by ÖIAG, Lufthansa plans to make a public takeover offer to the remaining shareholders at a price of EUR 4.49 EUR per AUA share for the parallel acquisition of all AUA shares.

A number of demanding requirements must be met for an acquisition to be a potential success. Not all the transactions which are reviewed are actually implemented. Various projects in the sector did not in fact materialise. They include the evaluation of a merger of Germanwings and Eurowings with Hapag Lloyd Fluggesellschaft and Hapag Lloyd Express, where due diligence was stopped in October 2008.

The industry remains under pressure. According to industry estimates, 30 airlines ceased flight operations in the reporting year alone due to the economic downturn. The pressure on the aviation sector to consolidate has now also reached the growth markets of Asia after Europe and North America. The two Indian airlines Jet Airways and Kingfisher announced in October 2008 that they would work more closely together. The scheduled Chinese carriers China Eastern Airlines and China Southern Airlines have now applied for financial aid from the state. The regulatory authority Civil Aviation Administration of China (CAAC) announced that as a result of the gloomier outlook it would not approve any new airlines before 2010. Chinese aviation companies were also told to review their capacity planning and even to postpone ordering new aircraft.

## 2.3 Regulatory and legal framework

### 2.3.1 Corporation tax reform 2008

The reform of corporation tax which came into effect on 1 January 2008 did not lead to a tangible improvement in the tax situation for Lufthansa. Even though the corporation tax rate was lowered from 25 to 15 per cent and the trade tax multiple from 5 to 3.5 per cent, this does not necessarily have a positive effect. Viewed in isolation, both steps will have a positive impact, especially in profitable years, but Lufthansa will also be faced with opposing effects. This is because the tax reductions are thwarted by a series of new impositions. The abolition of accelerated depreciation and the higher taxation of interest and interest rate derivatives for trade tax purposes also have a negative effect. For Lufthansa, the second measure means that despite the reduction in the multiple, the amount of trade tax payments will rise. Also new is the rule that interest expense is only tax deductible up to a maximum of 30 per cent of taxable EBITDA. In 2008, Lufthansa was not affected by this limit, however, thanks to sufficient profits, lower interest obligations and higher depreciation and amortisation.

### 2.3.2 Safety standards

The safety measures required for international aviation differ widely from country to country and lead to ever increasing amounts of data being requested on passengers and crew. These developments result in constant changes to airlines' operating procedures and cause significant additional expense. Lufthansa and other partners are therefore lobbying for a harmonisation of frameworks and procedures worldwide.

### 2.3.3 Climate protection

The aviation industry takes the subject of climate protection very seriously. Lufthansa has developed its own comprehensive four-pillar strategy to achieve further cuts in emissions from air traffic (see chapter "Sustainability", page 69). The industry's efforts are aimed at the speedy implementation of effective measures, which are effective without endangering the economic basis for air travel. These focus on aircraft technology and alternative fuels, a sensible expansion of airport infrastructure, and the rapid realisation of a "Single European Sky" in order to guarantee optimised flight paths. A worldwide competition-neutral emissions trading scheme can form the fourth pillar.

According to plans by the European Commission, air traffic is also to be included in the European emissions trading scheme from 2012. The aviation industry does not consider these plans to be fit for purpose, however, as an emissions trading scheme limited to Europe would lead to considerably higher costs and therefore to

a distortion of competition at the international level. To protect the environment Lufthansa therefore advocates creating an efficient airspace infrastructure first and also intensive support for, and use of, innovative technologies.

### 2.3.4 Single European Sky

Air traffic in Europe urgently needs airspace management to be disentangled. An optimised air traffic control system for the whole of Europe would also make a major contribution to protecting the environment (see chapter "Sustainability", page 69). The SES II directive (Single European Sky) is expected to be passed before the end of the European Parliament's legislative period in summer 2009. In the medium term this should make the management of European airspace much more efficient. For Lufthansa it means more airspace capacity, fewer delays, more stable flight plans, lower air traffic control fees and considerable savings in fuel and emissions.

### 2.3.5 Expansion of Frankfurt Airport

The expansion of Frankfurt Airport approved at the end of 2007 was an important step towards securing air traffic growth in Germany. The official approval of the plan, however, contains operational regulations which do not adequately meet the requirements of Lufthansa Group companies as brought forward in the administrative proceedings to date. Among other things, the number of night flights between 11 p.m. and 5 a.m. is limited to 17, which are available for home-base carriers with priority for pure freight flights. Lufthansa therefore appealed against this decision on 8 February 2008.

### 2.3.6 Consumer protection

The new regulations requiring all the costs of air fares to be shown in full and banning price discrimination based on customers' nationality and place of residence in Europe strengthen the position of consumers. The Internet also improves price transparency and increases the influence of the consumer. For Lufthansa this means reinforcing our market position as a quality airline with tailored products and a special service for different customer groups.

The pricing practice common in the industry is currently being investigated in the German courts in response to litigation by consumer protection agencies. The terms and conditions in common use today state that tickets may only be used in full and in the order booked. Otherwise the tickets lose their validity and the price is recalculated for the route actually taken. Following its investigation the district court in Cologne initially ruled against Lufthansa. Lufthansa has appealed against the ruling. As the disputed rules are also anchored in the IATA terms and conditions, a final judgement will affect the whole industry.

## 3. Course of business and economic position

### 3.1 Overall statement on the course of business and achievement of targets

#### 3.1.1 Course of business

In 2008 the course of Lufthansa's business was affected to a varying extent by a number of external factors. At the beginning of the year Lufthansa benefited from what was still strong economic growth in many areas. During the course of the first half-year the Group was able to absorb dwindling demand in some regions and sectors thanks to its diversified structure. The Group was able to make up for the burden of rapidly rising oil prices, at least in part, by means of its long-term hedging strategy, raising fuel surcharges, optimising costs and increasing efficiency in other areas.

At the start of the second half-year revenue and volumes were still developing well, but Lufthansa began to feel the effects on earnings of high fuel costs and a intense collective bargaining dispute. Driven by the financial market crisis the wider economic climate became noticeably gloomier in all regions, which also affected the business segments in the Lufthansa Group – albeit to varying degrees. Primarily in Passenger Transportation and Logistics, these developments led to a partly drastic fall in demand in the fourth quarter, to which the segments responded by adjusting capacity and tightening cost-saving programmes already in place. Demand continued to weaken into the new year. The Group will therefore continue to follow market developments carefully, use its flexibility and take additional steps as necessary to react to any further deterioration.

#### 3.1.2 Achievement of targets

The Executive Board of Deutsche Lufthansa AG is very pleased with the course of business in 2008. This economic performance has a particular quality in view of the more dismal economic environment and the resulting losses expected by our competitors. We have achieved or even exceeded important targets, despite the adverse conditions. The operating result of EUR 1.35bn almost matched the previous year's record level, although the underlying conditions then had long ceased to apply. The successful integration of SWISS also contributed to this performance. The following table gives an overview of the targets achieved. The respective chapters deal with individual aspects in more detail.

Target	Achievement in 2008
Increase Group revenue and operating result if economic forecasts are not altered	10.9 per cent revenue growth and operating profit of EUR 1.35bn in the face of a significantly gloomier economy
Continue the course of profitable growth in all business segments	All business segments profitable, growth targets met in Passenger Transportation, Logistics and MRO
Top profitability compared with European competition, as measured by operating margin	6.1 per cent adjusted operating margin
Return on capital and value creation	654m CVA
Finance increased capital expenditure largely out of cash flow from operating activities	EUR 2.2bn capital expenditure (+ 23.9 per cent) EUR 612m free cash flow after capex
Maintain minimum liquidity of EUR 2.0bn	Liquidity of EUR 3.3bn
Keep equity ratio of 30 per cent	30.9 per cent equity ratio
Further transfer of pensions with flexible approach	Transfer of EUR 338m
Maintain investment-grade rating	Moody's: Baa3/stable S&P: BBB/negative
Continue dividend policy	Distribution of some EUR 320m EUR 0.70 per share

#### 3.1.3 Significant events

On 22 January 2008, Lufthansa acquired a minority stake in JetBlue Airways Corporation to improve its market access in North America. A price of USD 310m (EUR 214m) was paid for the 42 million new shares. In view of a significant fall in the share price and the devaluation of the US dollar, impairment losses were recognised in the first half-year which are reflected in the financial result. The recovery of the JetBlue share price in the second half-year was recognised without effect on income in line with IAS 39. Two members of JetBlue's board of directors were nominated by Lufthansa. In addition to Dr Christoph Franz, CEO of SWISS, on 18 August 2008 Lufthansa Group CFO Stephan Gemkow was also appointed to the eleven-person board of the US airline.

The earn-out payment was made to former major SWISS shareholders on 20 March 2008 in exchange for their previously held SWISS shares. This brought the total paid to SWISS shareholders to CHF 339m (around EUR 217m). SWISS has been fully consolidated since 1 July 2007.

On 24 September 2008, the Lufthansa Supervisory Board approved a strategic equity investment in SN Airholding SA/NV, the parent company of Brussels Airlines. As a first step Lufthansa will acquire 45 per cent of SN Airholding for a price of EUR 65m. In addition, Lufthansa has an option from 2011, after Brussels Airlines' air traffic rights have been secured, to purchase the remaining 55 per cent at a price determined by the financial success of the investment. The agreement is still subject to approval by the competition authorities.

On 10 October 2008, Sir Michael Bishop exercised an option on behalf of BBW Partnership Ltd. obliging Lufthansa to acquire 50 per cent plus one share of British Midland PLC (bmi). This corresponds to all the bmi shares currently held by BBW Partnership Ltd. The option is part of the bmi shareholder agreement signed on 9 November 1999. The approval of the competition and regulatory authorities is required for the option to take effect.

On 3 December 2008, the Lufthansa Supervisory Board approved the purchase of up to 100 per cent of the shares in Austrian Airlines AG (AUA). The sale of the 41.56 per cent Österreichische Industrieholding AG (ÖIAG) stake in AUA to Lufthansa was agreed following approval by the Supervisory Board of ÖIAG. Lufthansa will make a public takeover offer to the remaining shareholders. The offer price will be EUR 4.49, which corresponds to the average weighted price of the AUA share in the six months before the announcement. The transaction is still subject to the approval of the European competition authorities and the EU approval of EUR 500m in restructuring aid via the Austrian government.

## 3.2 Overall statement on the Group's economic position

### 3.2.1 Overall assessment

In the opinion of the Executive Board the Lufthansa Group demonstrated an excellent performance in 2008. Despite the rapidly worsening economic environment over the course of the year and the effects of the financial market crisis, we achieved an operating result almost matching the record level of the previous year. This reflects the considerably improved flexibility in the Group and the experience of the Lufthansa team in dealing with fluctuations in demand. Our cost management is also having an effect. We are set to achieve our aim of taking a leading position in terms of profitability among the European competition for the first time in 2008, with an adjusted operating margin of 6.1 per cent. Our efforts as part of the Group initiative "Upgrade to Industry Leadership" continue unabated and are focused on making these results sustainable. They were successfully supplemented in 2008 by short-term steps to stabilise earnings. This enabled the Lufthansa Group to

attain the high earnings level required to add value, achieving cash value added (CVA) of EUR 654m despite adverse conditions. Our financial stability also remained at a resolutely high level. In 2008 the Group again reported net liquidity. Capital expenditure was again earned out of cash flow from operating activities and our capital structure remains strong with an equity ratio of 30.9 per cent. These results were also noted by the rating agencies, which confirmed their ratings for Lufthansa over the year and only downgraded the outlook in view of the deteriorating environment. Nevertheless, Lufthansa remains one of the few airlines worldwide with an investment-grade rating. The advantage over the competition here has grown even larger.

The Group's economic position is discussed in detail in the following section and the performance of the business segments in the respective chapters starting on page 72.

### 3.2.2 Effects of the financial market crisis

In addition to macroeconomic changes in demand, the financial market crisis also affected the economic performance of many companies in 2008. In the interest of transparency as befits the times, we would therefore like to take this opportunity to preface the comments in the individual chapters with a summary assessment of these effects.

The bankruptcy of Lehman Brothers had the most tangible effects. At Lufthansa it led to write-downs of EUR 13m for Lehman bonds and EUR 76m for interest rate, currency and fuel hedging transactions. Fuel hedging accounted for EUR 72m. The loss of these transactions was accompanied by a reduction in hedged volumes, which, given the lower oil prices at year-end, even proved to be to Lufthansa's advantage.

Furthermore, the financial market crisis led to write-downs of current financial investments. Thanks to strict investment guidelines and well-functioning risk management, these were limited to EUR 95m or 5.2 per cent of the investment assets' fair value. The pension funds were also hit by lower market valuations. Despite transfers of EUR 338m they were worth EUR 308m less than the previous year's figure at year-end 2008.

Revised policies at some banks meant that bilateral credit lines declined slightly as of the reporting date to EUR 1.8bn.

The financial crisis also led to higher margins for the Group's funding. The risk premium as expressed in the Credit Default Swaps (CDS) spread rose over the course of the year from 0.6 per cent to 2.2 per cent, but is still well below that of competing airlines. Confidence in Lufthansa as a borrower remains high. Even in November, financing leases for aircraft were closed at conditions just above Euribor. The rating agencies backed up this confidence by confirming the investment-grade rating.

### 3.4.1 Standards applied

The consolidated financial statements for 2008 and the quarterly reports are prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union (EU). The commercial law provisions of Sec. 315a Para. 1 of the German Commercial Code (HGB) have also been applied. All mandatory standards and interpretations for the 2008 financial year were respected.

### 3.4.2 Changes in the group of consolidated companies

The group of consolidated companies underwent considerable changes compared with the previous year. Swiss International Air Lines AG and its subsidiaries were included in the consolidated financial statements of Deutsche Lufthansa AG for the first time as of 1 July 2007, which means that the previous year's figures in the income statement are only comparable for the second half-year of 2008. Compared to year-end 2007, the group of consolidated companies also saw the additions and departures listed in the table "Changes in the group of consolidated companies in 2008" (see Notes, page 137). The effects on the consolidated balance sheet and the income statement compared with the previous year are presented in the following comments and in the Notes to the consolidated financial statements on page 140.

## 4. Earnings position

### 4.1 Revenue and income

Revenue and income				
	2008	2007	Change	Adjusted for consolidation changes
	in €m	in €m	in %	in %
Traffic revenue	19,998	17,568	13.8	5.2
Other revenue	4,872	4,852	0.4	0.0
Revenue	24,870	22,420	10.9	4.1
Changes in inventories and capitalised work performed by the enterprise	178	119	49.6	49.6
Other operating income	1,969	1,571	25.3	33.7
Total operating income	27,017	24,110	12.1	6.1

In the last financial year the Lufthansa Group increased operating income to EUR 27.0bn. Growth came primarily from traffic revenue. Other revenue remained at the same level as the previous year while other operating income showed significant growth rates.

#### 4.1.1 Traffic revenue

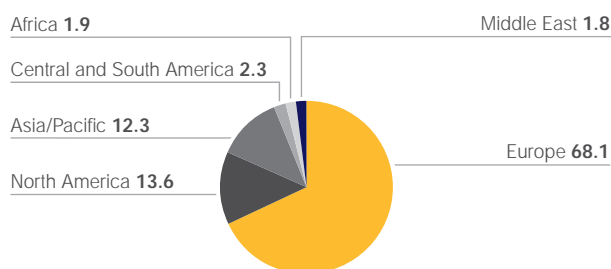
Traffic figures of the Lufthansa Group's airlines*				
		2008	2007	Change in %
Passengers carried	thousands	70,543	62,878	12.2
Available passenger-kilometres	millions	195,431	169,108	15.6
Revenue passenger-kilometres	millions	154,156	135,011	14.2
Passenger load factor	%	78.9	79.8	- 0.9 pts
Freight/mail	thousand tonnes	1,919	1,911	0.4
Cargo load factor	%	62.9	67.4	- 4.5 pts
Available tonne-kilometres	millions	15,141	13,416	12.9
Revenue tonne-kilometres	millions	9,530	9,043	5.4
Total available tonne-kilometres	millions	34,960	30,339	15.2
Total revenue tonne-kilometres	millions	24,992	22,613	10.5
Overall load factor	%	71.5	74.5	- 3.0 pts
Number of flights		830,819	749,431	10.9

\* Since 1 January 2008 revenue passenger figures have been calculated in the LufthansaGroup on the basis of the ICAO standard. The figures from the previous year have been adjusted accordingly.

The Group's traffic revenue rose sharply by 13.8 per cent to EUR 20.0bn. The change is explained to 8.6 per cent by the full consolidation of SWISS in the first half-year 2008, and to 3.1 per cent by increased volumes. Positive price effects were partially offset by adverse currency effects, which reduced traffic revenue by some EUR 447m (–2.5 per cent).

The Passenger Transportation business segment accounts for the largest share with 84.3 per cent, generating total traffic revenue of EUR 16.9bn. This is 13.9 per cent more than in the previous year. Of the increase, 8.9 per cent was due to the full consolidation of SWISS in the first half-year of 2008. Increased volumes and positive price effects increased revenue by 7.3 per cent overall, but negative currency effects diminished traffic revenue by EUR 361m or 2.4 per cent.

**Traffic revenues Group in %**



In the Logistics business segment, despite lower volumes and negative currency effects, traffic revenue climbed by 6.5 per cent to EUR 2.8bn due to higher average yields. Overall, the Group's traffic revenue now makes up 80.5 per cent of its total revenue (previous year: 78.4 per cent).

#### 4.1.2 Other revenue

Other revenue is primarily generated in the MRO, Catering and IT Services segments, but to a lesser extent in Passenger Transportation and Logistics as well. It remained largely stable at EUR 4.9bn (+0.4 per cent). Although MRO at EUR 2.2bn (+1.4 per cent) was able to increase the other revenue, Catering reported a drop of 5.7 per cent to EUR 1.8bn, due to both currency and margin effects. IT Services came in slightly below the previous year at EUR 279m (–0.7 per cent).

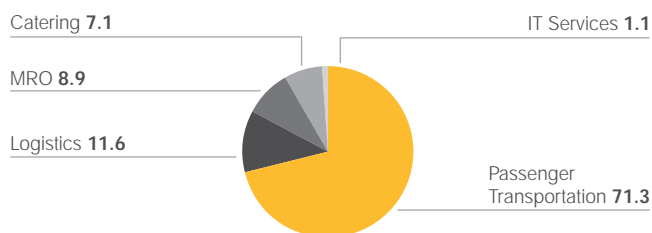
#### 4.1.3 Sales revenue

The Group's external revenue increased overall by 10.9 per cent to EUR 24.9bn. Passenger Transportation's share of total revenue went up to 71.3 per cent, an increase of 2.8 percentage points. The shares of the remaining business segments all declined, to

11.6 per cent for Logistics (–0.5 percentage points), 8.9 per cent for MRO (–0.8 percentage points), 1.1 per cent for IT Services (–0.2 percentage points) and 7.1 per cent for Catering (–1.2 percentage points).

A regional breakdown of revenue by sales location is given in the segment reporting (see the Notes to the consolidated financial statements, Note 49, page 187). The regional distribution of traffic revenue by traffic region for the segments Passenger Transportation and Logistics is described in the chapters on the respective business segments from page 72 onwards.

**External revenue share of business segments in %**



#### 4.1.4 Other operating income

Other operating income went up by 25.3 per cent to EUR 2.0bn. Profits from currency translation of receivables and liabilities in foreign currencies and from realised exchange rate hedges rose to EUR 383m, while the corresponding losses recognised in other operating expenses increased by EUR 461m. Reversals of provisions remained virtually unchanged at EUR 157m (previous year: EUR 163m). Book gains totalling EUR 36m (previous year: EUR 24m) were derived among others from the disposals of LSG Airport Gastronomie GmbH (EUR 12m) and LSG Sky Chefs España (EUR 11m). Other items did not vary significantly compared with the previous year. The Notes to the consolidated financial statements, Note 6, page 149, contain a detailed list of other operating income.

## 4.2 Expenses

Operating expenses went up by 13.8 per cent, which is above the increase in operating income. In addition to the vast increase in fuel costs, all the expenses included here were affected by consolidation changes – most visibly those for materials and services and staff.



#### 4.2.1 Cost of materials and services

Fuel is the largest item within the cost of materials and services at EUR 5.4bn. The full consolidation of SWISS in the first half-year of 2008 accounts for 10.0 per cent of the enormous rise of 39.3 per cent. Fuel volumes only rose by 4.3 per cent, however. Fuel prices, including hedging in USD went up by 36.6 per cent, which is equivalent to EUR 1.4bn in additional expenses. By contrast, the weaker dollar brought costs down by 11.6 per cent. Despite lower oil prices at the end of 2008 the steps taken to hedge prices saved a total of EUR 584m over the financial year.

Other raw materials, consumables and supplies rose only slightly by 0.2 per cent – adjusted for changes in the group of consolidated companies they sank by 1.9 per cent.

Fees went up to EUR 3.5bn (+10.2 per cent), due mainly to the full consolidation of SWISS in the first half-year of 2008. Without this effect, fees and charges would only have risen by 1.5 per cent. The increase in air traffic control charges (+4.3 per cent) was offset largely by lower landing fees (–3.7 per cent). Passenger fees rose by 3.9 per cent after adjustment for consolidation changes. Despite greater traffic, handling charges only went up slightly by 1.4 per cent after adjustment for consolidation changes.

The 17.3 per cent higher expenses for MRO services and operating leases are largely (14.7 per cent) due to the full consolidation of SWISS in the first half-year of 2008. External MRO services went up by 2.6 per cent after adjusting for this effect, especially due to

modifications to the in-flight entertainment system, and operating lease expenses would have risen by 2.5 per cent without the effect of the SWISS consolidation. SWISS currently deploys 40 aircraft on operating leases.

#### 4.2.2 Staff costs

Staff costs rose by 3.5 per cent to EUR 5.7bn. Without the consolidation changes, they would have been 0.2 per cent lower than the previous year. On average over the year the Group employed 108,123 people, an increase of 7.3 per cent year on year. Without the changes in the group of consolidated companies (particularly SWISS) the average number of employees would have risen by 3.6 per cent. Wages and salaries went up by 4.9 per cent, or 1.2 per cent after adjustment for consolidation changes. Lower staff costs in the Catering segment and fewer expenses for profit-sharing and retirement benefits kept costs down.

#### 4.2.3 Depreciation, amortisation and impairment

Depreciation, amortisation and impairment came to EUR 1.3bn in the financial year (+7.1 per cent). Consolidation changes were responsible for EUR 65m of these. Aircraft were depreciated by EUR 1bn, which is EUR 55m more than the previous year on an adjusted basis. The increase in aircraft depreciation is due to new additions to the Group fleet in 2008. The decline in other depreciation, amortisation and impairment (EUR –29m) stems primarily from impairment losses of EUR 44m recognised the previous year – almost solely in the IT Services segment.

Operating expenses					
	2008	2007	Change	Percentage of operating expenses in %	Adjusted for consolidation changes in %
	in €m	in €m	in %		
Cost of materials and services	13,707	11,553	18.6	53.5	10.5
- of which fuel	5,377	3,860	39.3	21.0	29.3
- of which fees and charges	3,499	3,174	10.2	13.7	1.5
- of which other raw materials, consumables, supplies and purchased goods	2,414	2,408	0.2	9.4	–1.9
- of which external MRO services	845	759	11.3	3.3	2.6
- of which operating lease	280	200	40.0	1.1	2.5
Staff costs	5,692	5,498	3.5	22.2	–0.2
Depreciation, amortisation and impairment	1,289	1,204	7.1	5.0	1.7
Other operating expenses	4,946	4,269	15.9	19.3	16.8
- of which sales commission paid to agencies	614	651	–5.7	2.4	–11.3
- of which staff-related expenses	820	726	12.9	3.2	9.4
<b>Total operating expenses</b>	<b>25,634</b>	<b>22,524</b>	<b>13.6</b>	<b>100.0</b>	<b>8.2</b>

#### 4.2.4 Other operating expenses

The increase in other operating expenses of 15.9 per cent principally results from considerably greater foreign exchange losses from foreign currency receivables and liabilities and realised currency hedges of EUR 461m in total, which are offset by EUR 383m in higher profits recognised in other operating income. The other differences are mainly due to changes in the group of consolidated companies.

Indirect staff costs rose by EUR 94m to EUR 820m, of which EUR 28m result from the consolidation changes. The remaining increase is due mainly to greater deployment of temporary staff to cover peak workloads and fixed-term projects, and to higher travel and training expenses. Agency commissions came to EUR 614m or 5.7 per cent below the previous year; adjusted for the consolidation changes they would even have declined by 11.3 per cent.

### 4.3 Earnings development

Performance indicators were all down in 2008, although with considerable variation between different areas. Profit from operating activities sank by 12.8 per cent to EUR 1.4bn. Adjusted for non-recurring effects, the operating result only dropped by EUR 24m to EUR 1.4bn (–1.7 per cent), however. The adjusted operating margin declined by 0.8 percentage points to 6.1 per cent.

#### 4.3.1 Operating result

As every year, the profit from operating activities has been adjusted for net book gains, reversals of provisions, impairment losses, results of financial investments and the valuation of financial debt as of the reporting date, in order to facilitate comparison with other financial years. In 2008 net income of EUR 29m (previous year: EUR 208m) was eliminated in this way (see table, page 55).

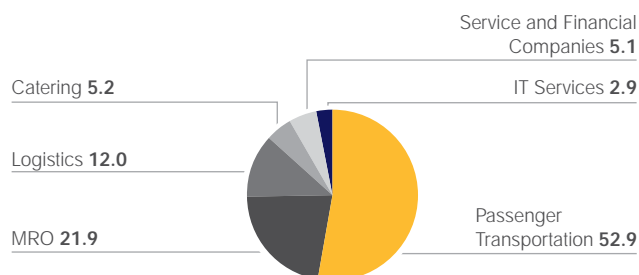
The eliminated book gains and write-ups of non-current assets were EUR 18m higher in 2008. These related especially to the disposal of LSG Airport Gastronomie GmbH and LSG Sky Chefs España. Reversals of provisions were at the same level as the previous year at EUR 157m. In the course of measuring pension obligations there were reductions in past service costs of EUR 10m which were not attributable to the operating result. Last year's posi-

tive result from financial investments of EUR 28m was met in 2008 by losses of EUR 105m, especially from write-downs on current securities. The US dollar strengthened compared with the previous year's reporting date and impacted the valuation of non-current borrowing as of the reporting date. Expenses from its valuation came to EUR 52m, whereas income was EUR 70m in the previous year. Impairment losses, primarily on four grounded and available-for-sale A300-600 aircraft (EUR 14m) and book losses, coming to EUR 26m in total, were also added back to the result. There were no other significant adjustments.

After adjustment for these items of income and expense the operating result came to nearly EUR 1.4bn. Adding back reversal of provisions results in an adjusted operating margin comparable with that of competitors of 6.1 per cent.

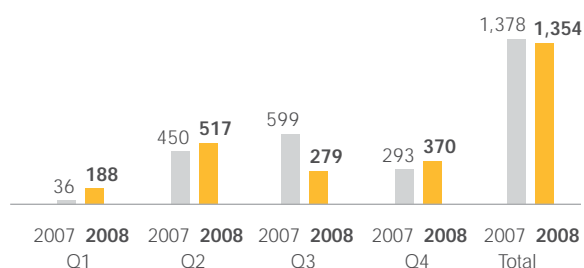
Compared with changes in revenue allocation, the allocation of the operating result is more balanced. The share of the Passenger Transportation segment went down to 53.3 per cent (–6.6 percentage points) and MRO made a higher contribution to the Group's operating result of 22.1 per cent (+0.8 percentage points). The reconciliation with the consolidated operating result also includes negative effects with a share of –0.7 per cent.

Operating result by business segment in %



Seasonal variations in profit at Lufthansa are particularly marked. The individual business segments in the Group also exhibit their own variations and allocation patterns. Altogether this has a stabilising effect on the consolidated operating result. This meant that in the challenging year 2008, Lufthansa was much more able to remain on course than almost all of its competitors.

#### Development of operating result in €m



#### 4.3.2 Financial result

The financial result worsened sharply by EUR 606m to EUR –579m. The result from equity investments sank by EUR 334m to EUR 20m. The previous year included the result of the equity valuation of SWISS at EUR 180m, as well as equity income and dividends of EUR 82m in connection with the share buy-back by WAM Acquisition S.A. The equity result for British Midland also dropped significantly compared with the previous year. Net interest improved by EUR 22m to EUR –172m. This was mainly due to lower expenses for accrued interest on pension provisions.

#### Reconciliation of results

in €m	2008		2007	
	Income statement	Reconciliation with operating result	Income statement	Reconciliation with operating result
<b>Revenue</b>	<b>24,870</b>		<b>22,420</b>	
Changes in inventories	178		119	
Other operating income	1,969		1,571	
- of which income from book gains and current financial investments		– 39		– 59
- of which income from reversal of provisions		– 157		– 163
- of which write-ups on fixed assets		– 6		0*
- of which period-end valuation of non-current financial liabilities		– 15		– 94
<b>Total operating income</b>	<b>27,017</b>	<b>– 217</b>	<b>24,110</b>	<b>– 316</b>
Cost of materials and services	– 13,707		– 11,553	
Staff costs	– 5,692		– 5,498	
- of which past service cost		– 10		0*
Depreciation, amortisation and impairment	– 1,289		– 1,204	
- of which impairment charge		15		44
Other operating expenses	– 4,946		– 4,269	
- of which expenses incurred from book losses and current financial investments		116		40
- of which period-end valuation of non-current financial liabilities		67		24
<b>Total operating expenses</b>	<b>– 25,634</b>	<b>188</b>	<b>– 22,524</b>	<b>108</b>
<b>Profit from operating activities</b>	<b>1,383</b>		<b>1,586</b>	
Total from reconciliation with operating result		– 29		– 208
<b>Operating result</b>		<b>1,354</b>		<b>1,378</b>
Income from subsidiaries, joint ventures and associates	20		354	
Other financial items	– 427		– 133	
<b>EBIT</b>	<b>976</b>		<b>1,807</b>	
Write-downs (on profit from operating activities)	1,289		1,204	
Write-downs on financial investments (incl. at equity)	156		12	
<b>EBITDA</b>	<b>2,421</b>		<b>3,023</b>	

\* Rounded below EUR 1m.

Other financial items declined by EUR 294m to EUR –427m. This includes a write-down on the JetBlue shares of EUR 113m in the first half-year of 2008, and the complete write-off of EUR 76m in positive market values from fuel, interest rate and exchange rate hedging transactions concluded with the bankrupt company Lehman Brothers, as they can no longer be recovered. The recovery in the share price and therefore in the value of the JetBlue stake (EUR +114m) in the second half of the year was recognised in equity without effect on income in line with IFRS accounting standards. Other expenses of EUR 193m relate to risks from existing obligations to acquire equity investments.

Earnings before interest and taxes (EBIT) includes profit from operating activities and the result from equity investments and other financial items and amounted to EUR 976m. This is 46.0 per cent below the figure for the previous year.

Including depreciation and amortisation results in EBITDA of EUR 2.4bn (20.0 per cent below the previous year).

Profit breakdown of the Lufthansa Group			
	2008 in €m	2007 in €m	Change in %
<b>Operating income</b>	<b>27,017</b>	<b>24,110</b>	<b>11.9</b>
Operating expenses	– 25,634	– 22,524	13.6
<b>Profit from operating activities</b>	<b>1,383</b>	<b>1,586</b>	<b>– 12.8</b>
Financial result	– 579	27	
<b>Profit before income taxes</b>	<b>804</b>	<b>1,613</b>	<b>– 50.2</b>
Income taxes	– 195	– 356	45.2
Profit from the discontinued Leisure Travel segment		503	
Profit attributable to minority interests	– 10	– 105	90.5
<b>Net profit attributable to shareholders of Deutsche Lufthansa AG</b>	<b>599</b>	<b>1,655</b>	<b>– 63.8</b>

#### 4.3.3 Net profit for the year

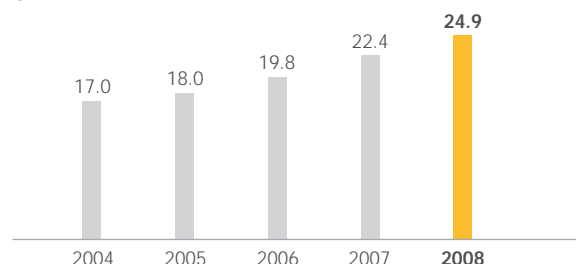
The profit from operating activities and the result from equity investments add up to net profit before income taxes of EUR 804m, which is EUR 809m below the figure for the previous year. It is subject to effective and deferred income taxes of EUR 195m in total (previous year: EUR 356m). The tax ratio is therefore 24.3 per cent. Net profit after taxes comes to EUR 609m (previous year: EUR 1.8bn). Last year net profit included the profits of EUR 503m

on the disposal of the discontinued Leisure Travel segment. EUR 10m of net profit is attributable to minority shareholders (previous year: EUR 105m). Net profit of EUR 599m is attributable to shareholders of Deutsche Lufthansa AG. Undiluted earnings per share are EUR 1.31. Diluted earnings of EUR 1.30 include the effects of the potential conversion of an outstanding EUR 47m from a convertible bond issued in 2002.

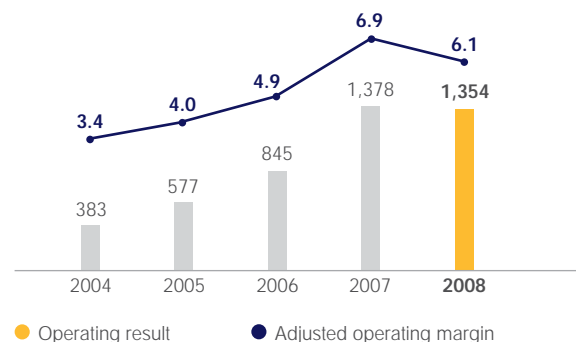
#### 4.3.4 Long-term overview of earnings

Lufthansa maintained its profitable growth path in 2008. In an increasingly difficult environment we not only increased revenue again, but also sustained the previous year's record operating result. Over the last five years the adjusted operating margin has improved consistently, by a total of 2.7 percentage points to 6.1 per cent. This figure is also evidence of our prime competitive position.

Development of revenue in €bn



Development of operating result in €m and adjusted operating margin in %



#### 4.3.5 Upgrade to Industry Leadership

Our aim is to achieve sustainable top-class profitability in the future too. This is the purpose of the Group initiative "Upgrade to Industry Leadership" launched in 2007. It developed further thrust in 2008. Some 120 projects are currently being implemented in all business segments and at a cross-segment level.

Significant leverage is expected from cooperation projects in which several segments combine their powers of performance and innovation. One example is the "Procurement Leadership" project which is currently underway. Its aim is to make annual savings of some EUR 200m by bringing Lufthansa's purchasing up to a recognised benchmark by 2011. Savings of EUR 30m to EUR 50m are to be made as early as 2009.

Refining the Group's property management is also a priority for 2009. The preliminary study completed in the fourth quarter of 2008 for the Frankfurt site revealed potential economies of about EUR 25m per year as from 2011. In 2009 the project is to be extended to the whole of Germany.

The Lufthansa Group's efforts to make lasting reductions in fuel costs and emissions are being intensified in the cooperation project Fuel Efficiency Leadership between the flying and non-flying companies in the Group.

An additional key element for strengthening cross-segment cooperation is the deliberate networking of staff from all Upgrade projects. This will enable best-practice to be applied between business segments even more rapidly in the future. The projects in the individual segments are discussed in the respective sections from page 72 onwards.

## 4.4 Profit distribution and accounts for Deutsche Lufthansa AG

Income statement for Deutsche Lufthansa AG in accordance with the German Commercial Code			
	2008 in €m	2007 in €m	Change in %
<b>Traffic revenue</b>	<b>14,133</b>	<b>13,522</b>	<b>4.5</b>
Other revenue	311	253	22.9
<b>Total revenue</b>	<b>14,444</b>	<b>13,775</b>	<b>4.9</b>
Other operating income	1,440	1,596	- 9.8
Operating expenses	- 16,105	- 14,628	14.2
<b>Profit from operating activities</b>	<b>- 221</b>	<b>743</b>	<b>129.7</b>
Financial result	618	489	26.4
<b>Profit from ordinary activities</b>	<b>397</b>	<b>1,232</b>	<b>- 67.8</b>
Taxes	- 121	- 109	- 11.0
<b>Net profit</b>	<b>276</b>	<b>1,123</b>	<b>- 75.4</b>
Transferred from retained earnings	44	-	-
Transferred to retained earnings	-	- 551	- 100.0
<b>Net result</b>	<b>320</b>	<b>572</b>	<b>- 44.1</b>
<b>Dividend proposal per share in €</b>	<b>0.70</b>	<b>1.25</b>	<b>- 44.0</b>

Lufthansa's dividend policy is based on the principle of continuity in terms of distributing a stable percentage of the operating result. This pre-supposes that a dividend can be made from the net profit as disclosed in the individual and consolidated financial statements of Deutsche Lufthansa AG. Extraordinary income, which can generally be used for higher distributions, did not occur in the reporting year. In the current environment the uncertain availability of funding in the light of the programme of capital expenditure ahead

of us must also be taken into account in addition to the dividend policy. The relevant financial statements for the dividend payment are those of Deutsche Lufthansa AG as the parent company of the Group, which show net profit for the 2008 financial year of EUR 276m. Following the transfer of EUR 44m from retained earnings, distributable profit comes to EUR 320m. The Executive Board and the Supervisory Board will therefore propose at the Annual General Meeting to be held on 24 April 2009 to distribute these profits by means of a dividend of EUR 0.70 per share.

#### Balance sheet for Deutsche Lufthansa AG in accordance with the German Commercial Code

	2008 in €m	2007 in €m	Change in %
<b>Assets</b>			
Intangible assets	34	35	- 2.9
Aircraft	3,551	3,311	7.2
Property, plant and other equipment	108	90	20.0
Financial investments	10,709	8,846	21.1
<b>Fixed assets</b>	<b>14,402</b>	<b>12,282</b>	<b>17.3</b>
Stocks	23	22	4.5
Accounts receivable	535	570	- 6.1
Other assets and prepaid expenses	1,544	1,504	2.7
Liquid funds and securities	644	2,428	- 73.5
<b>Balance sheet total</b>	<b>17,148</b>	<b>16,806</b>	<b>2.0</b>
<b>Liabilities and shareholders' equity</b>			
Capital stock and share premiums	2,029	2,029	0
Retained earnings	1,466	1,510	- 2.9
Distributable earnings	320	572	- 44.1
<b>Shareholders' equity</b>	<b>3,815</b>	<b>4,111</b>	<b>- 7.2</b>
Provisions	9,061	8,562	5.8
Bonds and liabilities to banks	1,071	979	9.4
Other liabilities and deferred income	3,201	3,154	1.5
<b>Balance sheet total</b>	<b>17,148</b>	<b>16,806</b>	<b>2.0</b>



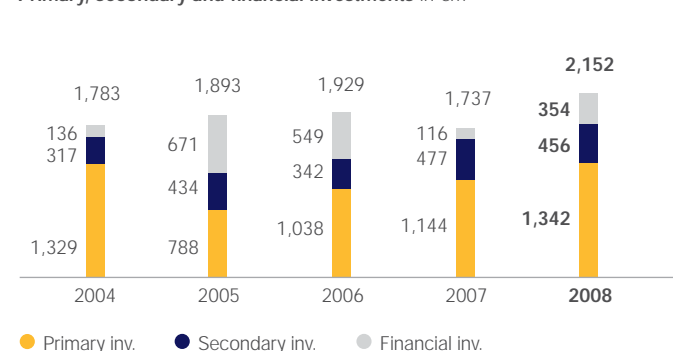
## 5. Assets and financial position

### 5.1 Capital expenditure

Lufthansa continued to invest in expanding its leading role in the aviation industry in 2008. The volume of capital expenditure in the Lufthansa Group rose to EUR 2.2bn, or 23.9 per cent more than in the previous year (EUR 1.7bn – before deduction of cash acquired with consolidated companies). This covered primary capital expenditure, i.e. funds for the purchase of aircraft and engines amounting to EUR 1.3bn (previous year: EUR 1.1bn), used for final payments as well as advance payments for aircraft, overhauls, equipment and spare engines.

A total of EUR 372m (previous year: EUR 398m) was invested in other property, plant and equipment, such as the new training centre in Seeheim and new catering capacities in Frankfurt. Some EUR 84m (previous year: EUR 79m) was invested in intangible assets such as licences and goodwill. In total, secondary capital expenditure amounted to EUR 456m (–4.0 per cent). A total of EUR 354m (previous year: EUR 116m) was used for financial investments. As well as providing capital for equity investments and other lending, this principally included EUR 214m for the acquisition of the minority stake in JetBlue Airways Corporation in January 2008.

Primary, secondary and financial investments in €m



The Passenger Transportation business segment had the greatest capital expenditure, rising by EUR 162m to EUR 1.4bn. Expenditure was primarily on new aircraft and down payments for aircraft. A total of thirteen new civil aircraft commenced operations at Lufthansa Passenger Airline: five Airbus A321s, four Airbus A330s and four Airbus A340s. Two aircraft were also acquired that had previously been used on operating leases. Three aircraft were sold: one Airbus A300-600 and two regional planes. At Germanwings three Airbus A320s were replaced by five Airbus A319s. SWISS invested in three Airbus A320s and one Airbus A319 and Lufthansa Private Jet received two Cessna Citations.

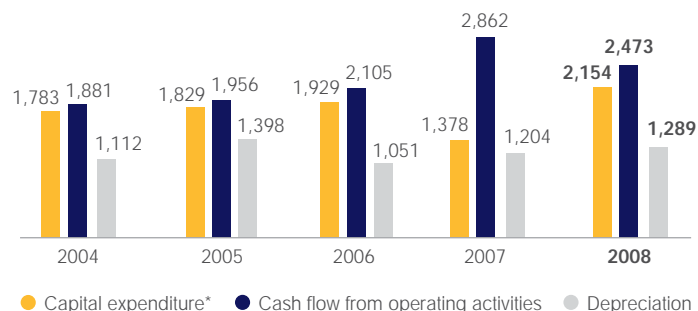
The Logistics business segment had hardly any capital expenditure in comparison (EUR 22m, previous year: EUR 18m). This went mainly on airfreight containers and other operating and office equipment.

The MRO business segment reduced its capital expenditure to EUR 122m (–37.1 per cent). This was principally used for purchasing new machinery and technical equipment as well as for the construction of the new engine overhaul centre in Hamburg. The fall compared with the previous year stems mainly from the high capital expenditure in 2007, in connection with the construction of the A380 MRO hangar in Frankfurt.

Capital expenditure in the IT Services business segment of EUR 58m (previous year: EUR 54m) served principally to safeguard existing business.

The Catering business segment had capital expenditure of EUR 116m (–24.2 per cent) in 2008. The funds were mainly used to expand existing production facilities and build new ones. In the previous year considerable amounts were invested in expanding the catering facilities in Frankfurt.

Capital expenditure, cash flow and depreciation Lufthansa Group in €m



\* Capital expenditure excludes pro rata results from investments accounted for using the equity method and after deduction of cash acquired with the purchase of consolidated companies.

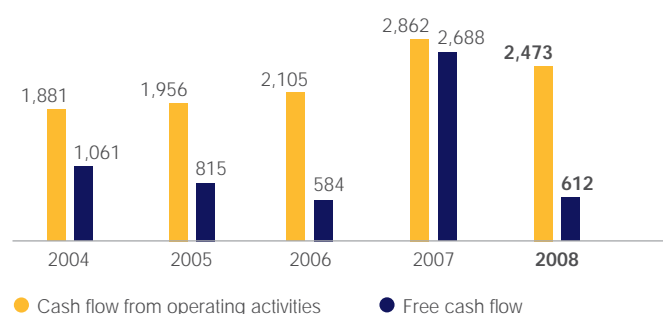
### 5.2 Cash flow

The Lufthansa Group's cash flow from operating activities amounted to EUR 2.5bn in the reporting year and was therefore some 13.6 per cent (EUR 389m) lower than in the previous year. This decline is essentially due to lower profit from operating activities and to a negative change in working capital. In contrast, much lower income taxes were paid in 2008.

Gross capital expenditure came to EUR 2.3bn. This includes the primary and secondary capital expenditure and financial investments mentioned above as well as repairable spare parts for aircraft. Proceeds from disposals and sales (EUR 134m)

resulted mainly from disposals and sales of intangible assets, property, plant and equipment and other financial investments. The comparatively high figure of EUR 1.0bn for the previous year in this area was due, in particular, to the cash payment of EUR 800m for the sale of the Thomas Cook shares. Interest and dividend income declined by 18.4 per cent to EUR 261m. Net cash used for capital expenditure came to EUR 1.9bn.

#### Cash flow from operating activities and free cash flow in €m



Free cash flow is the sum of cash flow from operating activities less net capital expenditure and came to EUR 612m for the past financial year (previous year: EUR 2.7bn). The internal financing ratio – the percentage of capital expenditure financed from cash flow – came to 114.8 per cent (previous year: 207.7 per cent).

A total of EUR 338m was used for further funding of pension obligations in Germany and abroad. In view of the uncertain situation of the financial markets, we have decided to defer, for the time being, the additional transfer to the pension fund planned for the second half-year of 2008. We are nevertheless retaining our policy of funding our pension obligations flexibly over the medium term. Following the sale of securities worth EUR 769m, the position for the purchase and sale of securities was closed at EUR 643m (previous year: EUR 647m). The scheduled repayment of borrowing led to expenditure of EUR 279m. New funds of EUR 363m were raised, mainly via finance lease transactions (see “Financing” chapter, page 64). Distributions to the shareholders

#### Abbreviated cash flow statement of the Lufthansa Group

	2008 in €m	2007 in €m	Change in %
<b>Cash flow from operating activities</b>	<b>2,473</b>	<b>2,862</b>	<b>- 13.6</b>
Investments and additions to repairable spare parts of aircraft	- 2,256	- 1,503	- 50.1
Net proceeds on disposal of non-current assets	134	1,009	- 86.7
Interest income and dividend received	261	320	- 18.4
<b>Net cash used in investing activities</b>	<b>- 1,861</b>	<b>- 174</b>	<b>- 969.5</b>
<b>Free cash flow</b>	<b>612</b>	<b>2,688</b>	<b>- 77.2</b>
Purchase/sale of securities/fund investments	- 643	- 647	0.6
Capital increase	—	0*	—
Long-term borrowings and repayments of long-term borrowings	117	120	- 2.5
Dividends paid	- 580	- 325	- 78.5
Interest paid	- 226	- 196	- 15.3
<b>Net cash used in financing activities</b>	<b>- 689</b>	<b>- 401</b>	<b>- 71.8</b>
Changes due to exchange rate differences	85	- 16	- 631.3
<b>Cash and cash equivalents on 1.1</b>	<b>2,079</b>	<b>455</b>	<b>356.9</b>
<b>Cash and cash equivalents on 31.12</b>	<b>1,444</b>	<b>2,079</b>	<b>- 30.5</b>

\* Rounded below EUR 1m.

of Deutsche Lufthansa AG and the minority shareholders of other Group companies amounted to EUR 580m and current interest payments to EUR 226m. Cash used for financing therefore came to EUR 689m in the reporting year (previous year: EUR 401m). On account of higher valuations of cash and cash equivalents due to exchange rate movements (EUR +85m), cash and cash equivalents declined in total by EUR 635m to EUR 1.4bn (previous year: EUR 2.1bn). Total liquidity (including securities held in the liquidity reserve) went up to EUR 3.3bn, a decrease of 9.1 per cent over the previous year.

## 5.3 Assets

### 5.3.1 Balance sheet structure and ratios

At the end of the 2008 financial year, the consolidated balance sheet total came to EUR 22.4bn and therefore was slightly above the figure for the previous year. Non-current assets increased by EUR 899m to EUR 15.0bn, while current assets sank by EUR 811m to EUR 7.4bn.

Within the non-current assets the items aircraft and reserve engines climbed by EUR 384m to EUR 8.8bn. Financial assets rose by EUR 171m to EUR 1.8bn. Other property, plant and equipment went up by EUR 158m to EUR 1.9bn. Within the current assets trade receivables and other receivables declined by EUR 433m, partly due to seasonal effects and the slowdown in business. The positive market values of financial instruments (mostly for fuel hedging) also dropped by EUR 268m. Cash and cash equivalents sank by EUR 329m. Current securities rose by EUR 306m due to the purchase of money market funds, while bank balances and cash-in-hand declined by EUR 635m.

Shareholders' equity (including minority interests) rose only slightly on 2007 by some EUR 19m, totalling EUR 6.9bn at the end of the reporting year. The increase stems from the net profit after tax of

EUR 609m, the dividend payments to shareholders of Deutsche Lufthansa AG and to minority shareholders of EUR 580m as well as other neutral changes in reserves of EUR 10m.

#### Development of earnings and equity

in €m	2008	2007	2006	2005	2004
Result*	609	1,760	897	612	408
Equity*	6,919	6,900	4,903	4,522	4,014

\* Incl. minority interests.

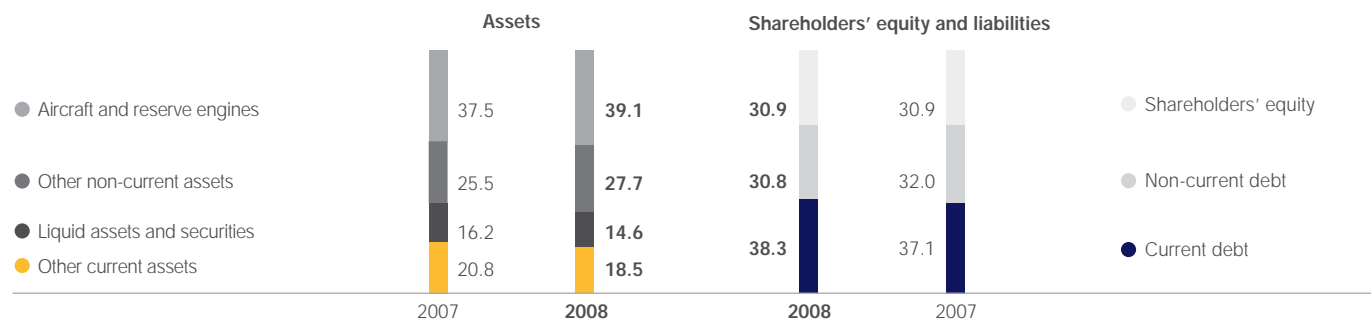
The equity ratio remained stable at 30.9 per cent. This means that we have again met our target of a 30 per cent equity ratio. The return on equity sank to 8.8 per cent (previous year: 25.5 per cent) as a result of much lower net profits after taxes.

#### Return on equity in %



While non-current liabilities and provisions went down by EUR 251m to EUR 6.9bn, current liabilities increased by EUR 320m to EUR 8.6bn. The fall in non-current obligations is due to the further transfer and funding of pension obligations in 2008, and the concomitant reduction of provisions and the balance sheet total, and above all, to the EUR 253m lower negative market values of derivative financial instruments (primarily from currency hedges). Financial liabilities rose by EUR 63m, largely offsetting the drop of EUR 58m in other provisions.

#### Balance sheet structure in %



The growth of current liabilities and provisions is primarily due to EUR 187m higher other provisions. The rise in financial liabilities for short-term repayments (EUR +173m) and the increase in liabilities from unused flight documents (EUR +147m) also influenced the growth. In contrast, trade payables and other financial liabilities sank by EUR 333m, largely due to the imminent decline in business volume.

The non-current proportion of the balance sheet total, consisting of shareholders' equity and long-term liabilities, is now 61.7 per cent (previous year: 62.9 per cent). Non-current financing now covers 92.3 per cent of non-current assets (previous year: 99.8 per cent).

<b>Equity ratio and gearing</b>					
in %	<b>2008</b>	2007	2006	2005	2004
Equity ratio	30.9	30.9	25.2	23.5	22.2
Gearing	32.9	24.5	75.7	85.8	92.5

Gearing, calculated as the ratio of net indebtedness plus pension provisions to equity, is 32.9 per cent (previous year: 24.5 per cent) and is therefore still below the target corridor of 40 to 60 per cent.

<b>Calculating net indebtedness</b>			
	<b>2008</b>	2007	<b>Change</b>
	in €m	in €m	in %
Liabilities towards banks	628	593	5.9
Bonds	610	584	4.5
Other non-current financial debt	2,343	2,168	8.1
	<b>3,581</b>	<b>3,345</b>	<b>7.1</b>
Other bank borrowing	58	24	141.7
<b>Group indebtedness</b>	<b>3,639</b>	<b>3,369</b>	<b>8.0</b>
Cash and cash equivalents	1,444	2,079	- 30.5
Securities	1,834	1,528	20.0
Non-current securities (Liquidity reserve)	486	530	- 8.3
<b>Net indebtedness</b>	<b>- 125</b>	<b>- 768</b>	<b>83.7</b>

Net indebtedness is the balance of gross financial debt and available financial assets plus non-current securities which can be liquidated at short notice. It currently comes to EUR -125m (previous year: EUR -768m) and is therefore still negative, so that it actually represents net liquidity.

### 5.3.2 Fleet

The aircraft fleet constitutes the largest asset in the consolidated balance sheet. It is the Group's core operating asset and is at the centre of the value creation process. The Lufthansa fleet includes aircraft from various manufacturers. As well as Boeing and Airbus planes the Canadian manufacturer Bombardier has also supplied a large number of aircraft, which mainly fly in regional traffic. Since February 2009, aircraft from the Brazilian manufacturer Embraer have also been in operation at Air Dolomiti; a total of 30 planes are planned for deployment within the Lufthansa regional group. The way the fleet structure is put together allows us to draw on models with varying seating capacities and ranges, in order to provide optimal service to the individual short, medium and long-haul segments. The Group as a whole therefore has the flexibility to dimension capacity to meet requirements and to respond to demand in individual markets.

The expansion and renewal of the existing fleet in line with requirements is key for future success in competitive markets. By investing in modern aircraft Lufthansa improves the cost-effectiveness and environmental performance of the planes, particularly in terms of fuel consumption and noise emissions. The number and size of new aircraft additions is strictly determined by the passenger numbers and freight volumes expected in the future. Although the new aircraft planned for 2009 are almost exclusively replacements to modernise the fleet, the order programme up to 2015 also reflects the demand growth expected in the medium term. Here too, however, we can adjust the share of growth and replacement investments flexibly in line with actual developments.

Our future flagship, and the backbone of the long-haul fleet for connections with high passenger numbers, will be the Airbus A380. The first plane of this type is to be delivered to Lufthansa in 2010. At the same time the current long-haul fleet is being modernised by orders for the Boeing 747-8i. In order to bridge the capacity requirement until the A380 is delivered, four new Airbus A330s and A340-600s were put into service in 2008. In July, the 15th Airbus A340 was delivered to SWISS as part of the expansion of the Airbus fleet initiated in November 2006. To support profitable growth at SWISS this is to be continued with the expansion of the Airbus A330 fleet in 2009.

Fleet orders	Deliveries
<b>Long-haul fleet</b>	
15 A380	2010–2015
20 747-8i	2011–2013
3 A340-600	2009
1 A330-300	2009
11 A330-300	2009–2011 (SWISS)
<b>Short-haul fleet</b>	
53 A320-family	2009–2012
6 A320-family	2009–2010 (Germanwings)
2 A320-family	2011–2012 (SWISS)
<b>Regional fleet</b>	
30 Embraer	2009–2011
15 CRJ900	2009–2010
2 Cessna Citation	2009

Lufthansa has the largest route network in Europe. Via our multi-hub system it serves as a feeder network for the intercontinental routes. The development and modernisation of the intercontinental fleet is therefore accompanied by capital expenditure on the short-haul. This is the only way to guarantee Lufthansa's high product standard during the entire voyage and exploit the economic benefits of the modern fleet to the full. The existing European fleet is therefore being successively renewed with new Airbus planes. The first A321Enhanced from the new Airbus generation was presented to Lufthansa in October 2007. This was followed in 2008 by five more aircraft from the new generation of the A320 family. Seven of the total order of 60 new planes are already in service.

The ability to adapt capacity to demand flexibly and at short notice is a major competitive advantage.

#### Group fleet

Number of commercial aircraft and fleet orders of Lufthansa AG (LH), SWISS (LX), Lufthansa Cargo (LCAG), Lufthansa CityLine (CLH), Air Dolomiti (EN), Eurowings (EW) and Germanwings (4U) as of 31.12.2008

Manufacturer/ type	Number							Group fleet	of which finance lease	of which operating lease	Change as of 31.12.07	Additions 2009–2015	Additional options
	LH	LX	LCAG	CLH	EN	EW	4U						
Airbus A300	13							13			– 1		
Airbus A310	4 <sup>5)</sup>							4					
Airbus A319	24	7					25	56	1	14	5	17	
Airbus A320	36	22						58		10		16	38 <sup>4)</sup>
Airbus A321	33	6						39		4	5	28	
Airbus A330	14	11						25		9	4	12	9
Airbus A340	49	15						64	1	5	7	3	
Airbus A380												15	5
Boeing 737	63							63					
Boeing 747	30							30				20	
Boeing MD11F			19					19					
Canadair Regional Jet	9 <sup>1)</sup>			55		10		74		10		15	
ATR					14	11		25	6	12	– 1		
Avro RJ		20		18				38		19			
BAe 146	5 <sup>2)</sup>					15		20		19			
Embraer		4 <sup>5)</sup>						4		4		30	20
Cessna	2 <sup>3)</sup>							2			2	2	
<b>Total aircraft</b>	<b>282</b>	<b>85</b>	<b>19</b>	<b>73</b>	<b>14</b>	<b>36</b>	<b>25</b>	<b>534</b>	<b>8</b>	<b>106</b>	<b>21</b>	<b>158</b>	<b>72</b>

<sup>1)</sup> Leased out to Eurowings.

<sup>2)</sup> Leased out to Air Dolomiti.

<sup>3)</sup> Leased out to SWISS.

<sup>4)</sup> A320-family, i.e. either A319, A320, A321.

<sup>5)</sup> Leased out to company outside the Group.

Lufthansa has taken this flexibility into account in its order programme and its fleet policy: The new orders are phased in over time and the existing planes are largely unencumbered. This enables us to adjust growth to different market scenarios or even to postpone it for a time altogether. This mainly takes place by altering the proportion of replacement and growth aircraft within new deliveries. If demand develops in line with the assumptions, older sections of the fleet are successively replaced with more modern aircraft. If, in contrast, demand is weaker than forecast, there is the possibility of reducing capacities. To start with, the standard maintenance intervals can be brought forward, for instance. If demand remains weak older aircraft can be retired from service completely. As the majority of the Lufthansa fleet is owned by the Group and is depreciated over a period of twelve years, aircraft can be decommissioned at short notice without great expense. Lufthansa has also built a fleet structure which allows aircraft to be deployed flexibly at the different airlines in the Group. Uniform cockpit equipment and licences for crews (within the A320 family, for example) provide the option of using aircraft for different airlines and distributing capacities optimally according to changes in demand in individual sales markets.

## 5.4 Financing

### 5.4.1 Financial strategy

A strong financial profile is an important condition for our corporate development and therefore a key element of our strategic positioning. It safeguards Lufthansa against economic vicissitudes, thereby enabling active development irrespective of the market environment. Moreover, at a time when the smooth functioning of financial and capital markets is at least uncertain, on own strong financial profile is a decisive factor in maintaining autonomy. We benefit from this competitive advantage when financing our capital expenditure, but at the same time, are aware of our responsibility to our investors and lenders. The following aspects of the financial strategy therefore figure in all important Company decisions. Our financial strategy is aimed at ensuring Lufthansa's profitability, liquidity and stability. To achieve these objectives, we have defined the following strategic pillars:

- Permanent access to strategic minimum liquidity of EUR 2bn
- Securing the investment-grade rating
- A strong capital structure
  - A sustainable equity ratio of 30 per cent
  - Gearing, including pension liabilities, within a corridor of 40 to 60 per cent
- Ensuring financial and operating flexibility by a high proportion of unencumbered aircraft
- Controlling financial risks by integrated risk management with the aim of smoothing price fluctuations

Our dividend policy also follows a clear logic: dividend payments are oriented towards operational profitability, as expressed by operating profit for the Group under IFRS. The net profit disclosed in the individual and consolidated financial statements of Deutsche Lufthansa AG must allow a distribution. We strive for continuity in our dividend policy within this framework. In addition to the pillars of our dividend policy, we must also consider the liquidity situation on international financial markets and the capital expenditure programme for fleet renewal.

### 5.4.2 Financial management

The Lufthansa Group has a centralised financial management structure. At the Company's headquarters cash flows are gathered, available liquidity is invested and new funds are raised as necessary. The integrated financial and liquidity planning for the whole Group ensures that the Company and its business segments always have sufficient liquidity. The central financial reporting system provides all companies in the Lufthansa Group with information on their actual financial status and on expected cash flows for the 24 months ahead. The inter-Group financial equalisation mechanism and a cash management system reduce the Group's borrowing requirement and optimise the investment of the Group's liquid funds. The external financing volume of the Lufthansa Group is essentially raised by Deutsche Lufthansa AG. Only in exceptional cases, or when particularly necessary or advantageous, do subsidiaries raise external funds directly, and then in coordination with the central finance department.

### 5.4.3 Rating

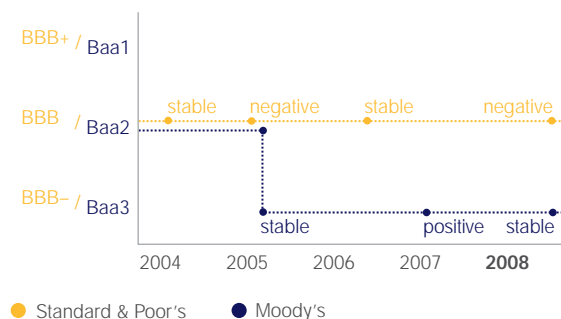
Lufthansa has investment-grade ratings from the ratings agencies Moody's and Standard & Poor's, which make us the best-rated airline in Europe.

Moody's gives Lufthansa a Baa3 credit rating. It particularly mentioned Lufthansa's leading position as an international airline, its well-developed route network, the strong position at its hubs, wide product range and the successful acquisition of SWISS. Lufthansa benefits financially from its steady cash flow generation and stable liquidity. In June 2008, Moody's initially confirmed the rating and the positive outlook for Lufthansa – in a market environment in which the ratings of many other airlines had already been adjusted downwards. In the course of the worsening economic climate and the planned acquisition of Austrian Airlines, Moody's downgraded the outlook to "stable" in December and reconfirmed the rating.



Standard & Poor's rates Lufthansa as BBB. Lufthansa's position at its hubs was viewed positively, as were its strong positions in long-haul traffic and the premium segment. Other positive factors mentioned were the diversification from the strong positioning of Lufthansa Technik and Lufthansa Cargo as well as the Group's good liquidity and stable cash flow generation. Lufthansa's financial profile is considered to be above average in relation to its rating category. The rating was confirmed in December 2008, but Standard & Poor's also reacted to the deteriorating market conditions and the planned takeover of Austrian Airlines by reducing the outlook to "negative".

#### Development of rating and outlook

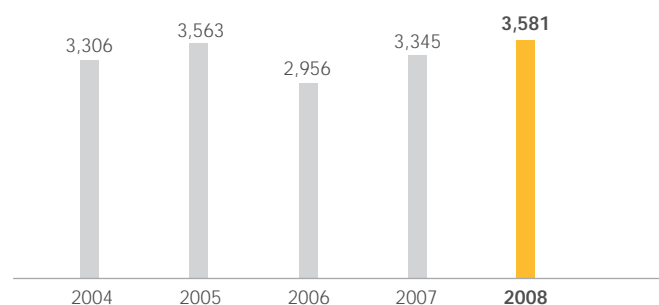


#### 5.4.4 Financing

The investment-grade rating allows us to draw on the full range of different funding instruments. Suitable forms and volumes of financing are chosen as part of the cornerstones of the financial strategy. Aircraft financing plays a major role for us, as together with our good credit standing it gives us very advantageous terms. Lufthansa is also a regular and successful participant in capital markets transactions, however. This enables us to line up a broad array of investors, lenders and funding instruments. The same applies to lines of credit for short-term funding. A number of banks have granted us bilateral credit lines with a maturity of one year. At the end of the financial year credit lines amounting to some EUR 1.8bn were available. We also maintain permanent contact to lenders through our creditor relations activities, which strengthens our investor base.

We mainly refinance our business in our reporting currency, which is the euro. A total of 85 per cent of financial liabilities should be at floating interest rates. More information can be found in Note 48 to the consolidated financial statements on page 183 under "Price risks".

#### Development of borrowings in €m



Lufthansa still has net liquidity (negative net indebtedness), but the figure went down to EUR 125m (previous year: EUR 768m). The Group's gearing at the end of the financial year was 32.9 (previous year: 24.5). The current financing structure can be found in the notes to the consolidated financial statements on page 178, Note 40.

#### 5.4.5 Key financing measures in the past financial year

In 2008 we successfully raised credit totalling EUR 363m for the delivery of new aircraft. In March, July and September Japanese operating leases were signed for three A330-300s and two A321-200s and in November a Swedish lease was signed for an A340-600. These financing transactions gave us very favourable terms at around Euribor (all-in) despite difficult financial markets.

In 2008 we again continued the transfer and funding of pension obligations begun in 2004. In the past financial year, a total of EUR 283m was paid into the Lufthansa Pension Trust. After having made an additional allocation of EUR 1bn the previous year to increase flexibility, no further payment was made in the second half-year of 2008 in view of the uncertain developments on financial markets. The full transfer of all pension obligations to a funded trust model (CTA) is still intended to take place continuously, however. It allows us to make the amount and the frequency of payments flexible.

There were no significant off-balance-sheet financing activities last year. However, various Lufthansa Group companies did enter into rental and/or operating lease contracts. These mainly relate to leases for aircraft and property (see Note 22 to the consolidated financial statements, page 159).

## 6. Employees

### Employees as of 31.12.

		2008	2007	Change in %
Group employees	number	107,800	105,261	2.4
- of which Passenger Transportation	number	48,599	47,230	2.9
- of which Logistics	number	4,655	4,607	1.0
- of which MRO	number	19,804	18,892	4.8
- of which IT Services	number	3,033	3,102	- 2.2
- of which Catering	number	30,273	30,101	0.6
- of which Service and Financial Companies	number	1,436	1,329	8.1
Revenue per employee	thousands €	230	222	3.4
Revenue per full-time equivalence	thousands €	267	254	5.0

The Lufthansa Group is a service company. The quality of the services we provide depends to a large extent on our employees, which means that their role is a very special one. Their customer and service-centred conduct guarantees Lufthansa's growth and competitive success. The Group offers challenging tasks, good working conditions and varied opportunities for professional training and career progression. On the labour market Lufthansa is a highly respected and popular employer.

In terms of human resources the year 2008 held two very different challenges. The months of January to August were characterised firstly by efforts to attract the best new recruits and highly qualified specialists for Lufthansa, and secondly by some very difficult wage disputes. The remainder of the year was defined by the consequences of the financial crisis, which for Lufthansa widely meant a freeze in recruitment and increased efforts to cut costs.

We attach great importance to an employment policy based on partnership, as industrial action in a service company has a particularly adverse effect on customers and also on our own earnings development. This was confirmed by the strikes in summer 2008. This partnering requires firstly a stable collective bargaining structure and secondly a human resources management which respects the interests of the staff and gives priority to socially acceptable solutions in cases of conflict. Making working hours as flexible as possible, for example, contributes to this, as it enables us to respond rapidly and effectively to a deteriorating environment in times of crisis.

### 6.1 Collective bargaining and wage settlements

In the volatile and highly competitive aviation market, the structure of the collective bargaining framework should provide a stable basis for planning the development of staff and costs. This constitutes an important contribution to the sustainable profitability of the entire Group. Efforts to create such a collective bargaining situation are hampered by the fact that there are different trade unions in the Lufthansa Group, including some specialised ones restricted to a particular group of employees, and that different "lines of negotiation" exist towards the interest groups they represent (ground, cabin, cockpit).

The trend towards individualism and an increasingly critical stance towards large, unified trade unions have fostered the phenomenon in Germany of these specialised trade unions. An economy with an ever finer division of labour and set up for just-in-time production is, however, also much more vulnerable to disruption by small groups, which can also cause considerable damage. This applies particularly to service companies, who cannot compensate for lost "production". The collective bargaining partners therefore bear a special responsibility.

Lufthansa therefore aims to discuss a consensus with the social partners on future dealings with one another and new rules in cases of conflict. The dialogue initiated on this subject is to be continued. The objective is to prevent the principles of peaceful collective bargaining and autonomous collective bargaining arrangements being seriously jeopardised by a fragmentation or lack of coordination between interest groups and the use of asymmetric methods of industrial action.

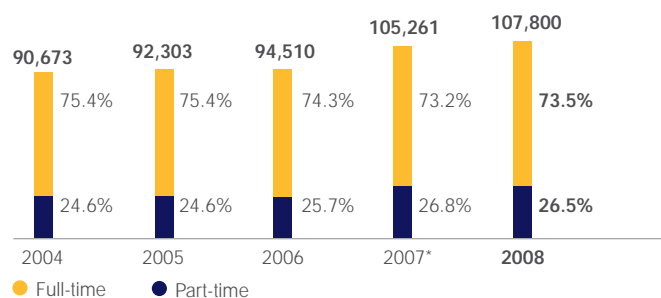
The collective bargaining process for 2008 was marked by very high expectations on the part of the unions and the workforce, which ultimately led to several warning strikes and to an all-out, five-day strike by the ground staff from 28 July to 1 August 2008. Its effects on our customers were limited by a number of measures, however. Finally, the collective bargaining partners reached agreement on compromises acceptable to both sides. The individual agreements signed are as follows:

- In January 2008, a wage settlement was reached for some 4,400 cockpit staff of Deutsche Lufthansa AG and Lufthansa Cargo. Their pay went up by 2.5 per cent from 1 October 2007, and by a further 3 per cent from 1 January 2008. The wage agreement is valid for 18 months and ends on 31 March 2009. This is equivalent to an annual pay increase of 3.9 per cent. In addition to a one-off payment the existing system of variable, performance-linked pay was adjusted to reflect the Group's improved earnings situation in 2007.

- A new wage settlement was also reached in July 2008 for the cockpit crews at Germanwings. Salaries rose retroactively by 2.5 per cent from 1 January 2008, and by a further 3.0 per cent from 1 April 2008. The agreement is valid for 18 months until 30 June 2009 and is in line with the cockpit settlement for Lufthansa Passenger Airlines and Lufthansa Cargo. In its details it does reflect the particular economic situation at Germanwings, however.
- The collective bargaining partners also agreed on higher remuneration for the 34,000 ground staff. Salaries rose by 5.1 per cent as of 1 July 2008. From 1 July 2009 they are to go up by another 2.3 per cent. Staff also receive a performance-related one-off payment of up to 2.4 per cent of annual salary. The wage agreement runs for 21 months until 28 February 2010. On the basis of two twelve-month periods this means that employees' individual remuneration goes up by 4.2 per cent.

## 6.2 Development in the number of employees

Number of employees in full- and part-time

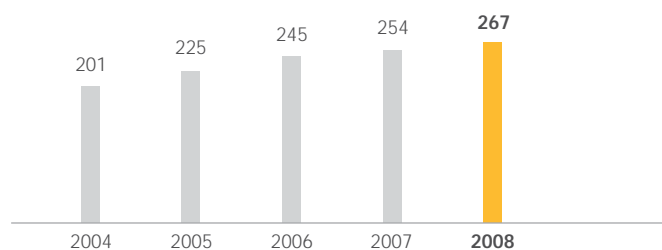


\* First-time full consolidation of SWISS.

As of 31 December 2008 the Lufthansa Group had 107,800 employees, of whom 43.5 per cent were female. Among managerial staff 14.6 per cent were women. In total, around 60 percent of the employees work in Germany. Due to the financial and economic crisis a widespread hiring freeze was imposed in the second half-year. Due to this effect and a normal fluctuation rate of 6.8 per cent the number of employees sank slightly to 107,800. This means that the number of employees nevertheless went up by 2,539 compared with 2007. Of staff based in Germany 3.4 per cent have a disability. Lufthansa is assuming its social responsibility by carrying out a number of measures to help integrate all employees even better. More information on this topic can be found in the "Sustainability" chapter (chapter 7, page 67) or in our sustainability report Balance.

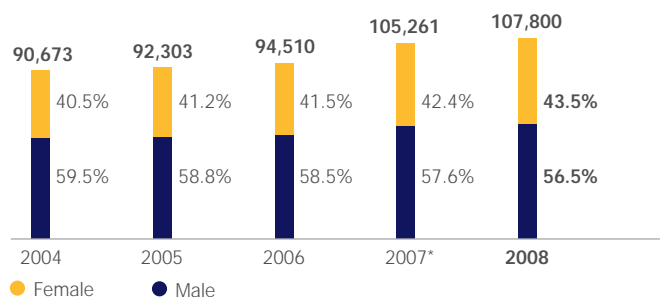
In recent years we have striven by various means to increase the flexibility of our personnel capacities. The key instruments include "breathable systems" for working hours and a varied range of part-time positions. Agreements with the collective bargaining partners also enable working hours, for ground staff for example, to be reduced when certain conditions are met. At Lufthansa Technik a company "long-term account" was introduced, for instance. This means that overtime and weekend or bank holiday work no longer needs to be paid in cash when time off in lieu no longer applies, but can be transferred to the long-term account as a working hours credit and used for leave at a later date. Additional hours from working time corridors can also either be given to the employee in cash or be credited to the long-term account. We have made working hours at Lufthansa Passenger Airlines and in head office functions more flexible by extending the "hours workable on trust" for pay-scale staff. In addition, a new flexitime model with considerably greater flexibility was introduced for the Frankfurt location. All these flexibility exercises are aimed at enabling Lufthansa to make the necessary adjustments to staff capacities in difficult economic times as well by means of measures which are as socially acceptable as possible. Our staff development in line with requirements and the efficiency gains we have achieved are also reflected in the increase in revenue per full-time equivalence.

Revenue per full-time equivalence Lufthansa Group in € thousand



Despite the hiring freeze Lufthansa has retained its excellent reputation as an employer. This is also apparent from its placing in different rankings. Lufthansa is highly popular with business studies students, for instance. In the ranking of the most popular employers drawn up by the magazine Wirtschaftswoche, Lufthansa took second place. Lufthansa Technik and Lufthansa Systems also boasted top rankings among the engineers and computer scientists surveyed. The ranking established by Manager Magazin for the Lufthansa Group was similarly positive. Also the number of applicants, which topped 100,000 for the first time in 2008, underlines the Group's prestige.

Number of employees by gender



\* First-time full consolidation of SWISS.

Together with a well-filled talent database of external applicants this means that Lufthansa is capable of drawing rapidly on a pool of potential highly qualified staff again as needed.

### 6.3 Internationalisation

Lufthansa is traditionally an internationally oriented company. Altogether, staff from 155 nations work in the Lufthansa Group, offering the best service for our international customers. For example 764 regional flight assistants support the customer-focussed service philosophy. In countries outside Germany Lufthansa actively pursues a collective bargaining and social policy in line with national specificities.

Changes in the aviation sector and especially the inclusion of more airlines in the Lufthansa group make Lufthansa even more international, which is reflected in our human resources management. One area this plays a role in is the way we treat new companies as partners. New corporate cultures, such as that of SWISS, are respected and their identity is fostered. In parallel Lufthansa also invests in the capacities of its workforce and management to achieve the greatest possible success in an industry which has become even more international. This is done by promoting language learning and cultural awareness for all staff.

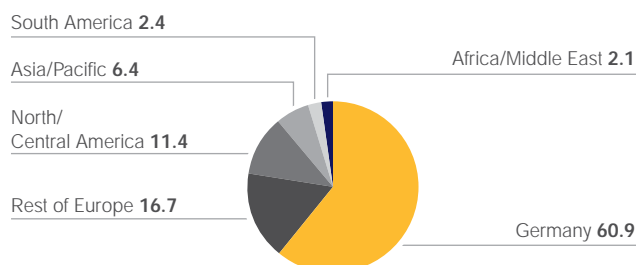
Other steps are also taken to cope with international challenges:

- The internal Spectrum database for staff potential covers managers and trainee managers in all companies. Cross-segment global processes allow management potential to be presented and evaluated worldwide. This makes it possible to identify bottlenecks and to optimise recruitment for vacant management positions in national and international areas.

- In the junior management programme ProTeam, 21 per cent of the places are currently filled with talented overseas staff.
- All management programmes have been internationalised, that means supplemented by international professors, an international range of participants and programme modules which take place abroad.
- At Lufthansa Passenger Airlines and Group functions a total of 19 "in-motion" positions were created in 2008. These are short-term secondments to posts abroad where there are bottlenecks – bottlenecks which are critical for the internationalisation of the Group.

The extent of change in the Company can be illustrated by two figures: While just a few years ago 9 out of 10 staff members in most areas went to work abroad without any country-specific intercultural preparation, in 2008 as many as 85 per cent of all staff and managers took advantage of the intercultural seminar offering tailored to their new role before leaving. Lufthansa is well prepared for the challenges of internationalisation.

Employees by region in %



### 6.4 Vocational and professional training

It is precisely in times of crisis that Lufthansa has to impress with the quality and commitment of its staff. That is why we attach great importance to excellent vocational and professional training. In 2008 Lufthansa took on 330 new vocational trainees. A clear trend towards higher qualifications can be seen. The number of apprentices who complete a classic sandwich course in the Company and at a vocational training school is steadily declining. In contrast, the number of new recruits who combine their Company training with university studies continues to grow. A steady supply of new cockpit staff was also a priority. In our own pilot schools we trained 262 new recruits last year.

The range of professional training courses available also continued to grow. We pay special attention to perfect service on board. This is the purpose of the additional training programme to become

a qualified First Class flight assistant. In February 2009, a total of 2,079 employees had this professional qualification, which further increases the quality of the First Class product. Cabin crew can also choose from 20 different courses for expanding their level of First Class knowledge.

After a building time of around two years we will be opening the Lufthansa Training & Conference Center Seeheim, with a broader concept and modern architecture, in early 2009. This means that we will once again have a fixed location to enable concentrated learning, meetings, networking and exchange of ideas for our staff. The Seeheim location in the Bergstrasse-Odenwald nature park has been a symbol for this in the Lufthansa Group for many years. In 2006, we decided not just to modernise the old training centre after more than 30 years, but to invest some EUR 100m in a modern education centre designed according to the latest standards. The Lufthansa Training & Conference Center Seeheim is a training site, a conference centre and a hotel. It has over 483 rooms in different categories and around 80 function rooms in various sizes equipped with modern media technology. The programmes of the Lufthansa School of Business – founded in 1998 as the first corporate university in Germany and the central institution for all Group-wide training and dialogue platforms for managers and staff – will again be at home in Seeheim. In the second quarter of 2009 a new area, the Lufthansa Brand Academy, will be opened in a separate section of the Training & Conference Center. The participants there will experience the Lufthansa brand with all their senses and become brand ambassadors. The main target groups for the Brand Academy are managers and service staff on board and ground.

## 7. Sustainability

Lufthansa and its business segments support the concept of sustainability. We focus on four dimensions: diverse efforts for better climate and environmental protection, staff satisfaction, vocational and professional training at all levels of the Group and finally sustainable economic development in order to increase the Company's long-term value. Important progress was made in all these areas in 2008. Persistent endeavours throughout the whole Lufthansa Group to carry on a sustainable business are reflected in the Company's repeated listing in the Dow Jones Sustainability Index. In 2008, Lufthansa was rewarded with the Gold Class as Sustainability Leader 2008/2009 by the SAM sustainability index.

The Lufthansa Executive Board bears ultimate responsibility for sustainable business in the Group. The interdisciplinary and cross-segment Sustainability Board is firmly embedded at senior management level. The board consists of the heads of the Corporate International Relations and Government Affairs, Corporate

Environmental Concepts, Corporate Communications, Corporate Labour Relations and Investor Relations departments, and mainly has coordination and advisory responsibilities. Its members report directly to the Executive Board.

### Executive Board



### 7.1 Climate and environmental protection

Environmental protection will remain one of our key corporate goals. We want to make environmentally sustainable conduct an integral part of our everyday business and integrate it better as a decision-making factor. This is the background to our goal of reducing CO<sub>2</sub> emissions per revenue passenger-kilometre flown by 25 per cent compared with 2006 (110.5 g/pkm) by 2020. This means that we are striving for CO<sub>2</sub> emissions of just 84 g per revenue passenger-kilometre flown. That is just one of the goals defined in the Strategic Environmental Programme we adopted in 2008. Fifteen principles define how Lufthansa is to achieve further significant progress in its environmental efficiency by 2020. Hand in hand with this objective go the observation and optimisation of fuel consumption, measured in litres per 100 revenue passenger-kilometres flown. Due to the drop in the passenger load factor in 2008, a figure of 4.34 l/100 pkm was achieved, which is 0.02 l/100 pkm, or 0.5 per cent more than the previous year's 4.32 l/100 pkm.

At Lufthansa Cargo an innovation prize was introduced, the Cargo Climate Care Award, which is given to staff, but also to clients, students and young researchers who have developed innovative approaches to improving the environmental footprint of airfreight traffic. Lufthansa Cargo was also able to achieve ISO 14001 certification of its environmental management system at its Frankfurt site. LSG SkyChefs has also begun to develop a similar system. The Lufthansa Aviation Center in Frankfurt was recognised by the European Commission as a "green building" for its high level of energy efficiency and sustainable management in 2009.

The Lufthansa Group is actively involved in a number of scientific research and development projects, such as the research project Quiet Traffic and the EuroNature Foundation. The focus lies especially on climate and noise research, with additional research taking place in the field of high-altitude radiation. Taken together, these targeted and often very expensive activities help to make an objective assessment of the effects of air traffic on the environment. The findings enable us to realise further potential for minimising environmental damage. Moreover, they form the basis for the Lufthansa Group's effective environmental policies.

By modernising its fleet and other measures, Lufthansa also helps to meet the targets of the Advisory Council for Aeronautics Research in Europe (ACARE) of reducing nitrogen oxide emissions by 80 per cent and noise emissions by 50 per cent by 2020.

Lufthansa follows a four-pillar strategy to make sustainable climate protection in aviation a success:

#### 7.1.1 Technical innovations and fleet modernisation

In 2009, the Lufthansa Group will replace more than 50 older aircraft with aircraft with more efficient fuel consumption. By 2011, this will bring down the average age of the fleet by 7 per cent from 11.3 years at present. The aim of this rejuvenation programme is to guarantee a balanced fleet structure with the latest aircraft and to avert a later backlog of capital expenditure. The new aircraft also have economic advantages, as they consume less fuel and produce fewer emissions and less noise. For example, the new wide-bodied aircraft Boeing 747-8i and Airbus A380 have around

13 per cent lower fuel consumption than the wide-bodied planes currently in service at Lufthansa, the Boeing 747-400, Airbus A340-300, A340-600 and A330-300. Thanks to modern aerodynamics and the latest engine technology the noise footprint of a new Boeing 747-8i is also around 30 per cent lower than a Boeing 747-400 on take-off.

#### 7.1.2 Optimising infrastructure in the air and at airports

The expansion of Frankfurt Airport is one of the key projects to help make air traffic operations in Germany more efficient and therefore more environmentally friendly. The Lufthansa Passenger Airlines fleet wasted 150,000 litres of kerosene a day in Frankfurt alone in 2006, for instance, due to holding patterns and landing delays. An expansion of the airport would assist Lufthansa in its endeavours to reduce this additional consumption. It is important to proceed in line with the interests of all stakeholders, in the matter of night flights for instance, in order to avoid any discrimination. In addition to these steps, the fragmented European air traffic control authorities also need urgent reform to produce a central air traffic control system – a concept known as the “Single European Sky”. According to the Special Report “Aviation and the Global Atmosphere” from the International Panel on Climate Change (IPCC), such a central air traffic control system would support airlines in their efforts to reduce CO<sub>2</sub> emissions by up to 12 per cent with better coordinated, and therefore shorter, flight paths. Lufthansa is in permanent contact with political groups and decision makers, not least within the framework of the Air Traffic for Germany initiative, to achieve this aim and thus make air traffic in Germany and Europe more environmentally friendly.

#### Ressource management by optimisation of operating procedures

##### Operations/cockpit

- Paperless cockpit/EFB (Electronic Flight Bag)
- Worldwide flight planning system Lido OC from Lufthansa Systems calculates the optimal route for every flight, thereby saving fuel
- Flights at variable speeds
- Better use of winds and CDA (Continuous Descent Approach)
- Flying optimised flight routes

##### On board

- Optimising cabin design in terms of saving weight and therefore fuel
- Avoidance/recycling of on-board refuse

##### Cargo

- Optimising loading
- Reducing weight of loading equipment and ancillary loading equipment

##### Optimising aircraft capacities

- (passenger load factor/cargo load factor)
- Use of the correct aircraft (adjustment to specific booking situation), thereby optimising capacity and improving specific fuel consumption

##### Support for climate research

- Equipping Lufthansa aircraft with sensors and measuring containers

##### Technical progress

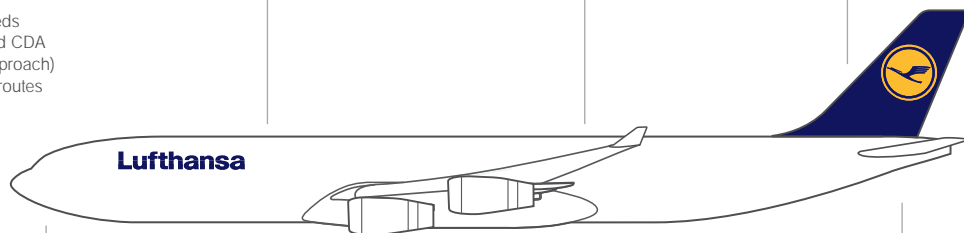
- Deployment of more modern, more efficient and simultaneously quieter engines

##### Maintenance

- Innovative engine wash to increase the efficiency of the engine's output; further process optimisation

##### Operations/loading

- Optimised fresh water refilling
- Optimised refuelling





### 7.1.3 Optimisation of operating procedures

Improving procedures can save fuel and thereby cut emissions in flight operations as well. The diagram on page 70 shows some examples of the many areas in which we are driving improvements. All the business segments provide support for this goal by their innovative activities.

### 7.1.4 Economic incentive systems

If an economic instrument is suitable for the effective management of greenhouse gas emissions we are open about adopting and promoting it. For example, we agreed to the introduction of NO<sub>x</sub>-dependent airport fees in a three-year pilot phase starting on 1 January 2008, in Frankfurt and Munich. Lufthansa is in favour of developing an international emissions trading system including air traffic, as long as this does not distort competition. This is important as fair competition is the best method of guaranteeing efficiency in the use of resources. Ways must therefore be found to design a neutral, fair emissions trading scheme, which particularly means including all relevant competitors in a globally effective trading scheme. Lufthansa is currently elaborating a hedging strategy for the price risk of emissions certificates.

## 7.2 Staff satisfaction and professional training

The significance of satisfied and motivated staff for Lufthansa as a service company was already described in detail in the chapter "Staff" (page 66), as were the vocational and professional training courses on offer. In addition to qualified training we also attach importance to a regular dialogue between staff members and Company management. In order to make the best use of staff's potential for innovation, Lufthansa operates an ideas management system known as "Impulse" with the help of a department set up for the purpose. In summer 2008, an extensive staff survey known as EFM, Employee Feedback Management, was carried out for the sixth time. The results of the survey show: Lufthansa employees are highly committed to their company. The figures have improved in all areas in comparison with the last survey in 2004. Staff see Lufthansa's position relative to its competitors in the years ahead as particularly positive. At the same time they reveal potential for improvement. The survey highlighted the desire for an improved error and learning culture, for instance. Lufthansa management and the departments concerned take the result of the EFM very seriously and will make great efforts to improve staff satisfaction even further and to cement the staff's outstanding loyalty. Because that is an important reason for the excellent and exceptionally important loyalty of our customers, which must be maintained. The recently built Lufthansa Training & Conference Center in Seeheim will support this endeavour as a place of exchange and learning for all Lufthansa colleagues.

## 7.3 Sustainable economic development

In all our activities sustainable economic development and the long-term enhancement of corporate value are a priority in order to serve the interests of all stakeholders. Value-based management and its measurement unit CVA are described in detail in chapter 1.4 starting on page 41. Balanced risk management (see "Risk report", page 114) makes a fundamental contribution to that goal. It contributes to the Company's safety by reducing wide fluctuations in price which can only be managed with difficulty, for example by the use of hedging transactions for fuel. It is not our intention to seek opportunities for short-term profit in making these transactions. By forward-looking and careful observation of the markets, we rather aim to guarantee that no developments are overlooked which would result in severe financial expenses for Lufthansa.

We proceed in the same way regarding our involvement in the consolidation of the aviation industry. There will be no precipitate undertakings with us, as in this turbulent environment we are guided solely by sustainable value creation in the spirit of all our stakeholders. The objective of a potential acquisition is neither to generate short-term profit nor to weaken other competitors. The sole criterion is the profitability and development prospects of the new partner and the Group. The business performance of potential candidates is therefore carefully evaluated. The essential conditions for a positive opinion are: Profitable mid-term prospects on a stand-alone basis must be apparent. The company must also fit well with Lufthansa financially, strategically and culturally. Then the company also has to be compatible with Lufthansa hub management. The integration of SWISS is an example of how the integration of an airline into the Lufthansa Group can be successfully achieved. Other integrations are due to follow with Brussels Airlines and Austrian Airlines.

For sustainable economic development it is also crucial to compete on a level playing field. All staff are therefore obliged to respect both applicable laws and internal Lufthansa norms and guidelines. Compliance guidelines covering the areas of Competition, Capital Markets, Corporate Compliance and Integrity have therefore been drawn up for this purpose, and a compliance system implemented which limits the equivalent risks by preventive means. The system's effectiveness is monitored by a Compliance Office and a system of ombudsmen set up in 2007. Both proved their worth in 2008.

Sustainability in the sense of respect for traditions is also a particular priority at our foundation, the Deutsche Lufthansa Berlin Stiftung. Among other projects, it is currently working on getting one of the legendary Lockheed L1649 Super Stars airborne again.

More detailed information on the topic of sustainable management is published in the annual sustainability report Balance. It is also available on the internet at [www.lufthansa.com/responsibility](http://www.lufthansa.com/responsibility).



ENTRY INSTRUCTIONS  
Before entering the aircraft, please read the instructions on the board. The instructions are in English, German, French, Spanish, Italian, Japanese, Chinese, Korean, Hindi, Thai, Vietnamese, Indonesian, Malay, Tagalog, and Arabic.

STAR ALLIANCE

Boeing  
787-9

15



# Passenger Transportation

business segment

18.4bn

EUR revenue

722m

EUR operating result

The airlines in the Lufthansa Group were able to hold their own in an increasingly difficult environment and build on their leading position. The clear focus on customer utility, premium quality in all segments and a demand-oriented capacity strategy were reflected in increased customer satisfaction and high traffic. These in turn laid the foundations for the Passenger Transportation business segment's good result in the 2008 financial year.

## 8. Business segment performance

### 8.1 Passenger Transportation business segment

Passenger Transportation				
		2008	2007	Change in %
Revenue	€m	18,393	15,956	15.3
- of which with companies in the Lufthansa Group	€m	663	589	12.6
Operating result	€m	722	826	- 12.6
Adjusted operating margin	%	4.6	6.0	- 1.4 pts
Segment result	€m	788	1,146	- 31.2
EBITDA <sup>1)</sup>	€m	1,948	2,047	- 4.8
CVA	€m	346	768	- 54.9
Segment capital expenditure	€m	1,390	1,228	13.2
Employees as of 31.12	number	48,599	47,230	2.9
Average number of employees	number	48,697	43,088	13.0
Passengers <sup>2) 3)</sup>	thousands	70,543	62,878	12.2
Available seat-kilometres <sup>2)</sup>	millions	195,431	169,108	15.6
Revenue passenger-kilometres <sup>2) 3)</sup>	millions	154,156	135,011	14.2
Passenger load factor <sup>2) 3)</sup>	%	78.9	79.8	- 0.9 pts

<sup>1)</sup> Before profit/loss transfer from other companies.

<sup>2)</sup> Without Germanwings.

<sup>3)</sup> Since 1 January 2008 revenue passenger figures have been calculated in the Lufthansa Group on the basis of the ICAO standard. The figures from the previous year have been adjusted accordingly.

#### 8.1.1 Business and strategy

Passenger Transportation is the core business segment in the Lufthansa Group. The Passenger Transportation business segment includes Lufthansa Passenger Airlines, SWISS and Germanwings, as well as the equity investments in British Midland (bmi), JetBlue and SunExpress.

The declared aim is to further strengthen our position as a leading European premium carrier with global capacity. This means covering all major traffic flows from, via and to Europe. To meet this goal Lufthansa is building its growth strategy on three pillars.

Lufthansa is achieving the medium-term expansion of its short and long-haul network partly by organic growth. Taking cost-effective-

ness into consideration, this expansion takes place primarily via the hubs in Frankfurt, Munich and Zurich. Lufthansa and SWISS together serve 242 destinations in 87 countries and thus guarantee a wide range of flights. The mostly Group-owned fleet with a high degree of flexibility enables Lufthansa to adjust growth to the latest market conditions and to exploit opportunities in individual markets. In November 2008 a new brand and company, Lufthansa Italia, was presented in Italy, for instance, under which Lufthansa commenced flight operations in Milan from 2 February 2009. Initially, eight European destinations will be served from there. The special features of the Lufthansa Italia service include a new on-board concept tailored to the Italian market, Italian-speaking flight attendants and an improved infrastructure at Milan-Malpensa Airport in close cooperation with the airport operator SEA.

In intercontinental traffic the focus of network development in 2008, in addition to the growth markets in China, India and Russia, was the build-up of intercontinental connections from the catchment area around Dusseldorf to further strengthen the position in the European market. Stationing three Airbus A340-300s there brought the region into direct connection to the North American continent. Since 1 May 2008, New York and Chicago as well as Toronto (summer) and Miami (winter) have been on offer, in addition to the total of 65 destinations in Germany and Europe. All routes were very well received by the market from the start and the load factor developed well.

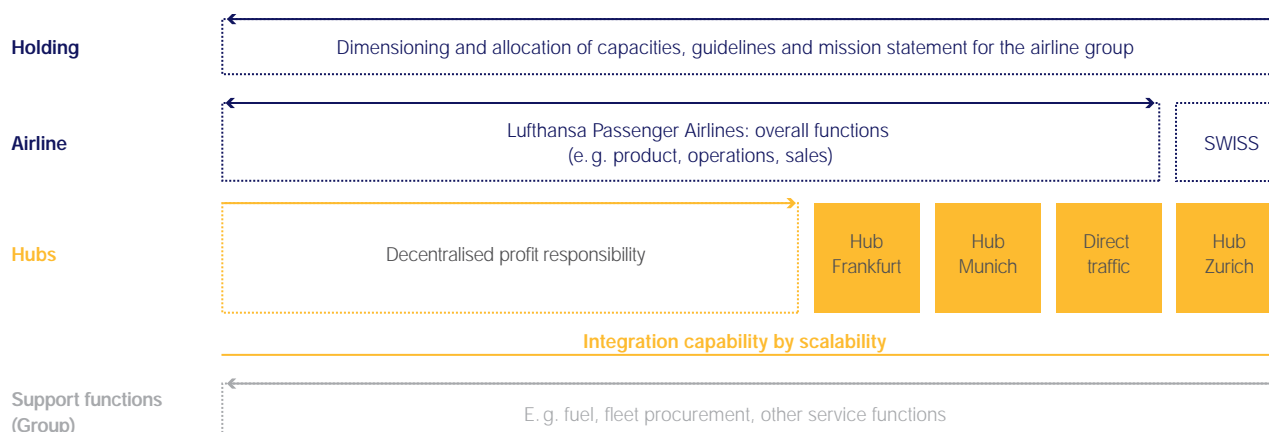
Furthermore, Lufthansa is expanding its cooperation programmes with its partners. The Star Alliance especially plays an important role in capturing new markets. The 21 members of the alliance at present fly to a total of 1,042 destinations in 168 countries. With Turkish Airlines, for instance, which joined the Star Alliance on 1 April 2008, we were able to make clear improvements to our market position in Turkey and the Middle East. In July 2008 Egypt Air also became a member of the Alliance. Star Alliance will continue to be strengthened worldwide by the entry of Continental Airlines, TAM, Air India and Brussels Airlines, which have already been decided. In addition, Lufthansa and SWISS cover further markets by means of bilateral (e.g. regional) partnerships, thereby completing their offering.

The third strategic pillar is to follow the ongoing consolidation of the sector in Europe closely and to make active use of it by means of equity investments, right up to the full takeover of airlines to the extent that this appears strategically and economically sensible.

Lufthansa is continuing to develop accordingly into a multi-hub/multi-brand airline group. By integrating its partners into this group and maintaining its own independent market presence, Lufthansa strengthens its proximity to markets and customers and can link European and global traffic flows via its multi-hub system cost-efficiently and with optimal use of capacity. The successful integration of SWISS continued in 2008 and has gone over to routine operations. Synergy effects are still being realised as in 2007, which is why the expectations based on original forecasts continue to be exceeded. Lufthansa and SWISS have a nearly equal share of these synergies. Other important milestones in 2008 were the contract to acquire initially 45 per cent of Brussels Airlines and the forthcoming takeover of Austrian Airlines (AUA). These acquisitions offer the opportunity of better connecting the markets Belgium, with Brussels as “the capital of Europe”, and Austria to the Lufthansa network. They also enable Lufthansa to strengthen its position in the African market via Brussels Airlines, which flies to ten additional destinations, and in Eastern Europe via the partnership with AUA. As with the successful integration of SWISS, both Brussels Airlines and AUA are to remain as independent companies with their own brand. For both partners this means that the synergies they realise with Lufthansa also give them a strong competitive boost.

Following the exercise of a put option by the current majority shareholder, Lufthansa is also to acquire a majority stake in the airline bmi – subject to competition and regulatory approval. Currently, bmi has an 11 per cent share of take-off and landing rights at London Heathrow Airport.

#### Airline group strategy

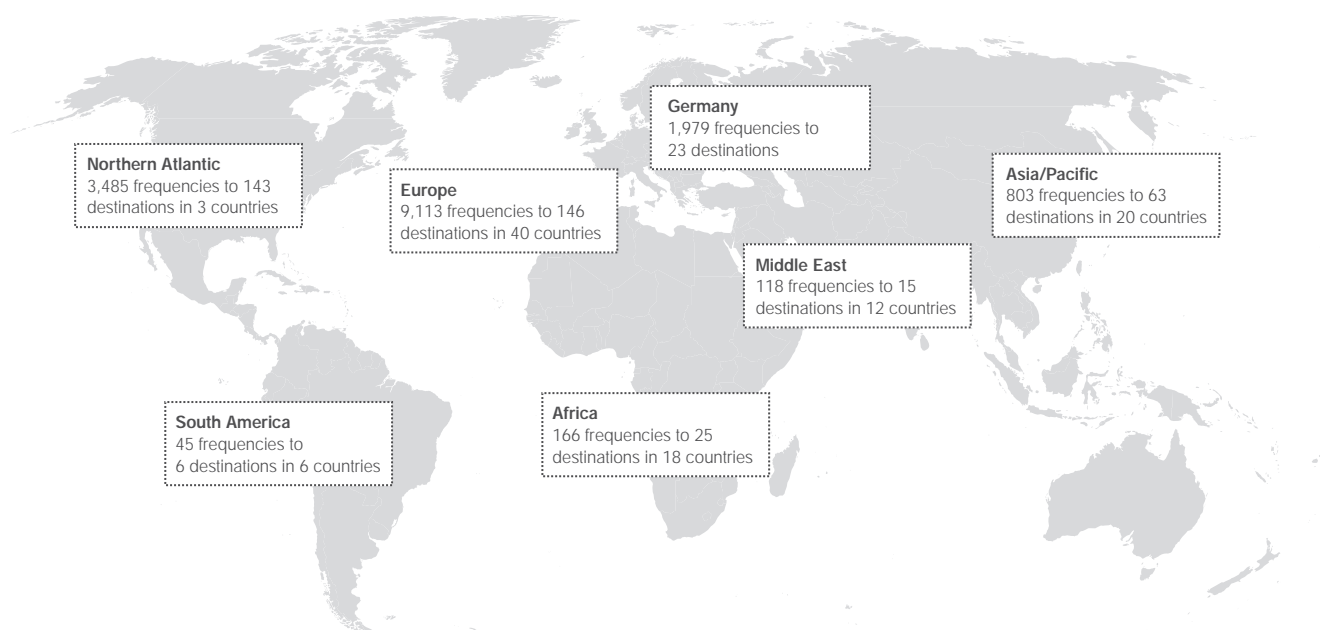




Lufthansa's declared aim is to increase the sustainable profitability of the segment by cutting costs further, effectively raising revenue, optimising efficiency and making further quality improvements. The segment strives for quality leadership in the industry in order to make durable improvements to its competitiveness, also in times of crisis, and while continuing to develop competitive cost structures at the same time. The existing high level of flexibility in setting capacity is vital for optimising the response to short-term market fluctuations. Lufthansa therefore tracked the declining demand visible in the second half-year closely and initiated early measures in response. The resulting capacity adjustments were made in several stages in line with the forecast developments in demand. For the winter flight plan 2008, for example, capacity was cut by 7.9 percentage points compared with the original plan (–2.4 percentage points compared with the previous year). For 2009, a capacity increase of 0.8 per cent (1.2 per cent incl. SWISS) is planned, which can, however, be further reduced if the weakness in demand continues.

In the current economic environment cost management plays a vital role. In order to stabilise earnings at Lufthansa Passenger Airlines a hiring freeze was imposed from summer 2008, capacities were adjusted and the project portfolio was reviewed. As part of the Group initiative "Upgrade to Industry Leadership" several projects have also been established to achieve lasting increases in profitability and help achieve and extend industry leadership in terms of profitability as well. The Upgrade project New Balance, for instance, is working to improve Lufthansa's quality, performance and profitability by relieving peak loads on infrastructure at Frankfurt Airport.

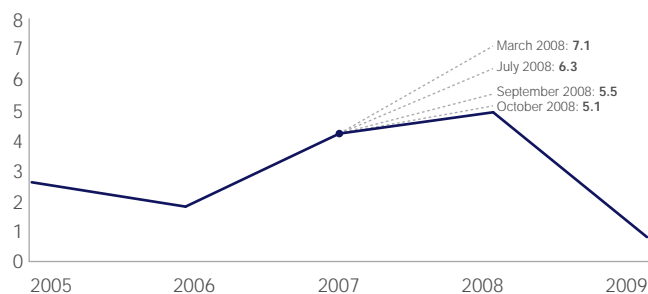
#### Destinations of Lufthansa and SWISS\*



\* Lufthansa frequencies per week including codeshares.



#### Flexible capacity planning Capacity growth Lufthansa Passenger Airlines in %



The hubs and their processes are being systematically developed, true to the motto “Flying begins on the ground”. At the Frankfurt hub the terminal areas for the Airbus A380 went into operation and the construction of an additional pier was prepared, including clearing the building area. All construction projects in the terminal areas used exclusively by Lufthansa are aimed not only at extending facilities but also renewing their function and design. Further progress was also made on developing the Munich hub. Quality and services were optimised at the same time and competitiveness was strengthened. Munich has established itself as an important element of the multi-hub system. The operating quality there was also further improved. Significant improvements in departure punctuality compared with the previous year were made by implementing the MUCximize project as part of the initiative “Upgrade to Industry Leadership”.

The aim of optimising customer utility is also achieved by continued product development on board and on the ground. As a full-line supplier this applies to all segments of the range. A series of product improvements were therefore adopted in 2008 in the premium segment, and the basic range for growing groups of customers in the lower price segment was developed via BetterFly and Germanwings. Development work was completed on a new Lufthansa First Class cabin product and implementation was started. The new First Class is to reveal its new appearance in flight operations for the first time in early 2010. The Economy Class product in the long-haul fleet was enhanced in November 2007 by the installation of in-seat screens. This means that every passenger has access to an extensive entertainment programme on board via their own screen. Revised cabin equipment also provides greater comfort in the short and medium-haul fleet. The regional fleet was significantly rejuvenated in 2008, and its cabin design adapted to that of the Lufthansa Classic fleet.

SWISS also continued to refine its product range. The programme of fitting the short-haul fleet with new seats was completed. SWISS passengers can now enjoy the new, high-quality seats, which provide greater comfort and more leg-room, on all flights within Europe. From spring 2009, SWISS will gradually be introducing, as a world first, an innovative seating concept in Business Class on all intercontinental routes. Passengers will then be able to enjoy a fully horizontal, two-metre-long bed above the clouds. SWISS also presented a new First Class in January 2009, which is to be introduced successively from spring on as the A330 fleet renewal takes place.

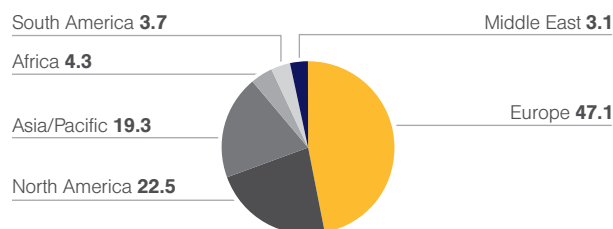
Lufthansa and SWISS are also pursuing their strategy on the ground by developing their lounges. Lufthansa will be investing more than EUR 150m in refining its lounge product over the period up to 2013. In 2008, new or refurbished Senator and/or Business Lounges were opened in Cologne, Hamburg, Mumbai and Detroit. In Düsseldorf, the expanded Lufthansa range is accompanied by a separate First Class check-in, a completely new Senator Lounge and a larger Business Lounge. A new complementary lounge concept was launched in January 2009 with the opening of the Senator Café in Munich, the STAR lounge opened in London Heathrow, and in New York (JFK) a new Lufthansa Lounge was inaugurated for Frequent Traveller, Senator and First Class guests. At the Frankfurt hub new Priority Lounges enable boarding directly from the lounge. In the new building between Terminals 1 and 2, spacious waiting areas are to be created for Economy Class passengers, supplemented by exclusive gates for premium guests and separate boarding on two levels according to the class of ticket. SWISS opened a new First Class and Senator Lounge at Zurich airport. The modern Airport Ticket Office and the larger, redesigned First Class check-in lounge were officially inaugurated before the European Football Championship opened in Switzerland. The SWISS lounges in Geneva and New York were also renovated.

#### 8.1.2 Markets and competition

Germany is the second-largest international aviation market in Europe and, at the same time, Lufthansa’s original and core market. However, in the global context of the aviation industry it is not sufficient on its own to ensure an adequate size and market position. Lufthansa’s domestic market is therefore Europe, and the growth potential lies in connecting global markets. The traffic regions Europe, Americas and Asia/Pacific form the key sales markets.

In these regions Lufthansa is in intercontinental competition with US carriers such as American Airlines, Delta Airlines and Northwest Airlines, plus the rapidly growing network carriers in the Middle East (like Emirates) and Asia. In Europe, the main competitors are particularly Air France-KLM and British Airways, as well as Air Berlin in Germany, in addition to a multitude of smaller national airlines.

**Traffic revenue** by traffic region in %



Lufthansa is well positioned in this competitive environment due to its strong diversification both in terms of sales markets and the industries of its business clients. This enables a broad degree of flexibility in capacity and yield management in order to counterbalance fluctuations in individual regions. In addition, Lufthansa can take opportunities to develop its market position and capture long-term growth markets.

At the same time, the existing network and the individual connections are continually reviewed and adjusted in response to demand. The advantages of the multi-hub system are put to good use. For example, by adjusting frequencies flexibly on routes also served by group partners, the own cost base can be reduced without affecting the routes available to customers.

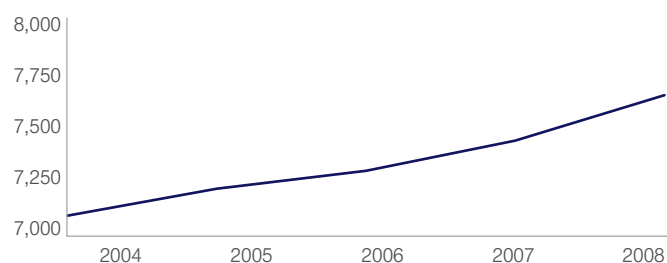
### 8.1.3 Sales and customers

Due to differing customer requirements Lufthansa uses a variety of sales channels. In the private customer segment local travel agencies as well as own and third party webpages are used. The internet portals [www.lufthansa.com](http://www.lufthansa.com) and [www.swiss.com](http://www.swiss.com) are responsible for an ever-increasing share of direct sales. This development has been encouraged by marketing low-price services as well (BetterFly) and by making the websites more user-friendly. In 2008, Lufthansa was also the first German airline to be certified by TÜV Rheinland for its transparent pricing in online bookings. Around 11 per cent of Lufthansa passengers book their flights online via the Lufthansa portal alone.

In the area of corporate clients, sales for major customers takes place via bilateral agreements. This customer group is served by specially qualified key account managers. In 2008, corporate clients reported higher revenue (+4.5 per cent year on year) despite the difficult market and competition. In new client business especially, Lufthansa was able to gain market share. But existing clients also did more business with Lufthansa, above all in European markets. In contrast, revenue in the USA declined due to the financial crisis and recession. Lufthansa reported strong revenue growth in the automotive, engineering, and oil and energy sectors.

Customer satisfaction went up sharply in 2008. This is expressed in opinions about value-for-money for instance, but also in the high levels of satisfaction worldwide with check-in and boarding processes. The increased reliability of baggage handling in collaboration with Fraport was also very well received. Greater customer satisfaction is also reflected in several awards that Lufthansa and SWISS won in 2008. SWISS was again chosen as Best Airline for Europe at the Business Traveller Awards 2006, 2007 and 2008. Lufthansa was voted best European airline out of 59 competitors at the World Airline Awards 2008. In our endeavours to continue making permanent improvements we have placed reliability and punctuality at the forefront of our agenda for 2009.

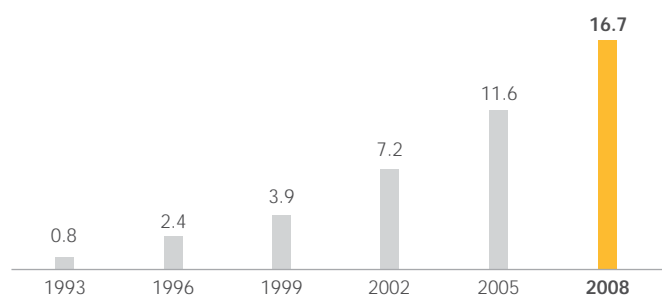
**Customer profile index** as of 31.12.2008



The frequent flyer programme Miles & More continues to play a vital role in securing customer loyalty to the airlines. It reported another year of growth in 2008 and remains the industry-leading customer loyalty programme in Europe with more than 16.5 million participants. It focuses on the core objective of forging and strengthening customer loyalty for Lufthansa and SWISS as well as for the other Miles & More partner airlines and other partners. This promotes Lufthansa's earnings potential over the long term. In 2008, over

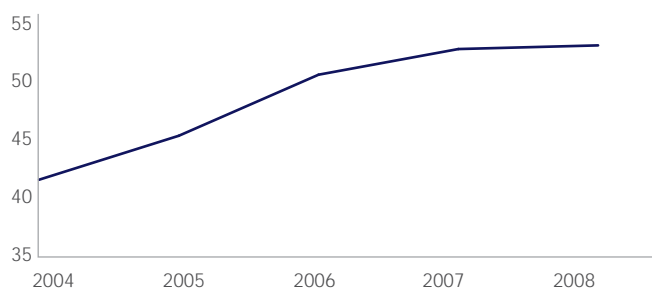
50 per cent of traffic revenue at Lufthansa Passenger Airlines was generated by Miles & More members. A special emphasis was placed on maintaining and increasing the share of high-value premium customers. To this end the services for status customers across the whole performance chain on board and on the ground were optimised using specially created Miles & More status management. As part of targeted customer loyalty measures the contents of the Miles & More internet site ([www.miles-and-more.com](http://www.miles-and-more.com)) were revised and its design made more user-friendly in 2008. As well as including new services the new website makes it possible to address customers even more individually and to propose contents according to status.

Development of Miles & More members in million

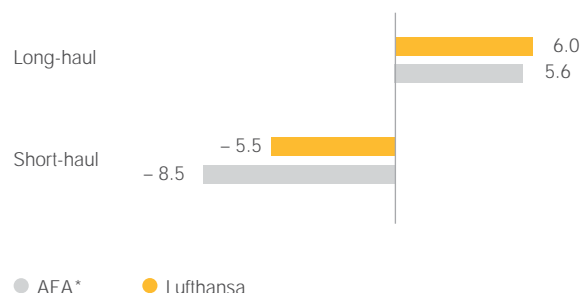


Starting on 1 June 2008, the IATA initiative 100% eTicketing was successfully implemented by Lufthansa and SWISS. At the same time, Lufthansa is making further developments to its mobile service. Since spring 2008, customers on all inner-German and many European flights have been able to send a mobile boarding card to their mobile phone by text message or email. The mobile boarding card satisfies customers' desire for greater mobility, offers them independence and the option of paperless travel. This means that Lufthansa's key services are available to customers in "mobile" form, i.e. any time and anywhere. Processing from booking via check-in through to the mobile boarding card is now possible without changing media.

Premium share of intercontinental traffic revenue in %



Premium traffic volume Jan.–Dec. 2008 Change in %

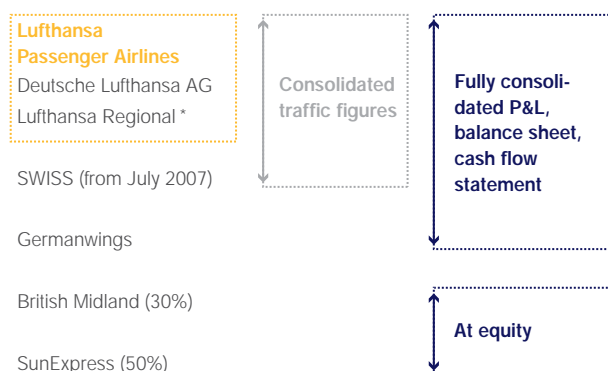


\* Preliminary figures.

### 8.1.4 Operating performance

Despite the fall in demand at the end of the year Lufthansa and SWISS were able to report thoroughly good figures for 2008. A total of 70.5 million passengers were welcomed on board – an increase of 12.2 per cent year on year. For the first time this includes 13.5 million passengers from SWISS for the whole year. Due to continual adjustments to capacity in line with demand, its sharp decline during the otherwise traditionally strong second half-year only resulted in a slightly lower overall load factor of 78.9 per cent for Lufthansa and SWISS (–0.9 percentage points year on year). Traffic revenue climbed in contrast by 13.9 per cent to EUR 16.9bn. Adjusted for currency effects, average yields improved by 2.4 per cent at 15.6 per cent greater capacity. Including currency effects and without adjusting for changes in the group of consolidated companies average yields rose by 0.7 per cent. The table on page 80 shows the developments of revenue, passenger numbers and sales in the individual traffic regions.

#### Consolidation and reporting of the airlines in the Passenger Transportation segment



\* Incl. Eurowings.

In Europe, the frequencies of existing services were increased and an additional 30 new connections introduced in 2008. At Lufthansa the focus was on Northern and Eastern Europe, while SWISS strengthened its profile primarily with new connections to Eastern Europe. This expansion is reflected in the growth in passenger numbers of 11.2 per cent. In spite of a relatively sharp increase in capacity of 13.7 per cent, the load factor sank by 1.1 percentage points to 69.4 per cent. Sharp adjustments to capacity at the end of the year in response to the faltering demand contributed to this relatively stable load factor for the whole year. This is also the reason

why average yields improved by 2.0 per cent (+5.6 per cent without currency and consolidation effects) despite the sharp increase in capacity. Altogether traffic revenue grew strongly.

In the traffic region North America, Lufthansa was able to weave its finely-meshed route network even tighter by the inclusion of new destinations Seattle and Calgary. But it was the successful stationing of three wide-bodied aircraft in Dusseldorf which contributed decisively to capacity growth of 14.1 per cent. As the additional capacity was met by equivalent demand, the load factor only dropped slightly, by 0.6 percentage points. Lufthansa and Star Alliance will be able to strengthen their position in the USA even further, as Continental Airlines is expected to join the network in 2009 and the existing cooperation with JetBlue is to be further intensified from summer 2009. In South America, Lufthansa now offers non-stop flights to the main business centres São Paulo and Buenos Aires. The routes on offer were also expanded by code-share flights with TAM from Brazil, which will join the Star Alliance in late 2009. Against the general trend in the other traffic regions the load factor here even went up slightly (+0.5 per cent). Altogether this meant that 16.1 per cent greater capacity in the Americas traffic region was sold almost in full, which is reflected in a high and stable load factor of 84.6 per cent (–0.4 percentage points). Average yields did decline by 0.4 per cent, but this was solely due to negative currency effects. Without these, average yields would have risen by 3.2 per cent. As a result of these developments traffic revenue was also above last year's.

#### Trends in traffic regions\*

Lufthansa Passenger Airlines and Swiss International Air Lines AG

	Net traffic revenue in €m external revenue		Number of passengers in thousands		Available seat-kilometres in millions		Revenue passenger-kilo- metres in millions		Passenger load factor in %	
	2008	Change in %	2008	Change in %	2008	Change in %	2008	Change in %	2008	Change in pts
Europe	7,614	14.1	54,320	11.2	60,237	13.7	41,789	11.9	69.4	– 1.1
North America	3,638	12.8	7,180	14.3	60,612	14.1	51,282	13.4	84.6	– 0.6
South America	599	30.8	891	22.2	9,491	30.7	8,042	31.6	84.7	0.5
Asia/Pacific	3,118	9.5	5,104	12.1	47,844	14.2	39,690	11.6	83.0	– 1.9
Middle East	500	24.1	1,403	25.7	7,125	24.3	5,281	23.1	74.1	– 0.7
Africa	696	28.4	1,621	22.8	10,058	25.4	8,032	25.3	79.9	0.0
<b>Total scheduled services</b>	<b>16,165</b>	<b>14.2</b>	<b>70,518</b>	<b>12.2</b>	<b>195,366</b>	<b>15.6</b>	<b>154,116</b>	<b>14.2</b>	<b>78.9</b>	<b>– 0.9</b>
Charter	72	35.8	25	2.7	64	– 26.3	39	– 32.7	60.9	– 5.7
<b>Total</b>	<b>16,237</b>	<b>14.3</b>	<b>70,543</b>	<b>12.2</b>	<b>195,431</b>	<b>15.6</b>	<b>154,155</b>	<b>14.2</b>	<b>78.9</b>	<b>– 0.9</b>

\* Since 1 January 2008 revenue passenger figures have been calculated in the Lufthansa Group on the basis of the ICAO standard. The figures from the previous year have been adjusted accordingly.

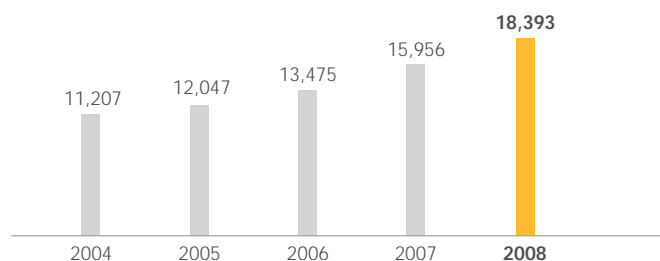
In the Asia region Lufthansa further strengthened its presence in the growth markets China and India. Flights to the business centres Nanjing (non-stop from Frankfurt) and Shenyang (from Munich via Seoul) are the very first intercontinental connections to these destinations. The connection to Pune, the centre of the Indian automotive industry, with a business jet constitutes the first non-stop service from Europe. SWISS also expanded its international network further, adding Shanghai. In total, capacity rose by 14.2 per cent. This growth meant that the load factor in the Asia traffic region only dropped slightly, remaining at a high 83.0 per cent in 2008 (previous year: 84.9 per cent). Average yields also suffered from weaker demand, declining by 1.9 per cent. However, without currency and consolidation effects they would have risen by 0.5 per cent. Traffic revenue also rose sharply by 9.5 per cent.

On the African continent, too, Lufthansa took advantage of growth opportunities. The Lufthansa route network connected to Angola as the second most important sub-Saharan oil-producing country after Nigeria, with flights to Luanda. By adding Malabo in Equatorial New Guinea as a destination, SWISS also enabled Lufthansa to improve its services in Africa and was able to increase its own capacity to Cameroon significantly. Capacity was increased by 24.9 per cent for the entire region. This significantly greater capacity was almost sold in full and the load factor remained broadly stable at 77.5 per cent (–0.3 percentage points). Average yields rose by 1.7 per cent – adjusted for currency and consolidation effects by 9.3 per cent. These factors resulted in a sharp increase in traffic revenue compared with the previous year.

### 8.1.5 Revenue and earnings development

**Revenue and income** The Passenger Transportation business segment was able to increase traffic revenue by 13.9 per cent to EUR 16.9bn with higher sales. SWISS accounted for EUR 2.8bn and Germanwings for EUR 617m. The full consolidation of SWISS in the first half of 2008 accounted for a large share of the increase and led to EUR 1.3bn higher traffic revenue. The effect of the consolidation was therefore +8.9 per cent. Sales volumes (+4.0 per cent) and prices (+ 3.3 per cent) also had a positive effect on traffic revenue. Currency movements had an adverse effect, diminishing revenue by 2.4 per cent. Other operating income rose by 33.8 per cent to EUR 2.8bn. This is due to the first-time consolidation of SWISS in the first half-year of 2008 and to a sharp rise in foreign currency gains, however, which were offset by much higher losses in other operating expenses. Total operating revenue went up by 16.3 per cent to EUR 19.6bn (adjusted for the effects of the initial full consolidation of SWISS: +7.0 per cent).

Revenue Passenger Transportation in €m



**Expenses** The rise of 17.8 per cent in operating expenses was 1.5 percentage points above the rise in operating income. The initial full consolidation of SWISS in the first half-year had a significant impact (see also the table Expenses, page 82). The disproportionate increase was almost solely due to the cost of materials and services, more precisely to expenses for raw materials, consumables and supplies, which rose by 41.0 per cent to EUR 5.1bn. These are the largest group of expenses and the distance between them and the other expense items continued to grow in 2008. Fuel costs are almost uniquely responsible for the change, going up by a total of 42.3 per cent to EUR 4.8bn. Of this increase the full consolidation of SWISS in the first half-year of 2008 accounted for 11.4 per cent. Greater fuel consumption was responsible for 5.2 per cent. However, higher prices were behind 35.0 per cent of the increase. The strong euro reduced the cost of fuel by 9.3 per cent. The companies in the Passenger Transportation business segment had to spend EUR 3.2bn on fees and charges (+12.1 per cent). Adjusted for the full consolidation of SWISS in the first half-year of 2008 the increase was just 2.5 per cent. The main cause was higher expenses for air traffic control charges due to greater capacity. Other services went up by 14.5 per cent to EUR 3.2bn (adjusted: +6.3 per cent). The full consolidation of SWISS in the first half-year of 2008 caused expenses for operating leases (+41.2 per cent) and for MRO services (+10.8 per cent) to go up sharply. After adjustments, the external MRO services would have gone up by 5.9 per cent and operating leases would have risen by 3.5 per cent.

Staff costs rose by 8.7 per cent to EUR 3.2bn. The full consolidation of SWISS in the first half-year of 2008 alone was responsible for 7.4 per cent (EUR 220m). Average staff numbers climbed by 13.0 per cent to 48,697. This includes the 7,366 employees of the SWISS group. Adjusted for the effects of the full consolidation of SWISS staff in the first half-year of 2008, the increase in the average number of employees was 4.6 per cent. At year-end 2008 the segment had 48,599 employees, which was 2.9 per cent more than at year-end 2007. A hiring freeze is currently in force for Lufthansa Passenger Airlines and the Group's head office functions.

Compared with the previous year depreciation and amortisation increased by 14.1 per cent to EUR 938m (adjusted: 6.4 per cent). As in the previous year this was due to higher depreciation of aircraft, in turn the result of more new aircraft deliveries in 2008.

Other operating expenses also rose by 8.3 per cent to EUR 3.2bn. The increase of EUR 249m is solely due to greater exchange rate losses (+EUR 288m), as the remaining items were EUR 39m lower than in the previous year. These significantly higher exchange rate losses are offset by an equally sharp rise in exchange rate gains (EUR +358m) in other operating income. Both effects stem from the translation of receivables and liabilities in foreign currencies and from realised exchange rate hedges.

Operating expenses Passenger Transportation				
	2008	2007	Change	Change adjusted for consolidation changes in %
	in €m	in €m	in %	
Cost of materials and services	11,503	9,270	24.1	13.9
- of which aircraft fuel	4,806	3,378	42.3	30.9
- of which fees	3,236	2,886	12.1	2.5
- of which operating lease payments	281	199	41.2	3.5
- of which MRO services	1,486	1,341	10.8	5.9
Staff costs	3,215	2,959	8.7	1.3
Depreciation and amortisation	938	822	14.1	6.4
Other operating expenses	3,240	2,991	8.3	2.5
- of which agency commissions	491	512	- 4.1	- 15.0
- of which external staff	93	71	31.0	31.0
- of which rental and maintenance expense	286	335	- 14.6	- 17.0

**Result** Despite difficult market conditions the Passenger Transportation business segment achieved an operating result of EUR 722m (previous year: EUR 826m). SWISS accounted for EUR 314m for the full year (previous year: EUR 127m for the period July to December 2007). The adjusted operating margin sank as a result to 4.6 per cent (previous year: 6.0 per cent).

Other segment income sank due to lower book gains and write-backs of provisions by 9.6 per cent to EUR 123m, while the other segment expenses went up by EUR 4m to EUR 7m. In 2008, other segment expenses include impairment charges of EUR 14m on five Airbus A300-600 aircraft which are for sale and were recognised at their fair value less costs to sell. Changes in benefit plans abroad had the opposite effect, leading to a retroactive reduction of benefits and thereby to a one-off reduction in staff costs (allocation to pension provisions). The result of the equity valuation is negative by EUR 50m, following a positive result of EUR 187m in the previous year. However, this included an earnings contribution for the first half-year of 2007 of EUR 180m from the still not fully consolidated SWISS. The fall in the equity result is also due to the negative contribution of British Midland and SunExpress.

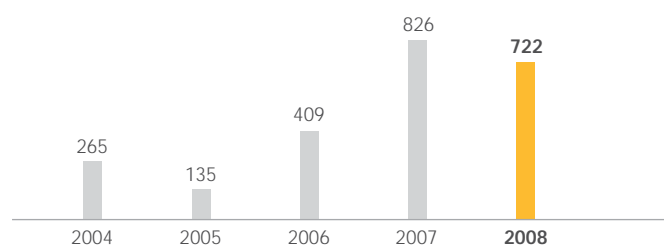
The segment result declined overall by 31.2 per cent to EUR 788m.

**Segment capital expenditure** Segment capital expenditure rose by EUR 162m to EUR 1.4bn, primarily for new aircraft and down payments for aircraft. At Lufthansa Passenger Airlines, thirteen new aircraft have been taken into service: five Airbus A321s, four Airbus A330s and four Airbus A340s. Three aircraft were sold: one Airbus A300-600 and two regional planes. At Germanwings, three Airbus A320s were replaced by five Airbus A319s. SWISS brought three Airbus A320s into service and Lufthansa Private Jet received two Cessna Citations.



**Long-term overview of earnings** In recent years the Passenger Transportation business segment has been consistently profitable and steadily increased its profitability in the period 2005 to 2007. In the 2008 financial year this success could not be upheld, despite a substantial increase of 15.3 per cent in revenue. This was largely due to the sharp climb of 42.3 per cent in fuel expenses. The adjusted operating margin fell back to 4.6 per cent as a result.

Operating result Passenger Transportation in €m



### 8.1.6 Outlook

The effects of the faltering global economy are also having a noticeable impact on the aviation industry. The market environment is difficult and weak demand from the end of 2008 is forecast to continue unchanged over broad stretches of 2009.

Lufthansa is observing current developments carefully and can move with self-confidence and, above all, with autonomy in this uncertain environment, thanks to its solid positioning. The aim is to maintain the greatest possible flexibility in both operating and strategic terms. This is the only way of responding to current and imminent challenges in good time. However, the structural changes in the aviation industry also provide opportunities. In this difficult market environment we are assuming that there will be a shakeout in the market and that consolidation in the European air traffic sector will continue apace. There is also the possibility of making further use of the transatlantic air traffic agreement signed in 2007 (Open Skies).

Lufthansa is pursuing its goal of strengthening its position as the leading European premium carrier with a global offering. The growth strategy is to be continued in the medium and long term. This includes both developing connections via the hubs and strengthening the decentralised route network. The multi-hub/multi-brand group will also be strengthened by the planned membership of Austrian Airlines and Brussels Airlines. Lufthansa will also continue to seek opportunities decentrally. The recently established Lufthansa Italia is to develop its traffic in the north Italian market, the second-largest economic market in Europe. Of course, as well as the structural development of the route network, the continuous refinement of the inflight and ground product also plays a vital role. This is the only way of retaining the position of leading premium carrier.

In addition to these developments, the ability to response to fluctuations in demand will be the subject of particular attention in 2009. Lufthansa is aided by the factors discussed above, such as great flexibility in capacity and revenue planning and its largely unencumbered fleet. The capacity reductions already initiated and other steps to stabilise earnings will take effect in 2009. They will be extended as necessary. This year will nevertheless be a challenging one. Scenarios that have been analysed include the losing of revenue from considerably softer demand, but also the exploitation of opportunities left by the disappearance of competitors from the market. Again in 2009, fuel price developments and possibilities to compensate for them will have a decisive influence on the segment's profitability.

In the current environment, where the relevant parameters are volatile, a quantified forecast would only be of very temporary validity and shall therefore be forgone at this point of time. Nevertheless, the Passenger Transportation business segment is expecting a decline in revenue and lower operating profit for 2009. In the event of an economic recovery there is the potential for a stabilisation of revenue and earnings again in 2010.



# Logistics

business segment

## 2.9bn

EUR revenue

## 164m

EUR operating result

Despite difficult conditions, Lufthansa Cargo AG completed the 2008 financial year extremely positively, exceeding its targets. Revenue increased even further, enabling the second best operating result since its establishment as an independent company within the Lufthansa Group in 1994. Lufthansa Cargo also strengthened its customer base with innovative product ideas and made further progress on its path towards industry leadership with strategic projects at home and abroad.



## 8.2 Logistics business segment

Logistics				
		2008	2007	Change in %
Revenue	€m	2,907	2,736	6.3
- of which with companies in the Lufthansa Group	€m	25	18	38.9
Operating result	€m	164	136	20.6
Adjusted operating margin	%	6.2	5.7	0.5 pts
Segment result	€m	201	170	18.2
EBITDA	€m	323	299	8.0
CVA	€m	71	59	20.3
Segment capital expenditure	€m	22	18	22.2
Employees as of 31.12	number	4,655	4,607	1.0
Average number of employees	number	4,619	4,589	0.7
Freight and mail	thousand tonnes	1,696	1,805	- 6.0
Available cargo tonne-kilometres	millions	12,584	12,236	2.8
Revenue cargo tonne-kilometres	millions	8,283	8,451	- 2.0
Cargo load factor	%	65.8	69.1	- 3.3 pts

### 8.2.1 Business and strategy

Lufthansa Cargo is the service provider for the logistics business in the Lufthansa Group. The Lufthansa subsidiary is based in Kelsterbach and is one of the largest cargo airlines in the world, offering its customers clearly defined transport times and high quality and safety standards.

Lufthansa Cargo's field of activity extends across all three airfreight product segments: the standard segment with the td.Pro product, the express segment with td.Flash and the special segment with

four competence centres for the transport of temperature-sensitive products, live animals, airmail and particularly valuable goods. In addition, Lufthansa Cargo offers ancillary logistics services which provide a sensible supplement to the core business of airfreight.

A worldwide network and the high frequency of flight connections are Lufthansa Cargo's acknowledged strengths. Its strategy aims for industry leadership by profitable, continual growth in all traffic areas. For instance, Lufthansa Cargo offers its clients capacities not only on its 19 own MD11 freighters, but also on the belly



capacities of the Boeing Jumbos belonging to its Chinese joint venture Jade Cargo International, and those of around 400 passenger aircraft from Lufthansa Passenger Airlines. Additional capacities are available from Swiss WorldCargo, Lufthansa Cargo Charter Agency and worldwide road feeder services. Lufthansa Cargo runs other airline cooperation programmes with Singapore Airlines Cargo, Japan Airlines Cargo, Air China Cargo and Lan Cargo. In total, Lufthansa Cargo's route network covers some 300 destinations worldwide. In the future, Lufthansa Cargo will be able to offer additional capacities on Boeing 777-200F cargo aircraft operated by AeroLogic GmbH, its new joint venture in partnership with DHL Express.

Most of the cargo transported goes through the main hub, the Lufthansa Cargo Center at Frankfurt Airport. Another hub for freighter traffic is Leipzig/Halle Airport, one of the most modern and high-performance hubs in Germany, which gives Lufthansa Cargo long-term security in terms of planning and capital expenditure. The airport's significance will go up again in 2009 when AeroLogic GmbH commences operations there.

A further strategic focus lies on strengthening market access to the growth regions in China. The company has already had a successful presence in China for a long time via its equity investment in the Shanghai Pudong International Airport Cargo Terminal (PACTL). Lufthansa Cargo is also well positioned in the booming economic region on the Pearl River Delta in China, thanks to its stake in the International Cargo Center Shenzhen (ICCS) and shares in the cargo airline Jade Cargo International. Following the delivery of the final aircraft in January 2008, the Jade Cargo International fleet now consists of six Boeing 747-400ER freighters. It has also been active in the Yellow River delta since January 2008. This is the site of Lufthansa Cargo's 46 per cent equity investment in the handling company Tianjin Aircargo Terminal Ltd. (TAT) and the new Chinese boom region around the ambitious freight hub Tianjin, which is served by Jade Cargo International. Its involvement in China has given Lufthansa Cargo a good platform from which to benefit from future economic growth and also to service traffic flows from Asia to other regions.

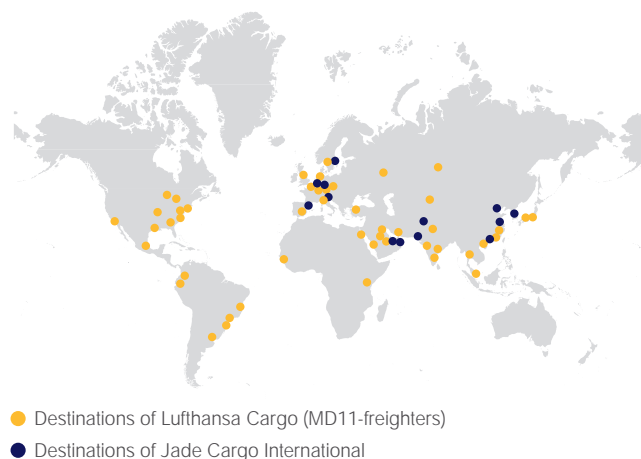
In the airmail business, Lufthansa Cargo sets great store by its cooperation agreement with the Airmail Center Frankfurt GmbH, in which it holds a 40 per cent stake. The Lufthansa freight subsidiary

processes the majority of its postal business at the company's high-performance airmail handling site, which is the most up-to-date in Europe. Worldwide it flies more than 44,000 tonnes of airmail a year for around 200 postal companies.

### 8.2.2 Markets and competition

Measured by the amount of freight transported (FTKT), Lufthansa Cargo is the second-largest cargo airline worldwide, behind Korean Air Cargo. Competition is increasing in all markets, partly due to rapidly expanding airlines from the Gulf region, which link the Middle East with North America via Germany, and partly due to new cargo airlines from CIS countries and China. Competitive pressure has risen rapidly, especially in Asia. Considerable overcapacities have arisen there which exacerbate the imbalance in traffic flows.

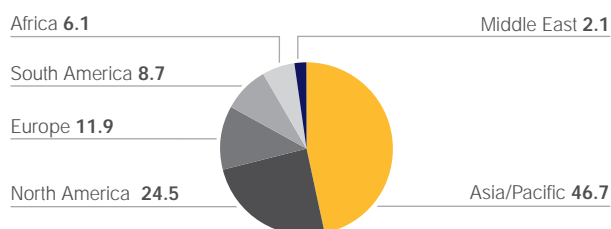
#### Destinations of Lufthansa Cargo



In addition to Asia the most important markets are primarily Europe and Germany. Lufthansa Cargo serves the two markets using the freight capacities of Lufthansa Passenger Airlines and road transport. Thanks to short transit times, freight from Lufthansa Cargo's customers can be sent to anywhere in the world from the hubs in Frankfurt, Munich and Leipzig mostly over night.

For export business from Europe, North and South America, too, are key markets, with a share of 33 per cent of traffic revenue. Lufthansa Cargo added to its North Atlantic capacities in 2008, and sold them successfully despite declining economic growth rates.

**Logistics** Traffic revenue by traffic region in %



### 8.2.3 Sales and customers

Collaboration with strategically important key accounts was intensified and developed as part of the Global Partnership programme. The Danish freight forwarder DSV was acquired as a new global partner in late 2008. Besides the common goal of participating in worldwide growth in the airfreight market, plans particularly include enhanced cooperation and dovetailing of capacity planning and operative processes and systems.

Another focus area for Lufthansa Cargo is the increasingly important mid-market segment. More than 100 top clients from this group are served as part of the Business Partnership programme.

Sales to major accounts are managed and accompanied by a global account management team. Sales are mostly direct, but in some regions are carried out via general agents as well. Lufthansa Cargo also sets great store by electronic booking channels, however, and is planning further increases in this area. At the beginning of 2009, more than 31 per cent of bookings were made via these channels. This is ahead of expectations. By 2011 this proportion is to be as high as 50 per cent. In addition, Lufthansa Cargo plays a leading role in the IATA e-freight initiative and ushered in the era of paperless freight transportation in Germany in 2008 as a lead carrier. Following its successful introduction on the Frankfurt–Seoul route, the e-freight service is to be gradually rolled out worldwide.

### 8.2.4 Operating performance

Lufthansa Cargo expanded its capacity in 2008, primarily by means of the extended route network at Lufthansa Passenger Airlines and new freighter destinations. Beijing, Mexico and Toronto were included in the flight plan for the first time in 2008, for instance. In co-operation with the Lufthansa Cargo Charter Agency flights now also take place to Curitiba in Brazil. In addition to 19 of its own planes, Lufthansa Cargo also deployed three chartered wide-bodied and two short-haul aircraft in the reporting year.

Jade Cargo International succeeded in stabilising its operations in 2008. Crews are available for all six aircraft to be operated. To achieve further commercial and financial stability, Lufthansa Cargo took over responsibility for distribution of routes ex-Europe in April 2008. On 1 January 2009, this collaboration was intensified yet further when Lufthansa Cargo took over distribution ex-Asia.

**Trends in traffic regions** Lufthansa Cargo

	Net traffic revenue * in €m external revenue		Freight/mail in thousand tonnes		Available cargo tonne- kilometres in million		Revenue cargo tonne- kilometres in million		Cargo load factor in %	
	2008	Change in %	2008	Change in %	2008	Change in %	2008	Change in %	2008	Change in pts
Europe	303	– 7.6	634	– 12.4	1,014	– 12.7	455	– 11.7	44.8	0.5
America	848	12.8	483	– 3.6	5,191	9.3	3,398	– 0.3	65.5	– 6.2
Asia/Pacific	1,193	4.5	466	– 2.3	5,340	– 0.2	3,808	– 3.6	71.3	– 2.6
Middle East/Africa	210	3.5	114	10.7	1,038	6.5	622	7.4	59.9	0.5
<b>Total</b>	<b>2,553</b>	<b>5.3</b>	<b>1,696</b>	<b>– 6.0</b>	<b>12,584</b>	<b>2.8</b>	<b>8,283</b>	<b>– 2.0</b>	<b>65.8</b>	<b>– 3.3</b>

\* Excluding extra charter.



In addition to tough competition, 2008 was characterised by extremely volatile fuel prices and, from the second half-year, increasingly by the effects of recession on the course of business. Overall, Lufthansa Cargo put in another good performance in these adverse market conditions, with focused sales, capacity and cost management.

While the first half of the reporting year was notable for the positive developments in volumes and load factor, capacities could no longer be fully sold in the second half-year as a result of the impending recession. The effects of the weak global economy became apparent from the start of the traditionally busy period (from early September) and sales figures were well below the previous year's. The load factor for the full year sank by 3.3 percentage points. In these conditions, traffic revenue reflected both deteriorating average yields in the base rates and rapidly increasing yields from fuel surcharges. Despite the weak conditions and lower demand traffic revenue rose overall by 5.3 per cent.

Traffic to and especially from America developed positively in the first half-year. Negative exchange rate effects from the US dollar and declining volumes were more than made up for in the rates. However, it was not possible to stabilise the load factor in 2008. It sank by 6.2 percentage points. Traffic revenue also increased, by 12.8 per cent compared with the previous year.

In the Europe traffic region capacity was reduced by 12.7 per cent year on year, which stabilised the load factor. Traffic revenue nevertheless declined by 7.6 per cent.

Traffic flows to and from Asia were varied. This was the result of the sharp economic downturn in the region. Asia was also characterised by a structural and growing imbalance in traffic flows. The fall in sales could not be made up for by capacity adjustments and the

load factor therefore fell by 2.6 percentage points. Sinking average yields and adverse currency effects were offset by rising fuel surcharges, and traffic revenue improved by 4.5 per cent.

### 8.2.5 Revenue and earnings development

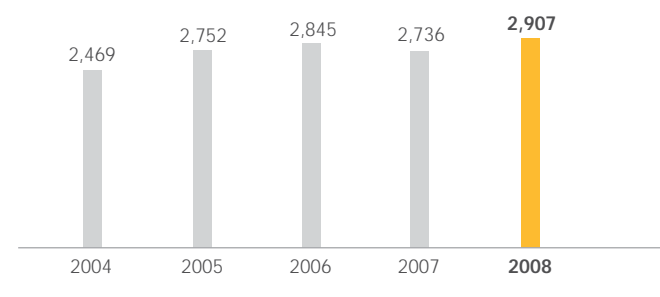
**Revenue and income** In the reporting period revenue rose by 6.3 per cent year on year to EUR 2.9bn. Traffic revenue is a major part of total revenue. It rose by 6.5 per cent to EUR 2.8bn. Currency movements depressed the figure by 3.6 per cent. The pricing effect was composed of lower base rates and higher fuel surcharges in 2008 and had an overall impact of +13.3 per cent.

Freight-charter income, mainly from the cooperation with DHL, also rose as a result of higher fuel surcharges by EUR 37.8m to EUR 352.1m.

Other operating income climbed year on year by EUR 19.6m to EUR 101.2m, an increase of 24.1 per cent. The rise stemmed mainly from the valuation of foreign currency items. Insurance payments and income from staff secondment are also included in this category.

Total operating income went up altogether by 6.7 per cent to EUR 3bn.

Revenue Logistics in €m



**Expenses** Operating expenses rose in total by EUR 162.2m to EUR 2.8bn. This represents an increase of 6.0 per cent over the previous year. They are made up as follows:

The cost of material and services went up by 9.5 per cent to EUR 2.0bn. Fuel expenses, the main cost driver, climbed year on year by 21.1 per cent to EUR 573m. This was mainly due to the record fuel prices in 2008, which could no longer be capped by hedging.

Chartering costs rose by 8.6 per cent to EUR 923m. The increase of this expense item was mainly due to the reduction in additional capacity from Lufthansa Passenger Airlines and the higher related fuel costs.

Fees and charges were EUR 291m lower than the previous year (–3.0 per cent), however, as a result of lower landing and handling charges, which were in turn due to volume and currency effects.

MRO expenses went up by 4.5 per cent to EUR 140m, largely due to increased maintenance as a result of the greater average age of the MD11 fleet.

Staff costs sank by 0.6 per cent to EUR 332m. The main reasons were lower allocations to provisions for phased early retirement and for pension and interim benefits, and reduced provisions for holiday and flexitime for ground staff. This initially compensated for the wage increase which took effect on 1 July 2008. The number of employees was slightly higher than in the previous year. On average Lufthansa Cargo had 4,619 employees in 2008, which is 30 more than the year before.

Depreciation and amortisation dropped by 3.9 per cent to EUR 123m. This is an effect of the declining balance depreciation method applied to used aircraft.

Other operating expense sank by EUR 5m (–1.3 per cent) to EUR 379m. The decline was principally due to lower agency commissions and fewer insurance, rental and maintenance costs.

#### Operating expenses Logistics

	2008 in €m	2007 in €m	Change in %
Cost of materials and services	2,010	1,836	9.5
- of which fuel	573	473	21.1
- of which fees	291	300	– 3.0
- of which charter expenses	923	850	8.6
- of which MRO services	140	134	4.5
Staff costs	332	334	– 0.6
Depreciation and amortisation	123	128	– 3.9
Other operating expenses	379	384	– 1.3

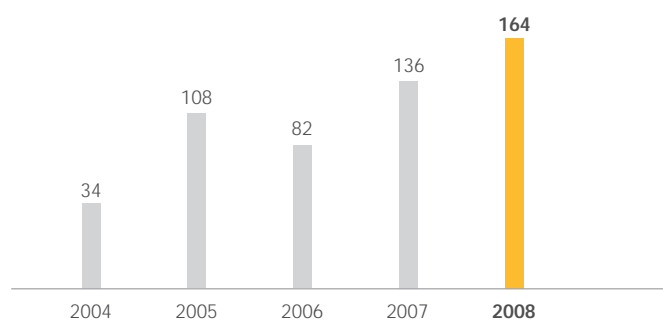
**Result** Despite the difficult market environment in 2008 Lufthansa Cargo performed well, improving on last year's good operating result thanks to its focused sales, capacity and cost management. In 2008, it earned operating profit of EUR 164m, an increase of EUR 28.4m (+20.6 per cent). The adjusted operating margin rose as a result by 0.5 percentage points to 6.2 per cent.

The segment result improved by EUR 31m to EUR 201m. In addition to the operating result this also includes the result of the equity valuation of EUR 16.9m. This is EUR 2.0m above the figure for the previous year and primarily mirrors the equity investment in Shanghai Pudong International Airport Cargo Terminal Co. Ltd. (PACTL).

**Segment capital expenditure** Investment activity in the reporting period exceeded last year's by EUR 4m (+22.2 per cent), totalling EUR 22m. The additional funds were mainly used for the purchase of new operating and office equipment such as refrigerated containers and pallets.

**Long-term overview of earnings** In recent years Lufthansa Cargo has improved its profitability despite varying rates of growth. The company is well set up for the future thanks to the development of its strategic partnerships with Global Partners and the sensible expansion and focused management of its production platforms. In 2008, processes were systematically optimised for efficiency and quality and staff gained additional qualifications. Extending business partnerships, spinning out business units and establishing subsidiaries enabled this development to take place using a minimum of capital. All these steps ultimately meant that earnings improved yet again in 2008, despite the tangible weakening of demand.

#### Operating result Logistics in €m



#### 8.2.6 Outlook

The global economic crisis also had a massive impact on world-wide airfreight traffic in the last quarter of 2008, which sank by more than 22 per cent in December. The persistently weak demand means that the outlook for 2009 can only be sombre. We are assuming that the decline in the oil price will continue to be exceeded by the fall in demand. There is currently no end in sight to the grave state of the global economy.

In the first instance the focus at Lufthansa Cargo will therefore be on steps to safeguard earnings. In addition, work will continue on developing the joint venture with DHL Express, Aerologic GmbH. Despite the weak market environment opportunities will still be seized, however – as with the new freighter service with MD11 aircraft from Milan-Malpensa to New York and Chicago starting in February 2009. This new freighter service will enable Lufthansa Cargo to build further on its leading position in Italy.

The increasing effects of the recession therefore led to a decision in December 2008 to cut capacities massively, taking effect from 2009. As of 1 January 2009, freighter capacities were reduced by some 10 per cent. The first stage of a series of cost-cutting measures was introduced at the same time. As there were no signs of a recovery in demand, these measures were extended at the end of January 2009 and freighter capacities reduced by a further 10 per cent. The second stage of the cost-cutting programme came into effect on 1 February 2009. This means that expenditure for projects and other activities is now strictly examined to ensure if it is absolutely necessary for operations. The Executive Board and the works council have also agreed to apply for reduced working hours. Other opportunities are also to be taken which might help maintain Lufthansa Cargo's economic stability.

Despite these measures the Executive Board of Lufthansa Cargo is expecting a tangible slump in revenue for the 2009 financial year and a noticable worse operating result than in the previous year. If global economic growth picks up again in 2010, it will be possible to stabilise revenue and earnings again.









# MRO

business segment

## 3,7bn

EUR revenue

## 299m

EUR operating result

In a shrinking overall MRO market, Lufthansa Technik was again able to develop its pole position in the maintenance, repair and overhaul of civil aircraft. In the reporting year, more than 500 new contracts were signed, including for the renewal of the German federal government's long-haul fleet. Receiving the 2008 Best European Airline MRO Operations Award was also an accolade for Lufthansa Technik's high quality standards, which made a vital contribution to enabling the MRO business segment to increase revenue and earnings again.



## 8.3 MRO business segment

MRO				
		2008	2007	Change in %
Revenue	€m	3,717	3,571	4.1
- of which with companies in the Lufthansa Group	€m	1,501	1,386	8.3
Operating result	€m	299	293	2.0
Adjusted operating margin	%	8.8	8.7	0.1 pts
Segment result	€m	329	319	3.1
EBITDA	€m	425	406	4.7
CVA	€m	188	205	- 8.3
Segment capital expenditure	€m	122	194	- 37.1
Employees as of 31.12	number	19,804	18,892	4.8
Average number of employees	number	19,199	18,733	2.5

### 8.3.1 Business and strategy

Lufthansa Technik is the world's leading provider of maintenance, repair and overhaul services (MRO) for civil aircraft. The Lufthansa Technik group is made up of six divisions: maintenance, aircraft overhaul, engines, components, landing gear as well as completion and maintenance for VIP aircraft. As a full-line supplier it offers different levels of products and combinations of products, from individual component repairs through to the fully integrated supply of whole fleets with reserve engines.

The primary location for maintenance operations, with aircraft overhaul, completion, engine and components maintenance, logistics centre as well as development and manufacturing operations, is Hamburg. The largest maintenance stations are in Frankfurt,

Munich and Berlin, with other stations in all larger airports in Germany and at 50 other sites around the world. In recent years, Lufthansa Technik has deliberately developed new equity investments and locations. This takes place with the aim of supplementing and expanding the product portfolio in line with market and customer requirements, and by transferring services which can no longer be provided cost-effectively in Germany to locations with more reasonable costs.

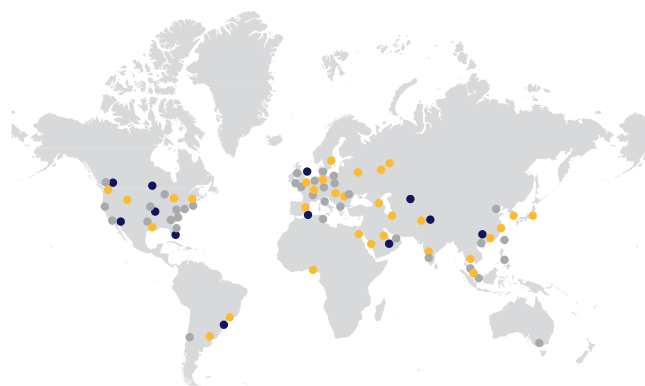
The MRO group includes 32 technical maintenance operators worldwide. The company also holds direct and indirect stakes in 56 companies. Since 2008, these have also included the engine overhaul operations of Qantas Airways Ltd. in Melbourne, Australia. Lufthansa Technik took over the complete technical management



of the GE and CFM 56 engines for all Qantas fleets. As part of the agreement it acquired a stake of 50 per cent in the engine overhaul company and took over its operations at the same time. Since 16 December 2008, the company is operating under the name Lufthansa Technik Qantas Engineering.

Lufthansa Technik Switzerland was launched on 1 October 2008. At the former SWISS MRO plant at Basel-Mulhouse Airport, nearly 500 technicians and engineers will also service and manage larger VIP aircraft from the Boeing 737 and Airbus A320 families in future, in addition to regional aircraft for SWISS and other clients. The Lufthansa Technik group is thereby expanding its capacities for technical management of VIP and business aircraft in the European market.

#### Locations Lufthansa Technik



- Major Lufthansa Technik line stations
- Major Lufthansa Technik affiliates
- Representatives' offices

In Bulgaria, Lufthansa Technik AG set up a new aircraft overhaul company. The newly established maintenance company Lufthansa Technik Sofia is a joint venture between Lufthansa Technik (80 per cent) and Bulgarian Aviation Group (20 per cent) and is based at the Bulgarian capital's airport. There, more than 350 highly qualified staff are to overhaul short and medium-haul aircraft from Airbus and Boeing.

The aviation industry in Hamburg was able to beat 38 competitors in the nationwide, cross-sector "Prime Cluster" competition organised by the German federal government, with its holistic New Flying strategy in which Lufthansa Technik is deeply involved with various projects on the topic of New MRO. This means that research funding of around EUR 40m can be directed to the Hanseatic City of Hamburg in the years ahead.

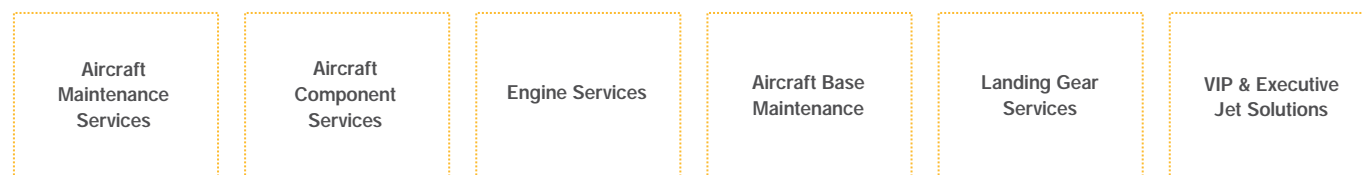
#### 8.3.2 Markets and competition

The global market for technical services to civil aircraft was estimated at USD 42bn in 2008. This market is defined primarily by scheduled routine inspections, of which around 40 per cent are carried out by the airlines themselves and 60 per cent are contracted out.

Although the MRO segment continued growing until mid 2008, the effects of the financial and economic crisis, the resulting reduction in flight movements and airline bankruptcies are now increasingly becoming noticeable in the global demand for MRO services. While many new aircraft were brought into service in 2008,

#### Business divisions of Lufthansa Technik

##### Lufthansa Technik

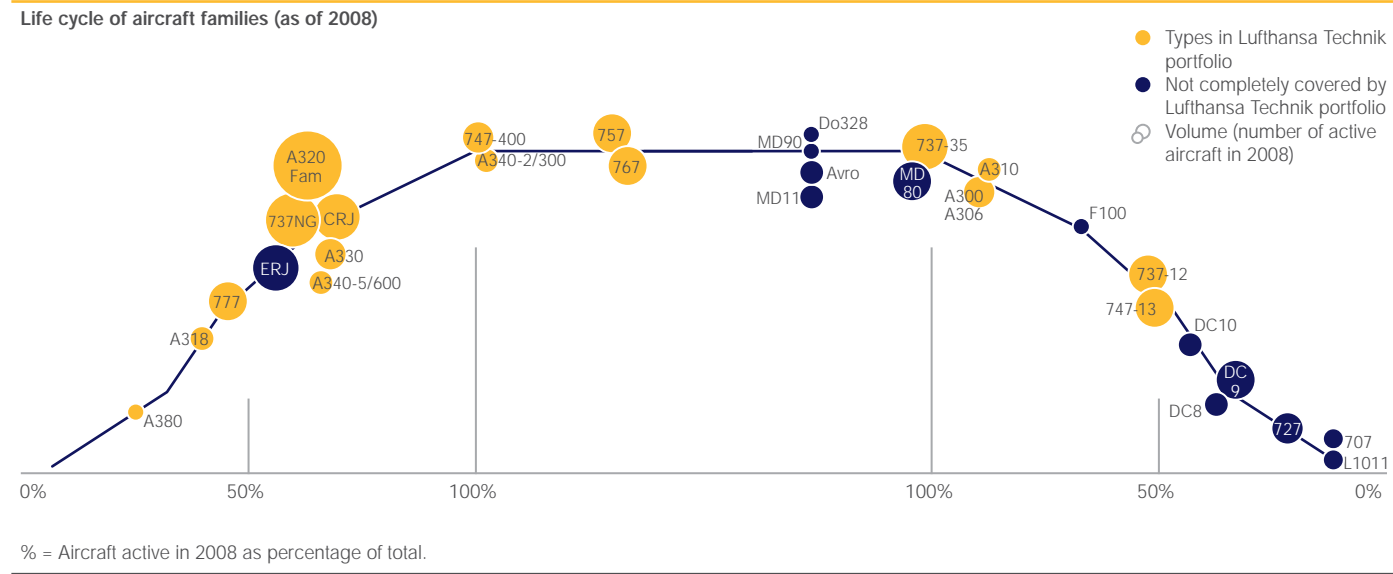


and the number of civilian aircraft rose to 19,600, the number of parked aircraft also went up sharply by 1,190 to 2,400. As these are generally older, higher-maintenance aircraft, in total more MRO demand was lost than added. For the first time since 2003 the global MRO market therefore shrank by around USD 1bn. Due to its modern product portfolio the relevant market for Lufthansa Technik remained constant at a volume of around USD 34bn. However, this time clients and aircraft models in the Lufthansa Technik portfolio are effected to a greater extent than in the downturn following 11 September 2001, too. This has resulted in lost revenue and earnings due to customer insolvencies and write-downs on receivables. Due to its broad product range and its triple certification as a maintenance, manufacturing and development operation, however, Lufthansa Technik was again able to confirm its global market leadership in 2008 with a market share of over 15 per cent.

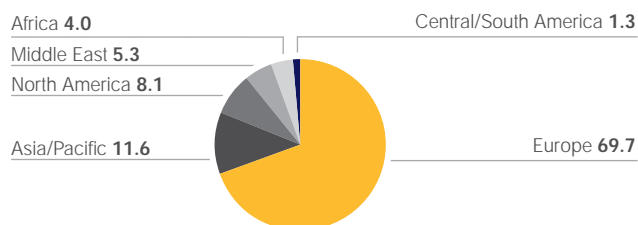
Lufthansa Technik not only competes intensively with the aircraft, engine and component OEMs (original equipment manufacturers), but also with airlines offering MRO services, such as Air France-KLM and independent MRO contractors such as ST AERO. This competition is set to get even tougher, as new MRO capacities on the market are facing sinking demand, thereby intensifying price pressure.

**8.3.3 Sales and customers**

Lufthansa Technik has over 660 customers worldwide. In addition to airlines and operators of VIP jets, aircraft leasing companies are included. It still generates the majority of its revenue with clients outside the Lufthansa Group. In 2008, this proportion sank slightly due to currency effects and high dispatching from Group companies to 59.6 per cent (previous year: 61.2 per cent). Europe, including the CIS states, continues to be the main sales region for Lufthansa Technik. Its share of revenue came to 70 per cent in 2008. It was followed by Asia with almost 12 per cent. The regions Middle East/Africa and Americas each accounted for around 9 per cent of revenue.



#### MRO Revenue by region in %



Distribution of MRO services mainly took place centrally by means of direct sales. However, individual products were also sold locally. Sales is organised in regional units, with key account managers for large and important customers, sometimes at their local base. E-marketing is also being promoted using a customer portal presenting all key information and new developments. Customer contact is also reinforced and developed by print media, the group's own product-oriented professional conferences and international trade fairs. Lufthansa Technik unveiled a new service especially for leasing companies at the trade fair MRO Europe. The Aircraft Leasing & Trading Support product facilitates a modular and individually tailored programme of services. It was specially created as a total single-supplier solution for aircraft leasing companies to maintain the value of their fleet and optimise non-operating times.

In addition, Lufthansa Technik also presented other innovative products adapted to meet customer needs. These include the Cycle Engine Wash, which provides a new method of cleaning engines quickly and effectively. The new process improves the engine's performance, thus cutting costs and helping the environment thanks to subsequently lower CO<sub>2</sub> emissions. For a Boeing 747-400 this can save around ten tonnes of fuel and over 500 tonnes of CO<sub>2</sub> emissions a year. With the product TOM (Technical Operations Management) Lufthansa Technik now also offers its clients the complete technical management of their flight operations. As part of a strategic partnership, Lufthansa Technik assumes full responsibility for servicing the aircraft at its client's hub (line maintenance), for the maintenance control centre and for MRO contract management.

The standing of the Lufthansa Technik group in the MRO market is also illustrated by its winning of the 2008 Best European Airline MRO Operation Award. The renowned American trade magazine "Aviation Week" awarded Lufthansa Technik this accolade based on customer surveys for its sustained market success, environmental commitment and investment in research and development.

#### 8.3.4 Operating performance

In 2008, 502 additional contracts were signed with anticipated revenue of EUR 491m for 2008. Based on the total duration of these contracts, Lufthansa Technik therefore reported a new record of EUR 3.2bn, expanding its customer base by a further 37 clients to a total of 668 worldwide.

The Irish airline Aer Lingus appointed Lufthansa Technik to supply components for its growing Airbus fleet. The ten-year contract includes component support for currently 34 aircraft of the Airbus A320 family and for nine A330s. The contract is worth more than EUR 90m. Lufthansa Technik and Norwegian Air Shuttle signed a contract for the overhaul of more than 100 engines. It provides engine management by Lufthansa Technik for a total of 53 Boeing 737NGs and another seven reserve engines belonging to the Norwegian airline. A five-year TCS (total component support) contract for up to 40 aircraft was signed with National Air Services from Saudi Arabia. The agreement also includes services for several VIP and business jets. Lufthansa Technik was also able to report a major success on the North American market. A five-year contract for the overhaul of 51 MD11 engines was signed with UPS.

Furthermore, Lufthansa Technik was selected by the German Federal Office of Defence Technology and Procurement as general contractor for the modernisation of the long-haul fleet of the federal government's Special Air Mission Wing. The partners signed a contract for delivery of two used Airbus A340-300 from the Lufthansa fleet and for their overhaul and completion with a VIP cabin. The contract also covers an initial supply of spare parts and the necessary ground equipment, as well as preliminary training for pilots and technicians of the Luftwaffe.

A year after delivering the first Airbus A318 Elite worldwide with a VIP and business travel interior, Lufthansa Technik is exactly on track with one of the most extensive completion programmes in the aviation industry. Contracts for the completion of a total of twelve A318 Elites have been signed and negotiations are currently underway concerning a number of additional aircraft. As a result, Lufthansa Technik will be extending its capacities at its American subsidiary Bizjet in Tulsa, Oklahoma. Here, cabins for the A318 Elite will be individually completed from 2009.

The Lufthansa Technik group also made further improvements to its infrastructure in 2008. In Hamburg, the new engine overhaul hangar was completed in late 2008. With the opening of the A380 hangar in Frankfurt, Lufthansa Technik is optimally equipped for technical maintenance of the future flagship of the Lufthansa fleet and all wide-bodied aircraft at its central maintenance site. Now that the first section has been completed, two Airbus A380s or three Boeing 747s can be serviced simultaneously on its floor area of 25,000 square metres. However, the biggest hangar stands in Beijing. The 350-metre-long and 110-metre-wide hangar belongs to AMECO, the joint venture between Air China and Lufthansa, and has space for technical work on up to four Airbus A380s and other wide-bodied aircraft. In Europe, Lufthansa Technik also opened an additional hangar at Lufthansa Technik Malta, which had previously specialised in short-haul aircraft. Whereas previously almost 300 C-checks were carried out on Boeing 737s and Airbus A320s, now larger inspections of Airbus wide-bodied aircraft from the A330/A340 family are also on offer.

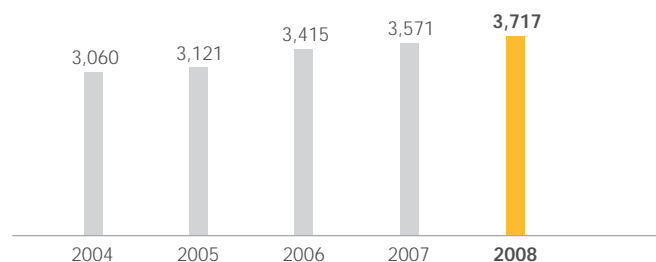
### 8.3.5 Revenue and earnings development

**Revenue and income** In a shrinking overall market, Lufthansa Technik was able to increase its revenue year on year by 4.1 per cent to EUR 3.7bn. Revenue from companies in the Lufthansa Group grew by EUR 115m to EUR 1.5bn (+8.3 per cent); income from Lufthansa Passenger Airlines and Germanwings in particular climbed steeply. In contrast, revenue progression with external customers suffered from the depreciation of the US dollar, but nevertheless rose by EUR 31m (+1.4 per cent) to EUR 2.2bn.

Lower capitalised internal expenses meant that other operating income sank by 7.1 per cent to EUR 156m.

The MRO segment reported a total operating income of EUR 3.9bn, an increase of 3.6 per cent year on year.

Revenue MRO in €m



**Expenses** Operating expenses went up by EUR 128m (+3.7 per cent) to EUR 3.6bn. The cost of materials and services declined. It contracted in 2008 by 0.9 per cent to EUR 1.8bn. As well as the relief brought by the weaker US dollar, this also reflects the endeavours of the Lufthansa Technik group to keep improving their competitiveness by means of optimised processes and lower costs.

Staff costs rose by 1.8 per cent to EUR 1bn. The average number of employees in the MRO segment went up due to the integration of Lufthansa Technik Switzerland and recruitment at Lufthansa Technik AG by 2.5 per cent to 19,199.

Depreciation and amortisation only increased by EUR 1m to EUR 84m in 2008.

The largest increase came from other operating expenses, which climbed by EUR 126m (+24.0 per cent) to EUR 652m. This particularly reflected defaults by insolvent clients, exchange rate losses at the reporting date and higher costs for property maintenance and outside staff.

#### Operating expenses MRO

	2008 in €m	2007 in €m	Change in %
Cost of materials and services	1,828	1,845	- 0.9
- of which raw materials, consumables and supplies	1,165	1,158	0.6
- of which external services	523	524	- 0.2
Staff costs	1,010	992	1.8
Depreciation and amortisation	84	83	1.2
Other operating expense	652	526	24.0

**Result** Despite the difficult market environment, the MRO segment was able to improve its operating result by 2 per cent to EUR 299m. The adjusted operating margin remained stable on a high level of 8.8 per cent (+0.1 percentage points).

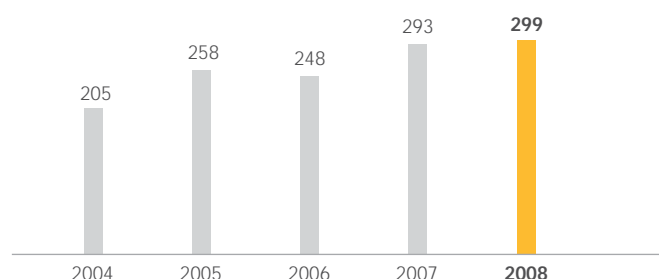
Other segment income rose due to write-backs of provisions by EUR 12m to EUR 29m. Other segment expenses reflect the allocation of EUR 4m to the pension fund for Lufthansa Technik Switzerland.

The result of the equity valuation dropped by EUR 4m to EUR 6m, largely as a result of less profit from AMECO and higher losses at other equity investments. The segment result was EUR 10m higher than the previous year (+3.1 per cent) at EUR 329m.

**Segment capital expenditure** Segment capital expenditure dropped by EUR 72m (-37.1 per cent) to EUR 122m. The expenditure was related mainly to the purchase of new machinery and technical equipment. The sharp fall is the result of high expenditure in the previous year, principally in connection with the construction of the A380 maintenance hangar in Frankfurt and the purchase of additional reserve engines.

**Long-term overview of earnings** Over the past five years, Lufthansa Technik has been able to increase its operating result by nearly 50 per cent overall – under varying economic conditions – thanks to constant revenue growth, consistent cost management, a wider product range and an internationalised production group.

#### Operating result MRO in €m



#### 8.3.6 Outlook

Expected average MRO growth for the next five years has recently been adjusted downwards from 3.1 per cent to 2.2 per cent. Lufthansa Technik's product portfolio on the other hand, which mainly includes modern models, is forecast to grow by 3.0 per cent annually. Nevertheless, new MRO capacities will also be entering the market at the same time. The existing intense competition and the related pricing and cost pressure will therefore continue to increase, increasing the margin pressure already exerted by the airlines.

After growing internationally in 2008, Lufthansa Technik will focus in 2009 on the expansion of the Hamburg yard, including the opening of the engine overhaul centre and the extension of the airframe-related component and landing-gear workshops.

Thanks to its modern product portfolio, low-cost locations and a number of programmes to cut costs and increase efficiency and flexibility, including those taking place as part of the Group initiative "Upgrade to Industry Leadership", Lufthansa Technik is well equipped for the challenges of the current market. Due also to the delayed effects of the global downturn on the MRO market, Lufthansa Technik expects revenue to hold steady or to continue rising in 2009. Given the environment described, the operating result for 2009 is expected to be slightly lower than the previous year's. As long as conditions do not deteriorate further, the segment expects both revenue and earnings to improve again in 2010.







## IT Services

business segment

657m

EUR revenue

40m

EUR operating result

Lufthansa Systems has made its name, particularly in the aviation sector, with innovative IT solutions which help companies to deploy their resources efficiently, and, once again, acquired important new customers in 2008. It has extended its technology leadership by capital expenditure on new products, thereby laying the foundations for further growth on the global market. At the same time, productivity was increased again and profitability improved.

## 8.4 IT Services business segment

IT Services				
		2008	2007	Change in %
Revenue	€m	657	679	- 3.2
- of which with companies in the Lufthansa Group	€m	378	398	- 5.0
Operating result	€m	40	23	73.9
Adjusted operating margin	%	6.2	3.7	2.5 pts
Segment result	€m	39	- 20	
EBITDA	€m	78	39	100.0
CVA	€m	29	- 16	
Segment capital expenditure	€m	58	54	7.4
Employees as of 31.12	number	3,033	3,102	- 2.2
Average number of employees	number	3,002	3,175	- 5.4

### 8.4.1 Business and strategy

Lufthansa Systems is one of the leading global IT services providers for the aviation industry. The company also markets its IT expertise in other sectors. It focuses on companies in the fields of logistics, health care, media and financial services. As well as its headquarters in Kelsterbach, Lufthansa Systems has other sites in Germany and in 16 other countries. It provides its services through five divisions, structured according to the needs of the market: Airline Management Solutions, Passenger Airline Solutions, Airline Operations Solutions, Industry Solutions and Infrastructure Services.

Lufthansa Systems' product portfolio covers the whole spectrum of IT services, from advisory work and applications development and implementation through to complete IT outsourcing. Its data centre in Kelsterbach near Frankfurt is one of the most modern and powerful in Europe.

With their complex business processes airlines are dependent on high-performance IT to a significant degree. Lufthansa Systems offers them a comprehensive range of high-quality IT products, which help them to increase their efficiency and thereby their

cost-effectiveness. A decisive competitive advantage is its comprehensive knowledge of all the business processes of an airline combined with outstanding IT expertise. With this combination, Lufthansa Systems can develop integrated platform solutions for its airline clients like no other company in the sector. These are therefore a strategic pillar in the company's positioning.

#### Locations IT Services



### 8.4.2 Markets and competition

The global market for airline IT has an estimated annual volume of EUR 7.8bn. Of this total around 40 per cent is contracted out – the trend is upwards. The largest markets for airline IT are the regions America and EMEA (Europe, Middle East and Africa) with EUR 2.8bn each, followed by Asia/Pacific with EUR 2.2bn. Although Lufthansa Systems has a market share of 18 per cent in EMEA, in the other two regions it is below 1 per cent.

Fuel costs, which remain high in historical terms, and the gloomier market conditions resulting from the financial crisis, weaken the airlines' already scant inclination to invest in the field of IT. However, as information technology exerts a great deal of leverage in the optimisation of business processes, market opportunities do exist as well. Particularly sought-after are IT solutions with flexible price and service models and low investment requirement, which bring rapid benefits in terms of revenue and costs. With its platform strategy, Lufthansa Systems is well positioned to succeed in precisely this market environment.

Key competitors in the airline IT market are Sabre Airline Solutions, EDS, SITA and Boeing with its subsidiaries Jeppesen and Carmen Systems. However, none of these companies has a product range as all-encompassing as that of Lufthansa Systems.

Regional market developments are extremely heterogeneous. In Europe, the trend is towards integrated systems and the bundling of processes against a background of persistent cost pressure. Innovative solutions, such as the Integrated Operations Control Center (IOCC), the product families for airline financial services (Sirax) and resource management (NetLine), enabled Lufthansa Systems to gain additional market share in Europe in 2008 and consolidate its traditionally strong position. In this region, Lufthansa Systems generates the majority of its revenue. With its flight planning solution Lido OC, for example, Lufthansa Systems has a market share of around 40 per cent.

In the Asian aviation market, too, airlines are preparing for possible declines in bookings. This primarily leads to demand for products in the areas of airline financial services and revenue management. In the America sales region there is a focus on replacing legacy systems by new technologies and platform solutions such as the Integrated Operations Control Center (IOCC) and the Sirax AirFinance platform.

The German IT market has also been characterised for a long time by a strong disinclination to invest. Although capital expenditure in IT infrastructure remains weak, there have been some signs of growth, primarily in IT services. In this segment the competitors are principally Accenture, EDS, IBM and T-Systems.

### 8.4.3 Sales and customers

The customer base at Lufthansa Systems includes some 200 airlines worldwide. The company offers a comprehensive range of IT solutions covering all business processes. More than 100 companies from other industries also rely on the knowledge of Lufthansa Systems in the fields of consulting and infrastructure services. They primarily include logistics companies, publishers and customers from the transport and health care sectors. Lufthansa System's goal is to generate an increasing share of revenue with customers outside the Lufthansa Group. This has been achieved in recent years. External revenue now accounts for around 42 per cent (previous year: 41 per cent).

Distribution to airlines take place via direct sales, which are decentralised and organised along regional EMEA lines. Today, Lufthansa Systems has representative offices in 16 countries. Lufthansa Passenger Airlines, currently the largest customer, is served as a key account. Distribution outside the aviation industry is divided according to sector. Highly standardised solutions are also distributed via partners.

#### Business divisions of Lufthansa Systems

##### Lufthansa Systems

Airline Management Solutions	Passenger Airline Solutions	Airline Operations Solutions	Industry Solutions/ ERP Airline Solutions	Infrastructure Services
<ul style="list-style-type: none"> <li>· Network Planning</li> <li>· Crew Management &amp; Operations Control</li> <li>· Pricing &amp; Revenue Management</li> <li>· Marketing &amp; Sales</li> </ul>	<ul style="list-style-type: none"> <li>· Flight Schedule</li> <li>· Inventory</li> <li>· Reservation</li> <li>· Check-in &amp; Boarding</li> <li>· PSS* Competence Center</li> </ul>	<ul style="list-style-type: none"> <li>· Electronic Flight Deck Solutions</li> <li>· Navigation</li> <li>· Flight Planning</li> </ul>	<ul style="list-style-type: none"> <li>· Maintenance, Repair &amp; Overhaul</li> <li>· Cargo &amp; Logistics</li> <li>· Airline Financials</li> <li>· Revenue Accounting</li> </ul>	<ul style="list-style-type: none"> <li>· Communication</li> <li>· Consulting</li> <li>· Application</li> <li>· Desktop</li> <li>· Data Center</li> </ul>

\* PSS = Passenger Service System.

#### 8.4.4 Operating performance

In the past financial year Lufthansa Systems reported major contract wins and was able to extend its client list by additional well-known airlines. They include Air France-KLM, Brussels Airlines, Air Berlin and easyJet. The company also strengthened its position in the Russian market, in Scandinavia and in North America with new customer agreements. In addition, Lufthansa Systems was able to further develop a number of successful existing partnerships with airlines. A contract was signed with GOL from Brazil, for instance, on the deployment of IT solutions for resource management (NetLine) and for servicing and maintenance. Since spring 2008, Emirates has also been a user of the electronic navigation maps (Lido eRouteManual) from Lufthansa Systems. The SAS group and new client Air France-KLM both chose the innovative Sirax AirFinance platform.

Outside the aviation sector, Lufthansa Systems was able to acquire two more prominent cruise operators – Sea Cloud Cruises and The Yachts of Seabourn – for its mobile infotainment system. It is the largest and most up-to-date solution of its kind worldwide. Meyer Werft, one of world's leading specialists in the construction of cruise liners, is also to equip two more ships for AIDA Cruises with the corresponding infrastructure. The leisure travel company Thomas Cook AG appointed Lufthansa Systems to operate all its mid-range systems for another five years. The logistics services provider Schenker Deutschland contracted the company to develop a new IT system for general cargo traffic. Collaboration was also intensified with the international freight forwarder Panalpina.

Lufthansa Systems also made further progress in cost management. Internationalisation made an important contribution to the increase in productivity. A key milestone in the reporting period was the opening of an operations centre in Budapest. An important aspect in the choosing of Budapest were the well-trained IT specialists in Hungary and cooperation with the local universities. The entire remote maintenance for Lufthansa Systems' network and server systems is to be carried out from the new operations centre. It therefore contributes to ensuring round-the-clock, high-quality IT services for Lufthansa Systems clients throughout the world. In addition, Lufthansa Systems was able to make considerable cost savings as a result of the restructuring measures completed in 2007, particularly in the area of staff costs. Peaks in capacity were covered by outside staff, which made the cost base more flexible and led to a sharp improvement in the result.

The introduction of process-oriented quality management was continued in 2008 and completed for the main business processes. This had a positive effect on the result and led to significantly higher customer satisfaction at the same time.

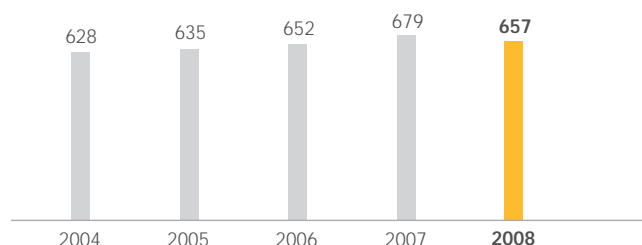
#### 8.4.5 Revenue and earnings development

**Revenue and income** In difficult market conditions revenue at Lufthansa Systems fell by 3.2 per cent year on year to EUR 657m in 2008, as a result of lower intra-Group revenue. Due to the demigration of IT services and lower prices, revenue with companies in the Lufthansa Group sank by 5.0 per cent compared with the previous year to EUR 378m. With clients from outside the Group Lufthansa Systems generated revenue of EUR 279m (–0.7 per cent).

By investing in the modernisation of its product portfolio Lufthansa Systems increased other operating income year on year by 44 per cent to EUR 52m.

Total operating income fell by 0.8 per cent to EUR 709m (previous year: EUR 715m).

Revenue IT Services in €m



**Expenses** The cost of materials and services rose to EUR 79m (previous year: EUR 38m). This was mainly due to higher variable costs from the increased deployment of outside staff to cover peak project workloads, as well as the purchase of more services.

Staff costs declined to EUR 232m (–4.5 per cent) as a result of restructuring and the transfer of development and production activities to production sites abroad. The average number of employees fell by 5.4 per cent to 3,002 as a result of these restructuring measures, fluctuation and the sale of a business unit within the Lufthansa Group.

Depreciation and amortisation of EUR 37m was slightly below the previous year's figure of EUR 38m.

The change of provider for IT infrastructure services had a positive effect on other operating expenses. They were reduced significantly, by 13.9 per cent to EUR 321m.

This brought total operating expenses to EUR 669m (–3.3 per cent). They declined by more than total revenue.

Operating expenses IT Services			
	2008 in €m	2007 in €m	Change in %
Cost of materials and services	79	38	107.9
Staff costs	232	243	– 4.5
Depreciation and amortisation	37	38	– 2.6
Other operating expenses	321	373	– 13.9
- of which rent/maintenance of IT	102	121	– 15.7
- of which external staff	107	112	– 4.5

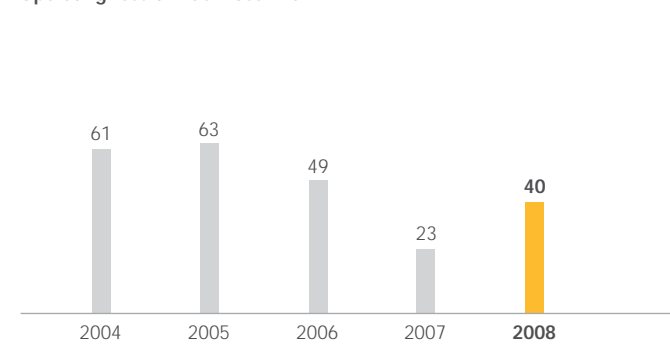
**Result** The operating result for Lufthansa Systems rose in the 2008 financial year to EUR 40m. This was a considerable improvement on the previous year (EUR 23m), which was adversely affected by non-recurring factors. This is reflected in the development of the adjusted operating margin. It went up to 6.2 per cent, an increase of 2.5 percentage points.

The segment result came to EUR 39m (previous year: EUR –20m). In the previous year this was encumbered by impairment losses of EUR 43m in connection with the cancellation of a major project.

**Segment capital expenditure** Capital expenditure in the segment of EUR 58m (previous year: EUR 54m) was primarily to safeguard existing business. The increased capital expenditure compared with the previous year stemmed from the revision and modernisation of the product portfolio.

**Long-term overview of earnings** Up to 2007 Lufthansa Systems reported a sustainable revenue growth. By concentrating on its core business from 2007 it pruned back both its product and its investment portfolio. This is reflected in the drop in revenue for the 2008 financial year. However, at the same time, the operating margin and the earnings position improved.

Operating result IT Services in €m



#### 8.4.6 Outlook

While the overall market for IT services in the aviation sector is due to grow slightly, an annual increase of 7 per cent is anticipated for airlines' outsourced services. The main driver is the demand for IT systems which contribute to direct cost savings or revenue increases. In parallel, there is an ongoing trend outside Europe towards outsourcing IT services when existing systems are replaced.

In this environment Lufthansa Systems and its product portfolio are well positioned. They help clients generate demonstrable efficiency gains and pay for themselves rapidly. In order to consolidate its position as one of the leading providers of IT services for the aviation industry over the years ahead, Lufthansa Systems is working to refine its Sirax AirFinance platform and Advanced Cargo platform as well as developing its Integrated Operation Control Center (IOCC) for managing flight operations. The re-engineering of the flight path planning system Lido OC is also on the agenda. These projects are also incorporated into the Group initiative "Upgrade to Industry Leadership". Its strategic objectives also include further improvements to the quality of products and processes.

Further efforts are also being made regarding costs. In addition to making costs more flexible at existing sites, some elements of production will also be transferred abroad in order to reduce staff costs further and improve proximity to international clients. For economic reasons revenue is expected to experience a temporary downturn in 2009. External customers' share of total revenue will continue to increase, however. In the medium term it should rise to 60 per cent. While revenue with the Lufthansa Group is principally due to sink because of the changeover in the passenger management system, revenue in the external market is expected to stagnate. Lufthansa Systems will meet this challenge by making the cost base more flexible, cutting costs further by transferring operations abroad and reducing overheads. Despite this it will not be possible to make up for the lost revenue in full by short-term cost-cutting, meaning that a lower operating result is to be expected for 2009 compared with the previous year. This trend is largely set to continue in 2010.









## Catering

business segment

2.3bn

EUR revenue

70m

EUR operating result

The market environment for LSG Sky Chefs is characterised by considerable cost and competitive pressure. Under these challenging conditions, LSG Sky Chefs expanded moderately in growth markets and consistently reduced its involvement in unprofitable activities. Productivity was also increased and the basis laid for the Company's long-term success by opening more efficient production facilities. However, the previous year's excellent result could not be repeated.



## 8.5 Catering business segment

Catering				
		2008	2007	Change in %
Revenue	€m	2,325	2,396	– 3.0
- of which with companies in the Lufthansa Group	€m	562	527	6.6
Operating result	€m	70	100	– 30.0
Adjusted operating margin	%	3.1	4.2	– 1.1 pts
Segment result	€m	94	116	– 19.0
EBITDA	€m	166	167	– 0.6
CVA	€m	– 17	21	–
Segment capital expenditure	€m	116	153	– 24.2
Employees as of 31.12	number	30,273	30,101	0.6
Average number of employees	number	31,215	29,880	4.5

### 8.5.1 Business and strategy

The LSG Sky Chefs group is the leading provider of airline catering with an estimated global market share of nearly 30 per cent. The group consists of 124 companies and has almost 200 facilities in 49 countries. Over more than 60 years it has continually extended its profile by means of its airline catering operations, and today, supplies airlines worldwide with food, drinks and other on-board articles. In recent years the portfolio has been significantly expanded to cover consulting and services related to on-board service. These services range from development, procurement and logistics of on-board service articles to the management of all upstream and downstream on-board service processes. The parent company for the group, LSG Lufthansa Service Holding AG, is based in Neu-Isenburg.

The market environment for LSG Sky Chefs is characterised by considerable cost and competitive pressure. The group has three lines of attack to confront these challenges. Firstly, it endeavours to keep cost structures flexible and lower the overall cost base by means of company-wide, durable improvement processes and on-going optimisation as a learning organisation. Secondly, the company pursues a selective and moderate expansion policy in order to gain an early share of growth in tomorrow's markets. Thirdly, a comprehensive package of products and services – this principally consists of equipment for on-board service and the management of all processes involved in on-board service – serves to achieve

further differentiation and value creation. These services can be tailored to individual customers and contribute to strengthening passengers' awareness of their own brand. To do so requires thorough cooperation with the customer and thereby creates the opportunity of satisfying multiple customer requirements as a single-source system supplier.

#### Locations Catering



A presence in nearly 50 countries and a high degree of cultural diversity are increasingly being networked across the worldwide group. LSG SkyChefs combines the knowledge of management and experts from many countries to form culinary centres of excellence. This excellence is encouraged by internal innovation competitions. In this way LSG Sky Chefs uses the multiple points of view to make continuous improvements to its range of services and adapt them to meet customers' needs. At the same time, the group is developing a common set of values which presents the customer with a uniform image. The corporate culture is also evolving permanently thanks to an ongoing dialogue between management and staff.

### 8.5.2 Markets and competition

After many years of sometimes heady growth, the global airline catering market has been in various stages of retreat according to different regions since the beginning of the fourth quarter of 2008. Several factors are behind these developments. Some airlines have dropped out of the market, others have reduced their fleets and cut routes or curtailed on-board service.

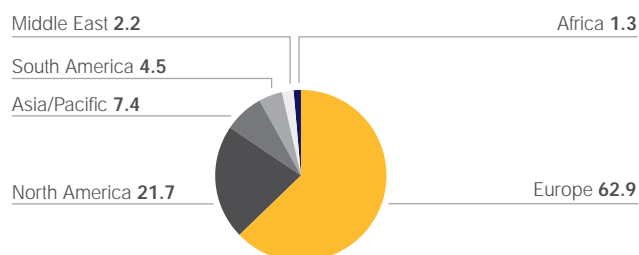
LSG Sky Chefs plays the role of market leader in nearly all its markets. There is only one other competitor active worldwide. All other catering contractors have only a regional or even simply a local presence. In America and Europe, its market share is between 35 and 40 per cent according to the company's own estimates. In Asia and in the Middle East, catering remains overwhelmingly the preserve of the individual airlines at their hubs. LSG Sky Chefs gains access to growth markets via acquisitions, partnerships and management contracts with the airlines and local organisations. In 2008, for example, new partnerships were set up in China and Abu Dhabi. The combination of LSG Sky Chefs' global experience and technical expertise and their regional partners' market knowledge and demands creates enormous benefits for both sides. To hone its skills and broaden its product range LSG Sky Chefs builds particularly on cooperation agreements and partnerships with specialised providers of logistics, IT and equipment.

### 8.5.3 Sales and customers

LSG Sky Chefs counts nearly all international and many national and regional airlines among its almost 500 customers. In order to satisfy the different customer needs, a key account manager is responsible for one large or several smaller clients and is involved in all major operations. Everyday work with customers in the local facilities is carried out by customer service staff.

The scope and duration of the business relationships vary greatly, as is typical for the catering market. They can be purely local, regional or encompass whole networks. The duration of catering contracts varies from a few months to several years. In addition to catering, LSG Sky Chefs is increasingly generating business with consulting and other services in the areas of development, logistics and IT support for in-flight service and the necessary equipment. These are combined in the area of "Solutions". The corresponding training and marketing instruments were created in 2008 to strengthen the knowledge of the sales teams and offer customers solutions tailored to their requirements.

**Airline Catering** Revenue by region in %



### 8.5.4 Operating performance

In 2008, LSG Sky Chefs continued to successfully implement its strategy of expanding moderately in growth markets and reducing unprofitable activities at the same time. There were also additional challenges involved in making up for rising energy and material costs and, later in the year, for declining order volumes.

At the site in Frankfurt the largest and most up-to-date catering facility in Europe commenced operations with a production area of 28,000 square metres and a capacity of some 80,000 meals per day. The capacities for frozen food production were also ramped up to 250,000 meals per day. This meant expanding the facilities in Alzey in Rhineland-Palatinate, Germany, and opening new facilities in Pittsburgh, USA, and Qingdao, China. They will satisfy growing demand for these high-quality but also low-cost products. Geographical expansion progressed with the construction of new catering facilities at the new Indian airports in Chennai, Hyderabad and Bangalore, as well as the acquisition of stakes in Aviapit Sochi

and ZAO AeroMEAL in Krasnoyarsk, Russia, and in CLS Catering Services with sites in Vancouver and Toronto, Canada. New cooperation agreements in the area of supply chain management and equipment maintenance were signed with the Maskati Group in Bahrain and GAS Global Aviation Service in Abu Dhabi, United Arab Emirates.

In 2008, the sales of the Spanish subsidiary LSG Sky Chefs España S.A. and LSG-Airport Gastronomiegesellschaft mbH were successfully completed. The lounge business was carved out of this company beforehand and incorporated into the newly established LSG Sky Chefs Lounge GmbH.

LSG Sky Chefs started an all-round offensive with workshops on lean management and quality management. Both quality and productivity increased sharply in all regions as a result. This is reflected positively both in audit assessments and in the perception of customers. The quality improvements enabled several customer contracts to be renewed.

In 2008, important contracts were renewed with American Airlines and Virgin Atlantic Airways at major North and South American sites. Other successes include new and extended contracts, for example with Brussels Airlines, Qatar Airways, United Airlines, Jet Airways, Dragonair, Thomas Cook and Continental Airlines. An exception to the successful series of customer acquisitions was the catering for SAS in Scandinavia, which a competitor is to take over in 2009.

### 8.5.5 Revenue and earnings development

**Revenue and income** Revenue for the LSG Sky Chefs group sank by 3.0 per cent year on year to EUR 2.3bn in 2008. This is largely due to the weakness of the US dollar, the pound sterling and the Korean won. These unfavourable exchange rate effects depressed revenue on a euro basis by EUR 134m. In local currency, revenue went up in almost all countries in 2008. Changes in the group of consolidated companies also contributed to the drop in revenue. External revenue sank by 5.7 per cent to EUR 1.8bn as a result of the currency movements. In contrast, internal revenue rose by 6.6 per cent to EUR 562m.

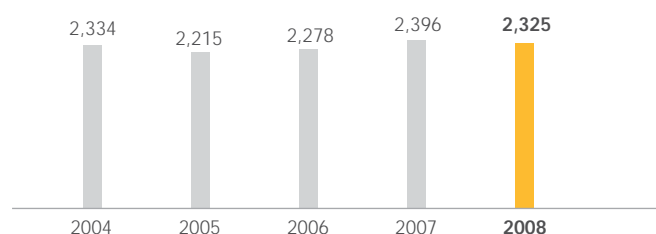
Within Europe, growth in the catering business took place primarily in Germany, Italy and the Eastern European countries. Thanks to new contracts and greater volumes, revenue also went up in the USA as measured in local currency. The Asia/Pacific and Latin America regions also reported positive revenue growth, although

adversely affected by the weakness of the dollar. In addition to the core business of airline catering, the Solutions area also expanded and achieved gratifying improvements in revenue.

Other operating income went up by EUR 10m (+12.2 per cent) to EUR 92m. This increase is largely due to higher exchange rate gains from the valuation of foreign currency receivables and liabilities on the reporting date.

Total operating revenue declined by 2.5 per cent to EUR 2.4bn.

Revenue Catering in €m



**Expenses** Operating expenses came to EUR 2.3bn in 2008. They dropped by 1.3 per cent year on year, and therefore by less than the fall in revenue.

Worldwide increases in the price of food, higher energy costs and the growing volume of catering were offset by exchange rate effects, so that the cost of materials and services sank to EUR 1.1bn (–2.0 per cent).

Staff costs amounted to EUR 824m in 2008. They therefore fell more sharply than revenue at 7.0 per cent. In addition to positive currency effects, this stems from increased productivity and lower administrative costs. The average number of employees at the LSG Sky Chefs group increased to 31,215 (+4.5 per cent).



Depreciation and amortisation went up by 3.5 per cent to EUR 59m. Higher amortisation on intangible assets was not fully offset by positive exchange rate movements.

Other operating expenses rose year on year by 14.4 per cent, totalling EUR 405m. This principally reflects exchange rate losses from the valuation of foreign currency receivables and liabilities on the reporting date as well as write-downs on receivables.

Operating expenses Catering			
	2008 in €m	2007 in €m	Change in %
Cost of materials and services	1,059	1,081	– 2.0
Staff costs	824	886	– 7.0
Depreciation and amortisation	59	57	3.5
Other operating expense	405	354	14.4

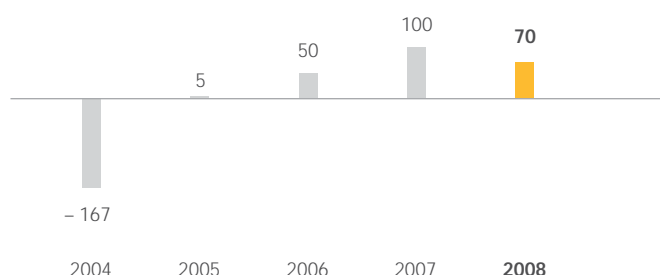
**Result** The operating result was EUR 30m below last year's figure at EUR 70m (–30.0 per cent). Negative net currency effects, higher costs for energy and food, and higher write-downs on receivables all contributed to this fall. The adjusted operating margin dropped to 3.0 per cent in 2008 (–1.2 percentage points).

The sale of the Spanish subsidiary and of LSG-Airport Gastronomie-gesellschaft mbH were largely responsible for a rise in other segment income of EUR 15m to EUR 24m. Other segment expenses were below the previous year's at EUR 4m. Overall the segment result was 19.0 per cent below last year's at EUR 94m.

**Segment capital expenditure** The Catering segment incurred capital expenditure of EUR 116m in 2008. This is EUR 37m (–24.2 per cent) below the figure for the previous year. Funds were mainly used for the construction of the new catering facility at Frankfurt Airport, which started operations in May 2008. As well as investing in new production facilities in China (Qingdao) and the USA (Pittsburgh), the existing plant in Rhineland-Palatinate (Alzey) was also extended.

**Long-term overview of earnings** The continual earnings improvements achieved in recent years at LSG Sky Chefs could not be repeated in 2008 due to the difficult market conditions. Strict cost management and an unwavering focus on internal return targets are intended to ensure that profitability picks up again.

Operating result Catering in €m



#### 8.5.6 Outlook

Given the strong link between catering volumes and air traffic, and in view of the current negative forecasts, LSG Sky Chefs is expecting the overall catering market to contract in 2009. Lower demand is especially predicted for North America and Europe.

This means that capacities, structures and costs have to be adjusted accordingly. LSG Sky Chefs will therefore intensify the programmes introduced as part of the Group's "Upgrade to Industry Leadership" initiative. Additional optimisation measures will also be taken at selected sites, company-wide restructuring programmes reinforced and staff capacities adjusted. Despite this, overhangs cannot be completely avoided in the short term. These developments will have an adverse impact on results. On current estimates, LSG Sky Chefs will therefore not be able to match the previous year's revenue and operating result in 2009.

Programmes to cut costs and increase productivity as well as moderate expansion should contribute to stabilising revenue and results at LSG Sky Chefs in 2010.

## 8.6 Service and Financial Companies

Service and Financial Companies				
		2008	2007	Change in %
Total operating income	€m	465	387	20.2
Operating result	€m	69	53	30.2
Segment result	€m	29	235	– 87.7
EBITDA	€m	46	232	– 80.2
CVA	€m	54	7	771.4
Segment capital expenditure	€m	198	70	182.9
Employees as of 31.12	number	1,436	1,329	8.1
Average number of employees	number	1,391	1,314	5.9

### 8.6.1 Business and strategy

The Service and Financial Companies business segment is made up of financial and services companies which provide support for the operations of the Lufthansa Group. It includes, among others, Lufthansa AirPlus Servicekarten GmbH (AirPlus), Lufthansa Flight Training GmbH and Lufthansa Commercial Holding, where Lufthansa's financial equity investments are held. On 11 April 2008, Lufthansa sold its equity investment in the ground handling company GlobeGround Berlin GmbH, held indirectly by Lufthansa Commercial Holding, to the WISAG Group, Frankfurt/Main.

Lufthansa Flight Training GmbH is one of the world's leading providers of training services for airlines. The company combines Lufthansa's decades of experience in training cockpit and cabin staff and markets its skills in areas such as simulator training, emergency and service courses and e-learning. At its sites in Frankfurt/Main, Berlin, Vienna, Bremen, Munich and Phoenix, Arizona it operates a total of 37 simulators. In October 2008, a new centre for service, emergency and human factors training was opened in Munich. From 2009 three cockpit simulators will add to the range of training on offer there.

AirPlus is one of the leading global providers of business travel management solutions. The company is specialised in the payment and evaluation of business travel. Under the AirPlus International brand it supplies tailored products and integrated solutions with which companies can make their everyday travel management simpler, more transparent and more cost-effective. The company is headquartered in Neu-Isenburg. AirPlus also has offices and subsidiaries in some 30 countries around the world. In 2008, AirPlus continued its successful growth path in international markets, pursuing its strategy of becoming the preferred supplier for global payment and reporting for business travel management by 2012.

### 8.6.2 Markets and competition

Lufthansa Flight Training's core market is Europe. Here the company has a leading position among the providers of cockpit and cabin training, with currently 37 flight simulators for more than 20 aircraft models.

AirPlus markets its professional business travel management to companies from all industries. Rising cost pressure has led to a steady increase in demand for AirPlus solutions and know-how in business travel management. Key tools for optimising travel budgets sustainably are company credit cards and management information systems. Despite tougher competition, AirPlus has developed its position on the global business travel markets. Total billing revenue increased in 2008 to EUR 18bn. International markets were again the main growth drivers, contributing 31.5 per cent to AirPlus's strong expansion. In 2008, the main impetus for growth came from core European markets as well as from Asia and America. In Germany, AirPlus again defended its market leadership for a further successive year in 2008. The number of transactions billed via AirPlus rose to 102 million. Worldwide, more than 800 AirPlus employees provided services to over 32,000 corporate customers last year.

### 8.6.3 Sales and customers

In addition to Lufthansa Group companies around 150 other airlines make up the customer base of Lufthansa Flight Training and train their crews there. The client list includes many other well-known network carriers as well as leading cargo airlines and



increasingly also no-frills airlines. Many of these companies have been training with Lufthansa for several years. In 2008 Lufthansa Flight Training succeeded in closing long-term contracts with additional customers. They include Air Berlin, LuxAir, Condor and Croatia Airlines.

AirPlus continued its successful international expansion in 2008, primarily developing its presence in Asia. This was achieved by means of a strategic cooperation agreement with the Star Alliance member Air China. Corporate clients in China benefit from efficient billing for their business travel, which makes it much easier to pay and evaluate travel expenses. AirPlus thereby not only underscores its market leadership but also its pioneering role. For the first time companies in China are now able to charge their business trips to a central travel management card. In view of the rapid growth of the Chinese business travel market and the subsequent need for professional travel management solutions, AirPlus has set up its own subsidiary in China. AirPlus Payment Management Co. Ltd., based in Shanghai, raises service levels for local clients and accelerates growth in the region. This proximity to the client has paid off: in the competition "Germany's most customer-oriented service provider" organised by Handelsblatt, a business newspaper, AirPlus won a special prize for the best customer communications. AirPlus was also ranked as one of the best three financial services providers in Germany in the competition for its high service quality.

AirPlus distribution is carried out via a multichannel strategy. As well as local AirPlus sales teams, this also involves travel agents as partners for travel management. In addition, an internet platform specially adapted to the needs of small and medium-sized companies also acts as an important sales channel in this segment. The result is that worldwide more than 2,000 companies rely on the online solution from AirPlus for analysing and managing their travel budgets. In order to strengthen the dialogue with customers, experts and partners in the business travel sector, AirPlus has also launched an international online community. Travel managers, business travellers and travel agents have been meeting since November 2008 in a forum at [www.airpluscommunity.com](http://www.airpluscommunity.com) to exchange market and sector information.

#### 8.6.4 Operating performance

To satisfy the increased demand for training services in the reporting year 2008, and be able to offer training as close to the customer as possible, Lufthansa Flight Training Berlin GmbH brought an additional A320 simulator into service. Another A320 simulator commenced operations in summer 2008 at Lufthansa Flight Training GmbH in Frankfurt. Since autumn 2008 Dash-8 crews have also been able to train on a new simulator at Lufthansa Flight Training Vienna. In Frankfurt, planning for the construction of a state-of-the-art hangar for flight simulators continued apace.

AirPlus presented the next generation of its successful management information system for travel expenses. With the AirPlus Information Manager companies around the world can enjoy greatly expanded and optimised functionalities. At the same time the AirPlus solution sets standards in travel expense management with detailed reports on hotel expenses. It enables companies to evaluate their travel expenses even more simply and in greater detail. With this current generation, AirPlus has updated the success story of its analysis system, which has been one of the leading information systems in international travel management since it was launched.

#### 8.6.5 Revenue and earnings development

Total operating income for the Service and Financial Companies increased by 20.2 per cent to EUR 465m. Both AirPlus and Lufthansa Flight Training made a positive contribution to this performance. AirPlus generated operating income of EUR 286m (+32.1 per cent). Lufthansa Flight Training increased its total operating income by 5.9 per cent to EUR 154m. Operating expenses went up by 18.6 per cent to EUR 396m.

The operating result was 30.2 per cent above the figure for the previous year at EUR 69m. Other segment income went up by 20.1 per cent to EUR 195m. The segment result therefore came to EUR 29m (-87.7 per cent). This fall stems primarily from the book gains on the share buy-back by WAM Acquisition S.A. in 2007 as well as from write-downs on securities.

## 9. Risk report

### 9.1 Opportunity and risk management system

Lufthansa is an international aviation company and is, therefore, exposed to both company and sector-specific risks. Our permanently updated management systems enable us to identify both risks and opportunities at an early stage and act accordingly. This proven risk strategy allows us to take advantage of favourable business opportunities. A risk-return profile in line with market standards is a prerequisite. The risks must also be appropriate and acceptable in relation to the value created.

The conscious management of opportunities and risks is an integral part of corporate management. For this reason, we have not created a special organisational unit for risk management but have integrated it into the existing business processes. The system enabling risks to be identified and managed at an early stage is composed of several modules. These building blocks are systematically linked. There is an exception from this principle for the control of financial risks. Here the functions of trading, settlement and financial controlling are strictly separated and are based in independent organisational units. In contrast to general and strategic risk management, responsibility for this area is centralised. This is the only way that these homogenous risks can be identified in their entirety and responsibly managed with the necessary economic competence. Here the functions of trading, settlement and financial controlling are strictly separated and are based in independent organisational units. The risk management system for financial instruments is part of central financial management. It is described in section 9.2.4, page 119 and in the notes to the consolidated financial statements, Note 48, page 183.

The Risk Management Committee (RMC) ensures on behalf of the Executive Board that risks are permanently identified and evaluated across all functions and processes. The RMC is responsible for continuously improving the effectiveness and efficiency of the risk system. An important instrument for doing so is the risk map. It lists all material risks which could endanger the Company's earnings and its continued existence. At the same time it lists all the instruments for managing these risks. Risks count as material if they are capable of causing damage of at least one third of the earnings necessary for maintaining the value of the Company. For 2008 this value was set at EUR 300m.

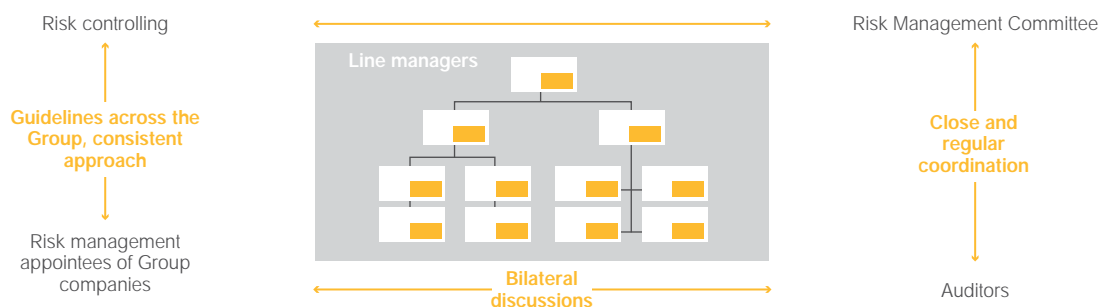
The risk map is updated regularly and its structure is aligned with the risk management process: identification, coordination, communication and control. Lufthansa applies uniform risk management standards throughout the Group.

The managing directors of all Group companies also appoint risk managers in all business segments. They are responsible for implementing the Group guidelines within their respective companies and are in close, regular contact with the RMC.

Opportunity and risk controlling in the course of the planning and coordination processes is a further component of the system. This primarily identifies the potential risks and opportunities which could impact earnings targets as part of an analysis of the market and the competitive landscape.

The established opportunity and risk report, which appears quarterly, tracks identified opportunities and risks throughout the year in relation to planned earnings. Potential departures from plan are quantified by the risk experts in order to focus attention on the most important risks. A discussion of risks and opportunities is also a fixed element of the regular meetings between Group controlling and the managing directors of the Group companies.

#### Risk management at Lufthansa



Finally, they are also examined in separate meetings with departments exposed to risk. The focus of the meetings lies on identifying any action required and the status of measures taken for the systematic measurement of the opportunities and risks identified.

The auditors PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) examined the early risk warning system in place at Deutsche Lufthansa AG in the light of statutory requirements during the annual audit. It satisfies all the statutory requirements to be made of such a system.

## 9.2 Risk categories and individual risks

In accordance with the categories in the risk map the Lufthansa Group is subject to the following risks in particular.

### 9.2.1 Macroeconomic risks

Due to its worldwide operations Lufthansa is exposed to a considerable degree to global and regional macroeconomic changes. Of great significance is growth in gross domestic product (GDP) in the economic regions of the world, as growth in demand for aviation is dependent on it. For example, based on historical data GDP growth of 1 per cent is positively correlated with growth of around 1.5 per cent in passenger aviation in mature markets and up to 2.5 per cent in the growth markets of Asia, Latin America and Eastern Europe.

As a result of the crisis on the financial markets, economic output in Europe, North America and Japan is not expected to increase, but rather to sink in 2009, for the first time since 2001. This will also affect air traffic (see "Outlook", page 124). Lufthansa is therefore also anticipating a decline in passenger numbers and freight volumes for 2009. Given the developments in demand at the airlines in the Group, new orders in the other business segments are also expected to turn out lower than originally planned for 2009. However, their different business models mean that the segments' results will be affected to a different extent and at different times.

Lufthansa is responding to the expected changes by making flexible adjustments to its scheduled capacities in all affected markets. Capacity was already reduced in several stages in the winter flight timetable 2008/09 and further adjustments will be made as necessary. In the remaining business segments, too, the use of resources will be adjusted to meet lower sales expectations. Appropriate plans have been drawn up and are ready to be implemented or have already been implemented.

As a rule, changes in economic growth rates lead to changes in parity between currencies and in interest rates. We refer to the comments in section 9.2.4, page 119 of this report on the effects and the management of these risks.

In conjunction with declining economic growth, prices for kerosene have fallen back significantly. At year-end they were at their pre-2005 level. After accounting for exchange rate movements, the expected negative results of hedging transactions and declining revenue from fuel surcharges, the lower fuel prices only have a disproportionately minor effect on results in the short term. In the medium term, hedging at current price levels creates opportunities to benefit from our hedging transactions if prices rise again. More details on fuel hedging can be found in section 9.2.4, page 119.

### 9.2.2 Sector-specific opportunities and risks

#### Market and competitive risks affecting capacity and load factors

In addition to the cyclical fluctuations of the world economy and its effects on demand, it is changes in airlines' available capacities which largely determine the risk profile in the industry. In view of the boom in orders for new aircraft in recent years, and despite greater difficulties financing the aircraft ordered, we expect many airlines to have growing overcapacities in many market segments in the years ahead. Competitiveness under these conditions depends primarily on how a company is positioned and how fast it can react to changes in demand. Keeping costs variable can be absolutely decisive. In this respect, priority is given to the ability to adjust aircraft capacities to changes in demand. A far-sighted order policy, with phased orders for new aircraft and the option of replacing a number of older aircraft at any time with new deliveries, gives Lufthansa the necessary flexibility to adjust its capacity to changes in demand. As the majority of the aircraft are owned and have already been partly depreciated, they can be grounded temporarily, if necessary, at short notice and without high residual cost.

The business segments in the Lufthansa Group operate in highly competitive markets. The competitive pressure has increased in recent years and it will intensify even further in the current adverse economic climate. Competitors also keep developing, influencing both European and international markets with new business models and improved cost structures, for instance. The Lufthansa companies respond with customer-focused, high-quality products and services. More details are provided in the sections on the individual business segments on page 72.

Constant improvements to cost structure are vital if we are to stay ahead of the competition. We achieve this both structurally, by constantly increasing cost flexibility and as part of the Group "Upgrade to Industry Leadership" initiative, and also at a more immediate level by introducing programmes to safeguard earnings as necessary.

International competition is also developing into a competition between entire systems of airports, air traffic control organisations and airlines, as these have a considerable effect on the efficiency of the entire value chain at a given location and thereby on the competitiveness of the airlines stationed there. Lufthansa has always emphasised the importance of infrastructure. This consists both of the necessary capacities and of seamless processes and competitive cost and price structures. The effects of the financial crisis on expanding the infrastructure cannot yet be determined. As the financing of large-scale projects is now confronted with far greater obstacles, there is a risk that urgent capital expenditure on airport and logistics infrastructure may be delayed, leading to potential capacity bottlenecks in the long term.

By bringing together airports, air traffic control organisations and public authorities, the Air Traffic for Germany initiative has created a common platform to secure Germany's position as an air traffic location. The planned extension of the runway and terminal system at Frankfurt Airport, for example, is a prerequisite for securing its position as a leading air transport hub in the future. This applies all the more in view of the megahubs being built elsewhere in the world (in the Gulf region, for instance), which aim to attract global traffic flows by means of low-cost structures. For Lufthansa, on the other hand, the expansion of the domestic hub offers the chance to implement extensive product and process improvements and thereby increase its competitiveness. This also includes practicable regulation of night flights to preserve the cargo hub at Frankfurt/Main.

Bottlenecks in the fragmented European air traffic control system are a serious problem. They still result in considerable delays to air traffic, unnecessary detours, holding periods, increased fuel consumption and avoidable emissions. These deficits have a negative impact both on the results of all European airlines and on the environment, and jeopardise growth in air traffic. Lufthansa and its competitors are therefore continuing their demands for the European Commission and national governments to create an effective European air traffic control system.

The new Open Skies agreement between the USA and the EU creates both opportunities and risks for Lufthansa. The decision to allow airlines from EU member states and the USA unfettered access to each other's airspace will add considerably to competition in transatlantic traffic and put greater pressure on prices. At the same time, it will give rise to new potential in neighbouring markets, which Lufthansa intends to watch closely and use to the best advantage.

In this competitive environment, alliances and more in-depth forms of cooperation play an increasingly important role. Star Alliance remains the leading association of its kind with the widest scope. Lufthansa adds to Star Alliance's global offering by developing targeted regional cooperation agreements. The agreed purchase of shares in Brussels Airlines, the majority takeover of British Midland, and the planned acquisition of Austrian Airlines will enable additional prospects and synergies to be realised in the Lufthansa Airline group which go beyond those that can be achieved in the Star Alliance. One good example is the successful integration of SWISS with the Lufthansa Group.

Finally, Lufthansa has the customer loyalty programme Miles & More, which has proven its worth over many years. Its range of offers is refined continuously, as evidenced not only by ever growing membership figures but also by the attraction of the HONCircle.

**Legal and contingent risks** New laws and changes to national and international regulations also have a major effect on Lufthansa's future business success. Air traffic rights and safety

regulations as well as compliance, capital market and competition law all play an important role. The latest legal changes which could affect the course of Lufthansa's business are described in the "Regulatory and legal environment" chapter on page 48. Lufthansa also runs a compliance programme, which is described in detail in the chapter "Corporate governance" on page 34.

**Political, geopolitical and regulatory risks** The aviation industry is severely affected by geopolitical events such as wars, terrorist attacks or pandemics. However, political decisions can also have drastic effects: when they either abolish or create distortion to competition, for instance.

The introduction of emissions trading from 1 January 2012, as adopted by the EU, will alter the market and competitive situation within the aviation industry (for more details see page 48). Lufthansa is preparing to implement these requirements. A hedging strategy is currently being elaborated for the price risk of emissions certificates and adjustments to the relevant IT systems are being prepared.

A more restrictive regulation of night flights at Frankfurt Airport could also have a negative impact on earnings development and growth prospects at this hub. For available capacities to be used economically and in line with demand, a practicable arrangement for night flights is indispensable. The official approval of the plan on expanding airport capacity was taken in late 2007. This means that capacities can be expanded substantially. The official approval of the plan provides for a maximum annual average of 150 flight movements per night for homebase carriers, of which a maximum of just 17 are permitted for freight in the period 11 p.m. to 5 a.m. In January 2009, the administrative court in Kassel dismissed the applications for an injunction against immediate execution of the official approval. In its reasoning the court made it clear, however, that the night flight rule would not ultimately stand up to judicial review. Lufthansa appealed against the restrictive night flight rule in early 2008. At present it is not possible to predict the outcome of the proceedings with any degree of certainty; there is, however, a distinct risk that the practicable regulation of night flights advocated by Lufthansa may not come about.

The management of geopolitical risks must concentrate on dealing with the consequences after the event. Our emergency response programme Security and Reliability forms the basis for minimising the consequences of an incident for all involved. The individual steps are adapted in response to ongoing developments and are laid down in an Emergency Response and Action Plan (ERAP).

As insurers remain extremely cautious, it is difficult for European airlines to arrange effective insurance coverage against terrorist attacks. Specialised insurers now only offer limited coverage for damage to aircraft in these cases. As this insurance cover is not obligatory for an airline's operating licence, there is no danger of planes being grounded because of it. In cooperation with the aviation industry, liability insurers have drafted proposals for new terms. Instead of completely excluding all coverage, the third-party liability risk is now to be capped at a reasonable level.

In this respect the draft amendment to the Rome Convention presented to the International Civil Aviation Authority in Montreal is questionable. The convention is intended to regulate the fundamental liability of an aircraft operator for damages to persons and property caused by terrorist attacks and suffered by third parties not involved in air traffic. Particularly worrying is the attempt to make the aviation industry unilaterally liable for damages due to terrorist attacks by instituting a limited strict third-party liability together with liability in case of fault for further damages. This is unacceptable, not least because the target of potential terrorist attacks is generally the community of states and the social community and not private aviation companies.

### 9.2.3 Company-specific opportunities and risks

**Strategic opportunities and risks** A tightly meshed, worldwide route network is strategically important for the success of a network carrier with global operations. Together with our Star Alliance partners, the airlines of the Lufthansa Group have the largest flight network in the world. Systematic network and alliance management enable risks to be identified at an early stage and opportunities used effectively. The accession of Eastern European countries to the EU also gives all business segments additional growth opportunities. We are also well positioned in the growth markets of China and India and anticipate good development opportunities.

Lufthansa is playing an active role in the consolidation of the industry currently underway. Key steps initiated in 2008, for example, were the purchases of shares in Brussels Airlines and Austrian Airlines, which are to be followed by the integration of these partners. Other projects were examined and abandoned as uneconomical. In addition, following the exercising of the put option by the majority shareholder, it is to be expected that British Midland will have to be integrated. When evaluating and integrating new partners, both opportunities and risks can arise from the operating performance and financial profile of the target companies. These cannot be captured in full as they are dependent on events in the future. Nevertheless, the Group's experience, for example from the integration of SWISS, is included in the all-round evaluation of opportunities and risks. The available expertise will also be systematically deployed in future reviews and integrations.

**Staff** Changes in the macroeconomic environment mean that, in some areas of the Group, staff-related risks shift from securing growth by optimised recruitment to ensuring that staff capacities are breathable in case of changes in operations. We have precise systems for measuring staff requirements and a tested, phased procedure for adjusting staff capacities. A variety of elements providing flexibility have been agreed in advance with the social partners and add to our capacity to adapt. However, the speed and effectiveness of reaction represent risk factors.

Transparency and priority for socially acceptable measures ensure that employees' vital and traditionally high motivation levels are maintained. This also preserves Lufthansa's first-class reputation in the labour market. Together with the latest systems and methods of staff marketing it will allow us to prevail in the competition for the best employees, which has not waned despite the recession.

The classical staff risks include acceptance and cost risks within the framework of collective bargaining and staff representation agreements. This mainly relates to the way remuneration and benefits are dealt with in wage settlements. Demanding negotiations in this area are a permanent fixture, the risks of which have to be minimised by carefully balancing different interests in the given economic environment. This is the job of experienced professional negotiation and evaluation teams.

Increasingly heterogeneous staff structures and smaller social partners with a greater focus on the interests of a subset of the workforce can endanger cooperation between employees and the cost structures in an established group. Lufthansa deals with these risks by means of an intensive dialogue with the social partners, concepts which foster cooperation and active communications both inside and outside the Company. Nevertheless, an escalation of collective bargaining disputes up to and including strike action cannot be ruled out for 2009. In addition to the damage this does to Lufthansa's image as a dependable service provider, it also entails the risk of lost revenue and additional costs.

Adding new overseas companies to the Group's portfolio of equity investments also involves challenges in terms of human resources, which Lufthansa is dealing with by means of an internationalisation initiative for greater language and cultural understanding, for example. The Group promotes economical and, at the same time, stable staff structures focused on the employees by respecting autonomous decentralised responsibilities and identities. We meet increased demands for ensuring uniform minimum standards, for example in the area of HR reporting, and the human resources responsibility of Lufthansa as a Group by actively treating new colleagues as equals. In this context, risks can arise from unrecognised financial or human resources costs in the companies acquired.

The Executive Board and Supervisory Board are liable to the Company for damages caused by culpable breach of duty. A directors' and officers' (D&O) liability insurance policy has been arranged for both Boards with an appropriate excess.

**Information technology** IT systems are part of Lufthansa's everyday business processes. We deal with potential risks by means of special IT risk management. Tailor-made back-up concepts are drawn up depending on how critical the processes are for Group companies and the extent to which they are supported by IT.

Any security loopholes are dealt with by organisational and technical measures. The corporate audit department monitors these measures to ensure their success. The Lufthansa Group's IT security policy is permanently adjusted to conform to the latest IT security standards. This enables us to react to potential new threats and rapid developments in information technology. A corporate information security officer at Group level and information security officers within the business segments are responsible for adapting



the security regulations. They are responsible for implementing the IT security standards in the Group companies. In this way we can maintain an adequate level of IT security and guarantee that risks are reduced in an economically reasonable manner.

**Quality** Factors such as brand image and innovative product quality are becoming more and more important for actually achieving the desired pricing in the market. As price pressure continues to grow, it is vital to ensure that Lufthansa's high quality standards also apply to the necessary measures for improving efficiency. A vital new element of brand management at Lufthansa is the Brand Academy, which represents the philosophy and the vision of the brands in the Lufthansa Group. The goals of this Brand Academy, an integral part of the new Lufthansa Training and Conference Center in Seeheim, south of Frankfurt, are to create an appreciation of the significance of brands and to give staff and partners brand orientation.

**Communications** Like any large company, Lufthansa is also exposed to communications risks. The Group communications and capital market communications departments have therefore been working professionally for many years to provide the right information to the appropriate parties in an up-to-date form at all times. An Ad Hoc Committee, made up of the chief legal adviser and the heads of Investor Relations and Corporate Communications, also reviews all events to determine their relevance for ad hoc publication in accordance with the Securities Trading Act (WpHG).

**Accounting** Numerous national and European regulations and statutory provisions apply to Lufthansa's accounting and the preparation of its financial statements, as for all publicly listed companies in Germany. Further information can be found in the "Corporate governance" chapter on page 34.

**Operational risks** Like any airline, Lufthansa also has potential risks relating to flight and technical operations. One of these is the risk of not being able to carry out regular flight operations for operating or technical reasons. If flights do not take off or land on time, due to weather conditions for instance, this may have a negative influence on the customer's purchase decision.

Another flight and technical risk is the risk of an accident, with the possibility of damages to people and property. Threats affecting the risk of accidents are divided into four groups: environmental factors (e.g. weather, bird strike), technical factors (e.g. engine failure), organisational factors (such as errors in selecting staff, contradictory instructions), and especially important, the human factor. Lufthansa systematically looks for these threats in order to

manage the potential risk by taking appropriate counteraction. For example, every single Lufthansa flight is routinely analysed using the parameters recorded in the flight recorder (black box), in order to identify any peculiarities at an early stage. Other accidents and hazardous situations which come to light around the world are also analysed and are integrated into training courses if relevant. Lufthansa's safety management system can then deal with identified threats and reduce Lufthansa's operational risk – for instance, by specific measures in pilot training or in cockpit procedures, but also by means of technical modifications such as retrofitting modern warning systems. This enables the safety management system to be improved and refined continuously.

#### 9.2.4 Financial opportunities and risks

As an international aviation group, the Lufthansa Group is faced with the risk of changes in fuel prices, interest rates and exchange rates. The principally conservative approach towards financial and commodity risks is reflected in systematic risk management. We use suitable management and monitoring systems to do this, with which we measure, control and monitor the risks. The functions of trading, settlement and controlling of financial risks are strictly separated at an organisational level. Lufthansa uses internal guidelines which are laid down by the Executive Board and permanently developed. The Group Financial Risk Controlling and Corporate Audit departments monitor compliance with the guidelines. Furthermore, the current hedging policies are also permanently discussed in management board meetings across the business areas. The Supervisory Board is regularly informed of the amounts at risk. Detailed information on currency, interest rate and fuel hedges can be found in Note 48 to the consolidated financial statements (page 183).

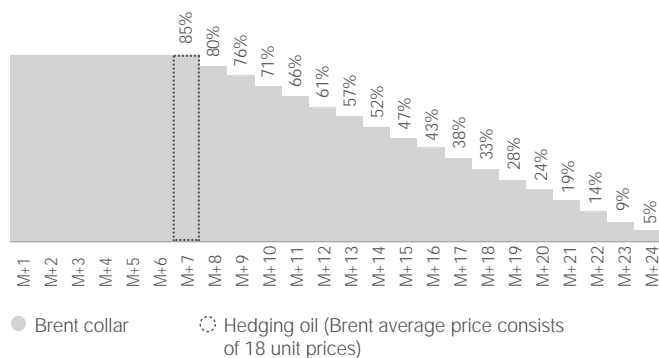
Derivative financial instruments are used exclusively for hedging underlying transactions. The market value of the derivatives must therefore be seen in connection with the hedged items. The main aim of fuel price and currency hedging is to reduce earnings volatility. This is achieved by forming averaging prices by means of layered hedging. Interest rate hedging has the aim of reducing the cost of interest and minimising fluctuations in interest expense at the same time.

All underlying and hedging transactions are tracked in a treasury system. This means they can be valued at any time. For these transactions we only work with banks that have at least a long-term "BBB" rating or similar. A limit is set for every bank dependent on its rating, and adherence to the limits is monitored.

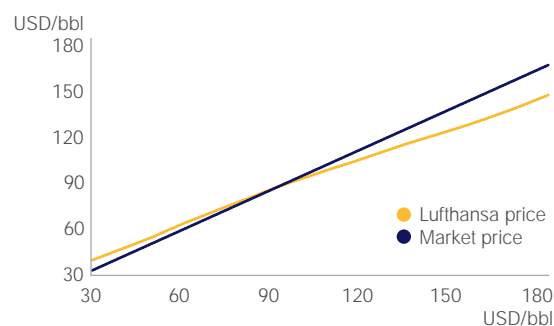
In 2008 Lehman Brothers was also one of Lufthansa's counterparties. A number of currency, interest rate and fuel hedges had been made with this bank, as well as investments, meaning that Lufthansa was also hit by its insolvency. At the time of the bankruptcy Lufthansa had a nominal EUR 9.1m from strategic liquidity invested in Lehman Brothers bonds. Apart from a nominal EUR 3m the positions could still be sold after the insolvency. Substitute transactions were made for the currency and interest rate financial derivatives in default. As far as fuel is concerned, the default of hedging transactions with Lehman Brothers meant that the hedging level for 2009 is below that which Lufthansa normally reaches with its layered hedging at year-end. After the default, Lufthansa decided not to replicate the hedging transactions with other counterparties because due to the global economic developments, no short-term increase of fuel prices is expected. This does not affect the fundamental approach to fuel hedging.

**Fuel price risks** The Lufthansa Group's fuel consumption amounts for 2008 to some 7.9 million tonnes of kerosene. It is a major item of expense, currently making up around 21 per cent of operating expenses for the Lufthansa Group. Severe fluctuations in fuel prices can therefore have a considerable effect on the operating result. As a result Lufthansa hedges fuel prices with a time horizon of up to 24 months. This is aimed at reducing fluctuations in fuel prices. The hedging level and the time horizon depend on the risk profile, which is derived from the business model of the Group company concerned. The "hedging policy" graph illustrates the hedging policy both for Lufthansa Passenger Airlines and for SWISS. Hedging mainly takes place in crude oil.

#### Lufthansa hedging policy Medium-term crude oil hedging

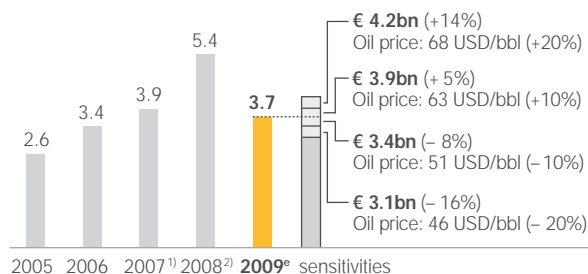


#### Oil price scenario Lufthansa Group 2009 as of 2.1.2009



Lufthansa uses standard market instruments, such as forward contracts and options for its fuel hedging, and hedges up to around 5 per cent of planned consumption per month in Brent collars and/or 4-ways, up to a hedging level of 85 per cent and with a lead time of 24 months. The hedging transactions are, therefore, based on fixed rules and map the average of crude oil prices over time. The six months following a given date are hedged to 85 per cent. At the reporting date there were crude oil hedges for 63 per cent of the forecast fuel requirement for 2009, in the form of spread options and other hedging combinations. For 2010, around 26 per cent of the forecast fuel requirement was hedged at the reporting date.

#### Fuel costs in €bn (as of 2.1.2009)



Estimate based on average futures price of USD 57.04/bbl and a USD exchange rate of 1.41 on 2.1.2009.

<sup>1)</sup> Incl. SWISS (from July 2007).

<sup>2)</sup> Incl. SWISS (full year).

The fuel surcharge has established itself in the market as a further means of reducing risk. It is uncertain, however, to what extent the fuel surcharge can be maintained if the economy slows down markedly.

If fuel prices were to drop by 20 per cent below their year-end 2008 level (Future price 57.04 USD/bbl), expenses for the Lufthansa Group would be reduced from the expected EUR 3.7bn by around EUR 520m to about EUR 3.1bn. This benefit would, however, be partly forfeited due to lower fuel surcharges.

As fuel is priced in US dollars, fluctuations in the euro/US dollar exchange rate can have a positive or a negative effect on fuel prices in euros. This is accounted for in the currency exposure.

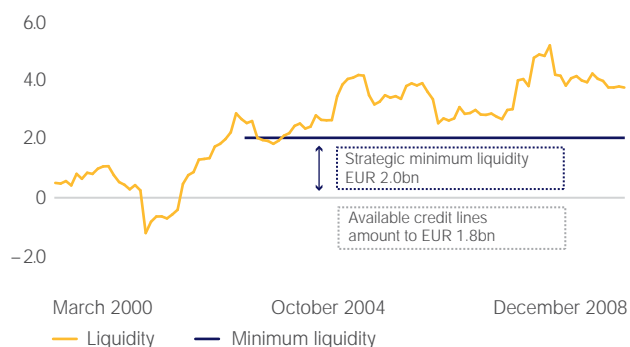
**Currency risks** International ticket sales and the purchase of fuel, aircraft and spare parts give rise to foreign currency risks for the Lufthansa Group. All subsidiaries report their currency exposure to the Group over a time-frame of 24 months. At Group level, a net position is aggregated for each currency in order that “natural hedging” can be taken advantage of. Of the 56 currencies in use within the Lufthansa Group, 16 are actively managed. The most important currencies are USD, JPY and GBP. Currencies highly correlated with the US dollar are set off against operating USD exposure.

Operating exposure and other information on hedging general currency positions and hedging currency risks from aircraft investments can be found in Note 48 to the consolidated financial statements on page 183.

**Liquidity, financing and interest rate risks** Having sufficient liquidity at all times is of crucial importance for Lufthansa. The financial reporting system provides centralised information on the actual financial status and expected cash flows of all companies in the Lufthansa Group. This adds up to an up-to-date picture of the Group’s liquidity at all times.

To maintain its freedom of action, Lufthansa always holds a strategic minimum liquidity of EUR 2bn. In addition, the Group had unused bilateral lines of credit amounting to a further EUR 1.8bn as of 31 December 2008.

**Liquidity secures flexibility and growth** in €bn



To maintain this liquidity reserve our planned capital expenditure requires us to borrow. The current international financial crisis is proving punishing for banks and investors worldwide. This has made debt generally scarcer and more expensive. Effects on financing can therefore not be ruled out for Lufthansa either. Nevertheless, due to its credit rating and position in the industry, banks and investors still consider Lufthansa to be a preferred partner. Our financial profile and the pillars of our financial strategy are presented in detail in the chapter “Financial strategy” on page 64.

Interest rate risks arise from financing our business. The total amount of financing outstanding is EUR 3.6bn. To manage general interest rate risk Lufthansa uses the mostly opposite changes in the operating result (natural hedge) while at the same time minimising average long-term interest expense. This means that 85 per cent of financial liabilities are either at floating rates from the outset or are swapped into floating rates using derivatives. Foreign currency risks from financing are always hedged 100 per cent. The derivatives used are interest rate swaps and cross currency swaps.

More information is available in Note 48 to the consolidated financial statements on page 183.

**Credit risks** The aim of the counterparty limit methodology in place for financial management at Lufthansa is to assess and control the default risk of counterparties on an ongoing basis. A maximum acceptable risk is determined for each counterparty. This is primarily derived from the rating given by recognised rating agencies. For oil companies without a rating the maximum credit limit is generally EUR 20m.

The extent to which counterparty limits are taken up by existing financial market transactions is calculated and monitored daily. If limits are exceeded, an escalation procedure comes into play, requiring decisions to be taken on the action needed. Additional information and the credit risk positions existing at year-end 2008 can be found in Note 48, page 183 to the consolidated financial statements.

In times of economic downturn the default risk for trade receivables increases. We track the performance of receivables closely at the level of the Group and the individual business segments. Preventive measures are also taken. Passenger and freight documents are largely sold via agents, whose credit rating is regularly reviewed and partly secured by guarantees or similar instruments.

Counterparty risks in connection with credit card companies are monitored closely and incoming payments reviewed daily. Payment targets with some credit card companies were significantly reduced in 2007 and 2008 to lessen default risk.

**Market risk from capital investments** Lufthansa makes capital investments as part of its operating liquidity and strategic minimum liquidity, and within the Lufthansa Pension Trust. The risks mainly consist of price risks for shares, fixed-income securities and interest rates, as well as credit risks. The worldwide losses in the reporting year provided arresting proof of the need for functioning risk management.

Capital investments to ensure operating liquidity are made in accordance with the Group's financial guidelines. The duration of the investments is limited to twelve months. At least EUR 300m must be in investments which can be liquidated on a daily basis.

For its operating liquidity Lufthansa mainly uses money market funds which can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities (especially commercial papers) from creditworthy issuers. Investments must be with counterparties which have a rating of at least "BBB". Only 20 per cent of investments for operating liquidity may be invested with counterparties with less than an A- rating. Investment in money market funds may not exceed 10 per cent of the fund's total assets. Thanks to strict investment monitoring the operating liquidity was not impaired by the current financial market crisis.

Lufthansa has determined the investment structure of the strategic minimum liquidity using a stochastic allocation study. This was based on Lufthansa's conservative investment principles. The study resulted in a diversified portfolio in which the majority of investments are made in money market-related products. Part of the investments was secured by a capital guarantee. The strategic minimum liquidity is divided into several components with different investment horizons, which are managed by external fund managers under separate mandates. One of the requirements is that the investments must be able to be liquidated within a maximum of four weeks. Each fund manager follows their own investment guidelines derived from the general Lufthansa investment principles. As some mandates also allow for investments in corporate bonds, and to a limited extent in ABS, the strategic minimum liquidity suffered losses in connection with the financial market crisis. Overall strategic liquidity sank by 6.1 per cent. Lufthansa is in permanent contact with the fund managers concerned and monitors their performance by means of daily and monthly performance and risk reports.

The investments for the Lufthansa Pension Trust are also made on the basis of an allocation study. Here too, Lufthansa's conservative investment principles are paramount and form the basis for the individual fund managers' specific investment guidelines. We follow the principle of diversifying risk here, too, by dividing the investments across a broad range of assets classes and fund managers. A risk management system is also in place which enables risk management on a daily basis. The severe losses on financial markets led this risk system to hedge most of the asset classes by means of derivative instruments and by physically selling securities. This enabled the loss in value of the Lufthansa Pension Trust to be limited to 11.2 per cent despite the financial market crisis.

### 9.3 Overall statement on the risk situation of the Group

The opportunities and risks for the Lufthansa Group will be defined essentially by macroeconomic factors and their subsequent effects on global air traffic markets and competition.

There is a consensus among nearly all institutes that 2009 will see a large slump in growth worldwide. The risk of a global recession cannot be ruled out. In 2009, the passenger and freight market is expected to shrink worldwide for the first time since 2001. In view of the observed volatility, the development of fuel prices and opportunities to offset them also represent a considerable risk for the Group.

In this environment Lufthansa builds on its ability to adjust its capacities and resources flexibly to changing market conditions. A forward-looking order policy, with the option of replacing a number of older, written-down aircraft with new deliveries, gives Lufthansa this necessary flexibility. If the economic situation and demand for air traffic worsen dramatically, however, Lufthansa may also be obliged to take additional measures to safeguard earnings.

In the current situation of dysfunctional financial markets Lufthansa benefits from its sound financial profile. The minimum liquidity of EUR 2bn, the investment-grade rating and low net debt preserve the Group's access to financial markets. In the new market environment borrowing costs will go up for Lufthansa, too, but with significantly lower risk premiums than competitors have to deal with.

Even considering the particular macroeconomic situation and all other known issues and circumstances there are currently no identifiable developments which could endanger the Company's continued existence.

## 10. Supplementary report

On 26 January, the European Commission announced that it would carry out a more detailed review of the planned acquisition of SN Airholding NV, the parent company of Brussels Airlines. The deadline for examining the merger was therefore extended until 10 June 2009. A decision had originally been expected for the end of January. Lufthansa is nevertheless expecting the planned transaction to be approved.

Lufthansa Cargo has adopted an extensive set of measures in response to the drastic fall in freight volumes in recent months. Since 1 March 2009, 2,600 employees have therefore been on reduced working hours. A corresponding works agreement was signed on 12 February 2009. This measure, which is initially to run for twelve months, enables production volumes to be reduced flexibly by up to 20 per cent. At the beginning of the year, Lufthansa Cargo had already cut freighter capacities by 10 per cent in response to lower demand. Moreover, the company is monitoring demand very closely and will take further measures in the event of further deterioration.

Lufthansa Italia began scheduled services on 2 February 2009. Since then the first two Airbus A319s have been connecting Milan to Paris and Barcelona. Four more destinations followed in March – Brussels, Budapest, Bucharest and Madrid. Furthermore, non-stop connections to London and Lisbon are to begin from the start of the summer 2009 flight timetable. Lufthansa is thus exploiting available opportunities on the attractive north Italian market.

With the expiry of the wage settlement on 31 December 2008, the trade union UFO presented demands for a 15 per cent salary increase for 16,000 Lufthansa flight attendants in Germany. Lufthansa put forward an extensive offer, based on the ver.di agreement reached in August 2008 with Lufthansa ground staff, which includes an increase in remuneration, a profit-share payment and concrete suggestions for improving working conditions. The union has nevertheless provisionally withdrawn from negotiations and carried out initial warning strikes. In mid-February 2009 UFO walked out of negotiations in the fifth round and called for a strike ballot.

## 11. Outlook

### 11.1 Economic outlook

GDP growth forecast 2008–2012* vs. previous year					
in %	2008	2009	2010	2011	2012
World	2.3	–1.2	2.3	3.8	4.1
Europe	1.0	–2.2	0.3	1.7	2.1
- Germany	1.0	–3.0	0.0	1.5	1.6
North America	1.2	–2.6	2.1	3.6	3.3
South America	3.9	–0.4	3.1	4.2	3.9
Asia/Pacific	3.7	0.8	4.3	6.1	6.5
- China	9.0	5.9	8.0	9.6	9.7
Middle East	6.0	0.8	3.4	4.8	4.8
Africa	5.5	2.6	3.7	5.0	5.5

Source: Global Insight World Overview as of 14.2.2009.

\* Forecast.

In recent months the global economy has worsened more sharply than originally assumed. Companies' poor earnings prospects, the persistent crisis in the financial sector, restrictive lending policies by banks and the economic losses suffered by private households will all depress the economy. Given the reciprocal dependencies between the financial sector and the real economy, global economic development is, therefore, expected to be negative this year. Overall, a drop in economic output of 1.2 per cent is predicted for 2009; economic experts are talking about the worst recession since the end of the Second World War. These developments are being driven by a downward trend in industrialised countries which is spreading to the emerging economies. A stabilising effect is primarily hoped for from the monetary measures taken and expansive fiscal policies applied in many industrialised countries, but also in emerging economies such as China. However, the assumption is that the economy will not recover before the end of the third quarter of 2009.

The USA is expected to enter recession. The development in the economy will then depend, above all, on the course taken by the financial and property crisis and the programmes to stimulate the economy which have been adopted and are still planned. Private

consumption is expected to fall as well. Furthermore, the fact that the situation on the labour market is deteriorating is a bad sign. This has negative effects on wealth and causes the saving rate to rise. Given the global economic downturn and the stronger dollar, US industry will suffer from dwindling international demand. Economic output in the USA is therefore forecast to drop by 2.7 per cent in 2009.

Growth rates in the Asia-Pacific region will also cool down further in 2009, as a result of the fragile world economic environment and its dependence on exports. Overall, growth of just 0.8 per cent is expected. In Japan, the rise in the yen's exchange rate will also restrict export activity markedly. Despite the impetus provided by financial policies, private consumption will only be able to make up for this trend to a very minor extent. Economic output in 2009 is therefore predicted to contract by 3.3 per cent in Japan as well. The Chinese economy, which is highly dependent on exports, will also experience much slower growth in 2009. Measures have been taken to counteract the decline in exports and stimulate domestic demand. As well as monetary measures, this primarily involves a sweeping expansion of infrastructure investment. The general assumption is that the economy will only grow by 5.9 per cent in 2009. This is the lowest rate since 1990.

For Europe, it is assumed that gross domestic product will shrink by 2.2 per cent in 2009. This will largely be the result of a deep slump in capital expenditure and declining exports. For Germany, too, a recession and a fall in gross domestic product of 3.0 per cent are forecast. That would be the lowest rate since the year of recession in 1993. As it is deeply integrated into the global economy, German business is particularly vulnerable to swings in external trade. The predicted fall in exports is, therefore, a severe prospect. The adverse global economic conditions will also have an impact on capital expenditure. Consumer spending is not expected to deliver any tangible stimulus either. The German federal government has also adopted economic packages to counteract the global downturn, which are intended to have a stabilising effect in 2009.

#### Currency development

Volatility on foreign exchange markets went up sharply in the course of the financial crisis and remains high. This trend is therefore expected to continue in 2009.



## Oil price movements

In view of the worldwide recession, the oil price is expected to remain low over the short term. Once the economy recovers, however, oil prices are likely to rise again significantly given that resources are still limited. Futures contracts for crude oil confirm this trend. At the year-end of 2008 for delivery in December 2009 they were 35 per cent above the spot price at USD 61/bbl, and for a 24-month contract through to December 2010 the premium is already 49 per cent (USD 68/bbl).

## 11.2 Sector outlook

In view of the much gloomier prospects for the economy as a whole, the aviation industry is also expected to experience severe effects in certain regions. Altogether, IATA predicts that passenger numbers in 2009 will decline in the year ahead by 3 per cent, for the first time since 2001. The last significant slump due to global economic factors was in 1991. A return to the long-term annual growth trend of 5 per cent is not expected before 2011.

In view of these developments it is assumed that capacities in the North American market will be reduced further still, a process which began in 2008. In Asia and the Middle East, however, extensive new aircraft orders are an obstacle to wide-ranging capacity adjustments. The danger of losing slots at European hubs means there is a risk also in Europe that declining demand will not be met by equivalent cuts in capacity.

As a result of their early capacity adjustments, IATA expects the North American airlines to return to profitability in the year ahead. Given the hedging positions of many US airlines, however, which are still unfavourable, and the expected decline in economic output in the USA, this seems unlikely from today's perspective. IATA is forecasting losses for the Asian and European markets. The airline association does not expect lower fuel prices to compensate for falling revenue. Overall, the sector is predicted to suffer an operating loss of EUR 2.5bn. A further deterioration over the course of the year cannot be ruled out. More bankruptcies are also expected across the entire aviation industry.

The consolidation of the sector through mergers and acquisitions of airlines is continuing in 2009 as well. Air France-KLM took a 25 per cent stake in the newly founded Alitalia at the beginning of the year, and announced a strategic partnership with the Italian company. British Airways, Iberia and American Airlines are aiming for a wide-ranging joint venture. The first two have also been in merger negotiations since last July. Subject to the approval of the European Commission, Lufthansa expects to acquire a majority in Austrian Airlines and British Midland, as well as a 45 per cent stake in SN Airholding SA/NV, the parent company of Brussels Airlines.

### Forecast for international air traffic volumes

in million	2009	Change vs. previous year in %	2010	Change vs. previous year in %	2011	Change vs. previous year in %	2012	Change vs. previous year in %	2013	Change vs. previous year in %
<b>National and international scheduled air traffic</b>										
Revenue passenger-kilometres	4,157	– 3.0	4,194	0.9	4,412	5.2	4,713	6.8	5,015	6.4
Tonne-kilometres	148	– 5.0	156	5.4	167	7.1	177	6.0	189	6.8
<b>International scheduled air traffic</b>										
Revenue passenger-kilometres	2,548	– 3.0	2,570	0.9	2,719	5.8	2,929	7.7	3,126	6.7
Tonne-kilometres	124	– 5.0	130	4.8	139	6.9	148	6.5	158	6.8

Source: IATA December 2008.

In cargo traffic IATA is forecasting a far steeper short-term fall in demand of 5 per cent for 2009. On current estimates, however, this drop is not likely to last long. IATA predicts rising demand from 2010, in line with expectations for macroeconomic developments, due to renewed business growth, which will have a direct effect on freight traffic. Changes in cargo volumes are traditionally a leading indicator for overall economic performance.

### 11.3 Changes in business and organisation

The Lufthansa Group and the environment in which it operates have experienced many changes since 1995. The Company's organisational structure is therefore adapted continuously to the strategic focus and changes in underlying conditions, in order to be prepared for future developments. Lufthansa organises its business in order to achieve the best possible position and management of the Company in the market. It is therefore possible that changes in the Group portfolio result in adjustments to the organisational structure over the medium term as well. We refer to the chapter "Group strategy" starting on page 38 for strategic development opportunities. Product developments and the strategic orientation of the individual business segments are dealt with in the relevant chapters starting on page 72.

### 11.4 Future earnings and financial position

Despite wide swings in the economic environment with varying effects on the individual business segments, the Lufthansa Group put in a remarkably stable performance at a very high level in 2008. Indeed, the consolidated operating result benefited from the stabilising effect of the different business segments. Their strong positioning and different business cycles will also have a positive influence on the Group's profitability in 2009. Given the dramatic deterioration in the economic environment, the performance of the business is nevertheless subject to much greater risks than usual. Lufthansa will continue to monitor developments precisely, make use of its flexibility and respond as necessary.

Group revenue will mainly increase in 2009 as a result of the expected consolidation effects. However, these will not yet have a positive effect on the result. Even after adjustments, we assume that operating profit for 2009 will be considerably lower than in 2008. The extremely broad fluctuations in the economic environment make it impossible to quantify this change with any degree of certainty at the present time. We are nevertheless upholding our ambition of taking a leading position in the aviation industry in terms of profitability as well. Furthermore we aim for sustainable value creation. The efforts made in the course of the Group initiative "Upgrade to Industry Leadership" will therefore be maintained, in order to support the lasting success of the results. They will be supplemented by short-term steps to stabilise earnings in all business segments. All areas intend to hold their own in this challenging environment and continue their path of profitable growth. And we put profitability before size. In the individual chapters, starting on page 72, we describe the outlook for the business segments in detail.

The volatile market conditions and our response to them can also have a significant impact on the Group's assets and financial position in 2009. But even under these conditions we are keeping our eyes on our financial targets. We intend to maintain our minimum liquidity of EUR 2bn. Our balance sheet should also preserve its strength, for instance by keeping a high proportion of unencumbered aircraft. We are upholding our goal of a sustainable equity ratio of 30 per cent, as of a target corridor for gearing of 40 to 60 per cent. We have already shown in the past that our financial targets are determined by fundamental developments and not by short-term disturbances due to external influences. The principles of our dividend policy also remain unchanged, as does our

flexible approach to funding pension obligations. The programme of capital expenditure of around EUR 3bn is to be financed largely from cash flow and available liquidity, as in previous years. In raising additional funding, we will be guided by medium-term financial requirements and by market conditions and opportunities.

In the current environment a medium-term forecast is subject to a high level of risk. The global economy is not expected to recover before the end of the third quarter of 2009. If the recovery does begin at this point, we can expect revenue to rise again in 2010 and the operating result to improve. If the recession lasts longer, however, we will continue to focus our efforts on stabilising results. In doing so Lufthansa will benefit from its strong market position and increased flexibility in all business segments as well as the Group's strong financial profile.

## 11.5 Opportunities

In addition to the economic fluctuations discussed above, air traffic is also characterised by its fundamental growth. The capacity to withstand sometimes extremely severe swings in demand is a key condition for success in the industry. Lufthansa is not only capable of doing so, but can also use its position to exploit negative trends in the industry for its own advantage. By deploying the strengths described in this annual report, we can seize operating and strategic opportunities even in a weak economic environment. The strong financial profile and far-sighted risk management safeguard the Group's performance against external influences. In contrast to its competitors, Lufthansa is able to protect itself against direct risks at short notice, without losing sight of the long-term growth opportunities. This means that Lufthansa can even make good use of structural changes in the aviation industry, such as further consolidation. To ensure that this remains the case, we will continue to evaluate opportunities and risks for corporate development carefully and in the spirit of sustainable value creation.

The individual opportunities are described in the opportunity and risk report starting on page 114.

## 11.6 Overall statement on the likely future development of the Group

The Lufthansa Group is well positioned to protect itself against current economic risks and also to derive particular benefit from long-term growth in the air traffic industry.

- High quality standards and service levels in all business segments demonstrate our strong customer focus.
- The success of our investment in the products is documented by the high degree of customer loyalty.
- Growth and capital expenditure in all business segments is focused and with the clear intention of creating value.
- We are pursuing our strict cost management and increasing and using flexibility.
- We are considered as reliable partners. For our customers, our staff, our partner airlines and for our investors.

With our strong brands and solid financial base, our targeted strategy and ability to forge partnerships, and also with the expertise and experience of our workforce and management, we are in a position to emerge stronger from the crisis and benefit from the next upswing. With the initiative "Upgrade to Industry Leadership", we intend to defend and sustainably strengthen our leading role in terms of profitability. We therefore continue to see the outlook for the Lufthansa Group in the years ahead as positive.



## Consolidated income statement for the 2008 financial year

in €m	Notes	2008	2007
Traffic revenue	3)	19,998	17,568
Other revenue	4)	4,872	4,852
<b>Total revenue</b>		<b>24,870</b>	<b>22,420</b>
Changes in inventories and work performed by the enterprise and capitalised	5)	178	119
Other operating income	6)	1,969	1,571
Cost of materials and services	7)	– 13,707	– 11,553
Staff costs	8)	– 5,692	– 5,498
Depreciation, amortisation and impairment	9)	– 1,289	– 1,204
Other operating expenses	10)	– 4,946	– 4,269
<b>Profit from operating activities</b>		<b>+ 1,383</b>	<b>+ 1,586</b>
Result of equity investments accounted for using the equity method	11)	– 22	+ 223
Result from other equity investments	11)	+ 42	+ 131
Interest income	12)	202	177
Interest expense	12)	– 374	– 371
Other financial items	13)	– 427	– 133
<b>Financial result</b>		<b>– 579</b>	<b>+ 27</b>
<b>Profit before income taxes</b>		<b>+ 804</b>	<b>+ 1,613</b>
Income taxes	14)	– 195	– 356
<b>Profit from continuing operations</b>		<b>+ 609</b>	<b>+ 1,257</b>
<b>Profit from the discontinued Leisure Travel segment</b>	15)	<b>–</b>	<b>+ 503</b>
<b>Profit after income taxes</b>		<b>+ 609</b>	<b>+ 1,760</b>
Minority interests		– 10	– 105
<b>Net profit attributable to shareholders of Lufthansa AG</b>		<b>+ 599</b>	<b>+ 1,655</b>
Basic earnings per share in €	16)	1.31	+ 3.61
Diluted earnings per share in €	16)	1.30	+ 3.60

## Consolidated balance sheet as of 31 December 2008

<b>Assets</b>			
in €m	Notes	<b>31.12.2008</b>	31.12.2007
Intangible assets with indefinite useful life*	17)	821	797
Other intangible assets	18)	261	252
Aircraft and reserve engines	19) 22)	8,764	8,380
Repairable spare parts for aircraft		669	586
Property, plant and other equipment	20) 22)	1,931	1,773
Investment property	21)	3	3
Investments accounted for using the equity method	23)	298	323
Other equity investments	24) 25)	790	777
Non-current securities	24) 25)	509	298
Loans and receivables	24) 26)	475	399
Derivative financial instruments	24) 27)	339	368
Accrued income and advance payments	30)	15	22
Effective income tax receivables	14)	72	79
Deferred claims for income tax rebates	14)	28	19
<b>Non-current assets</b>		<b>14,975</b>	<b>14,076</b>
Inventories	28)	581	511
Trade receivables and other receivables	24) 29)	3,015	3,448
Derivative financial instruments	24) 27)	213	481
Accrued income and advance payments	30)	119	110
Effective income tax receivables		130	62
Securities	24) 31)	1,834	1,528
Cash and cash equivalents	24) 32)	1,444	2,079
Assets held for sale	33)	97	25
<b>Current assets</b>		<b>7,433</b>	<b>8,244</b>
<b>Total assets</b>		<b>22,408</b>	<b>22,320</b>

\* Incl. goodwill.



<b>Shareholders' equity and liabilities</b>			
in €m	Notes	<b>31.12.2008</b>	31.12.2007
Issued capital	34) 35)	1,172	1,172
Capital reserve	36)	1,366	1,366
Retained earnings	36)	3,140	2,063
Other neutral reserves	36)	579	589
Net profit for the period		599	1,655
Equity attributable to shareholders of Deutsche Lufthansa AG		6,856	6,845
Minority interests		63	55
<b>Shareholders' equity</b>		<b>6,919</b>	<b>6,900</b>
Pension provisions	37)	2,400	2,461
Other provisions	38)	291	349
Borrowings	39) 40)	3,161	3,098
Other financial liabilities	41)	51	55
Advance payments received, accruals and deferrals and other non-financial liabilities	42)	64	66
Derivative financial instruments	27) 39)	118	371
Deferred income tax liabilities	14)	813	749
<b>Non-current provisions and liabilities</b>		<b>6,898</b>	<b>7,149</b>
Other provisions	38)	1,873	1,686
Borrowings	39) 40)	420	247
Trade payables and other financial liabilities	39) 43)	3,626	3,959
Liabilities from unused flight documents		1,693	1,546
Advance payments received, accruals and deferrals and other non-financial liabilities	44)	388	289
Derivative financial instruments	27) 39)	492	481
Actual income tax liabilities		99	51
Provisions and liabilities included in disposal groups	45)	–	12
<b>Current provisions and liabilities</b>		<b>8,591</b>	<b>8,271</b>
<b>Total shareholders' equity and liabilities</b>		<b>22,408</b>	<b>22,320</b>

## Consolidated statement of changes in shareholders' equity

	Issued capital	Capital reserve	Fair value of financial instruments	Currency differences	Revaluation reserve	Other neutral reserves	Total other neutral reserves	Retained earnings	Net profit/loss for the period	Equity share of shareholders of Lufthansa AG	Minority interests	Total equity
in €m												
<b>As of 31.12.2006</b>	<b>1,172</b>	<b>1,366</b>	<b>- 11</b>	<b>- 130</b>	<b>0</b>	<b>- 158</b>	<b>- 299</b>	<b>1,581</b>	<b>803</b>	<b>4,623</b>	<b>280</b>	<b>4,903</b>
Changes in group of consolidated companies	-	-	-	0*	-	-	0*	-	-	0*	-	0*
First-time application of new IAS	-	-	-	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	482	- 482	-	-	-
Dividends to Lufthansa shareholders	-	-	-	-	-	-	-	-	- 321	- 321	- 4	- 325
Consolidated net profit/loss attrib. to minority interest	-	-	-	-	-	-	-	-	1,655	1,655	104	1,759
Currency differences	-	-	0*	- 50	-	-	- 50	0*	-	- 50	15	- 35
Fair value of financial assets and cash flow hedges	-	-	180	-	-	-	180	-	-	180	0*	180
Transfer to cost without effect on profit and loss	-	-	42	-	-	-	42	-	-	42	-	42
Reversals through profit and loss for the period	-	-	- 71	-	-	-	- 71	-	-	- 71	-	- 71
Other neutral changes	0*	0*	-	-	237	550	787	-	-	787	- 340	447
<b>As of 31.12.2007</b>	<b>1,172</b>	<b>1,366</b>	<b>140</b>	<b>- 180</b>	<b>237</b>	<b>392</b>	<b>589</b>	<b>2,063</b>	<b>1,655</b>	<b>6,845</b>	<b>55</b>	<b>6,900</b>
Total changes in equity with and without effect on profit and loss	-	-	151	- 50	237	550	888	482	852	2,222	- 225	1,997
<b>As of 31.12.2007</b>	<b>1,172</b>	<b>1,366</b>	<b>140</b>	<b>- 180</b>	<b>237</b>	<b>392</b>	<b>589</b>	<b>2,063</b>	<b>1,655</b>	<b>6,845</b>	<b>55</b>	<b>6,900</b>
Changes in group of consolidated companies	-	-	-	0*	-	-	0*	- 5	-	- 5	2	- 3
First-time application of new IAS	-	-	-	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	- 3	-	- 3	- 6	1,082	- 1,082	- 6	6	-
Dividends to Lufthansa shareholders	-	-	-	-	-	-	-	-	- 573	- 573	- 7	- 580
Consolidated net profit/loss attrib. to minority interest	-	-	-	-	-	-	-	-	599	599	11	610
Currency differences	-	-	-	131	-	-	131	-	-	131	- 4	127
Fair value of financial assets and cash flow hedges	-	-	265	-	-	-	265	-	-	265	-	265
Transfer to cost without effect on profit and loss	-	-	121	-	-	-	121	-	-	121	-	121
Reversals through profit and loss for the period	-	-	- 525	-	-	-	- 525	-	-	- 525	-	- 525
Other neutral changes	-	-	-	-	-	4	4	-	-	4	-	4
<b>As of 31.12.2008</b>	<b>1,172</b>	<b>1,366</b>	<b>1</b>	<b>- 52</b>	<b>237</b>	<b>393</b>	<b>579</b>	<b>3,140</b>	<b>599</b>	<b>6,856</b>	<b>63</b>	<b>6,919</b>
Total changes in equity with and without effect on profit and loss	-	-	- 139	128	-	1	- 10	1,077	- 1,056	11	8	19

\* Rounded below EUR 1m.

Neutral changes in issued capital and capital reserves for 2007 result from the conversion of EUR 40,000 of convertible bonds (Lufthansa Convertible due 2012) on 5 April 2007. The neutral changes in the revaluation reserve come from the revaluation of assets and liabilities in the course of the first-time consolidation of the SWISS group and relate to the stake of 49 per cent already held by the Group.

Of the neutral changes in the other neutral reserves for 2007, a total of EUR 571m relates to the acquisition of minority interests in the SWISS group (51 per cent), the value of which went up by EUR 246m following the revaluation of assets and liabilities.

Further changes in the other neutral changes for 2008 result from valuation under the equity method; of these EUR -7m (previous year: EUR -2m) relate to associated companies.

## Consolidated cash flow statement

in €m	Notes	2008	2007
<b>Cash and cash equivalents 1.1.</b>		<b>2,079</b>	<b>455</b>
Net profit before income taxes		804	1,613
Depreciation, amortisation and impairment losses on non-current assets (net of reversals)	9) 13)	1,413	1,217
Depreciation, amortisation and impairment losses on current assets		25	90
Net proceeds on disposal of non-current assets	6)	- 25	9
Result of equity investments	11)	- 20	- 354
Net interest	12)	172	194
Income tax payments		- 123	- 274
Changes in working capital <sup>1)</sup>		227	367
<b>Cash flow from operating activities</b>		<b>2,473</b>	<b>2,862</b>
Capital expenditure for property, plant and equipment and intangible assets	17-21)	- 1,785	- 1,610
Capital expenditure for financial assets	25-26)	- 80	- 80
Additions to repairable spare parts for aircraft		- 102	- 125
Income from sales of non-consolidated equity investments		8	834
Income from sales of consolidated equity investments <sup>2)</sup>		30	- 2
Expenses from acquisitions of non-consolidated equity investments	23) 25)	- 274	- 36
Expenses from acquisitions of consolidated equity investments <sup>3)</sup>	1)	- 15	348
Income on disposal of intangible assets, property, plant and equipment and other financial assets		96	177
Interest income		190	167
Dividends received		71	153
<b>Net cash used for investing activities</b>		<b>- 1,861</b>	<b>- 174</b>
- of which income from the disposal of the Leisure Travel business segment discontinued on 22.12.2006		-	800
Purchase of securities/fund investments <sup>4)</sup>		- 1,412	- 1,685
Sale of securities /fund investments		769	1,038
<b>Net cash used for investing and cash management activities</b>		<b>- 2,504</b>	<b>- 821</b>
Capital increase <sup>5)</sup>	34-36)	-	0*
Long-term borrowing		363	378
Repayment of long-term borrowing		- 279	- 266
Other financial debt		33	8
Dividends paid		- 580	- 325
Interest paid		- 226	- 196
<b>Net cash used for financing activities</b>		<b>- 689</b>	<b>- 401</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>- 720</b>	<b>1,640</b>
Changes due to exchange rate differences		85	- 16
<b>Cash and cash equivalents 31.12.</b>	32)	<b>1,444</b>	<b>2,079</b>
Securities	31)	1,834	1,528
<b>Total liquidity</b>		<b>3,278</b>	<b>3,607</b>
Net decrease/increase in total liquidity		- 329	1,069

\* Rounded below EUR 1m.

<sup>1)</sup> Working capital consists of inventories, receivables, liabilities and provisions.

<sup>2)</sup> 2008 less EUR 2m cash sold (previous year: EUR 2m).

<sup>3)</sup> 2008 less EUR 1m cash acquired (previous year: EUR 364m).

<sup>4)</sup> Including allocation to Lufthansa Pension Trust in the amount of EUR 283m (previous year: EUR 1,565m).

<sup>5)</sup> In 2007 from contingent capital by conversion of a nominal EUR 40,000 from the 2002/2012 convertible bond.

The cash flow statement shows how cash and cash equivalents have changed over the reporting period at the Lufthansa Group. In accordance with IAS 7 the cash flows are divided according to cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. The cash and cash equivalents shown in the cash flow statement correspond to the balance sheet item cash and cash equivalents. The amount of liquidity in the broader sense is reached by adding short-term securities.

# Notes to the consolidated financial statements of Deutsche Lufthansa AG for 2008

## International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) applied

The consolidated financial statements of Deutsche Lufthansa AG and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union (EU). IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" and IFRIC 12 "Service Concession Arrangements" were not applicable in 2008 as they were not relevant for the net assets, financial and earnings position of the Lufthansa Group. IFRIC 12 has also not yet been adopted by the European Commission for application in the EU. IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions" was voluntarily taken into account in 2008 in accordance with the IFRS applicable in the EU. IFRIC 14 had no material effect on the net assets, financial and earnings position of the Lufthansa Group. All figures can therefore be compared with those for the previous year.

The commercial law provisions of Sec. 315a Para. 1 of the German Commercial Code (HGB) have also been applied. All IFRS issued by the IASB and in effect at the time these financial statements were prepared and applied by Deutsche Lufthansa AG have been adopted by the European Union for application in the EU. The consolidated financial statements of Deutsche Lufthansa AG, denominated in EUR million, comply with the IFRS as applicable in the EU and with the further commercial law provisions of Sec. 315a Para. 1 HGB and with the IFRS in general.

These consolidated financial statements for 2008 are to be examined and approved by the Supervisory Board of Deutsche Lufthansa AG in its meeting on 10 March 2009, and are then authorised for publication.

## Published International Financial Reporting Standards (IFRS) and Interpretations (IFRIC), the application of which is not yet mandatory

At the end of 2006 the IASB published IFRS 8 "Operating Segments". Application of the standard is mandatory for financial years beginning on or after 1 January 2009. The structure and contents of segment reporting will then be adapted to those used for the reports presented regularly to internal decision-making bodies. From 2009 onwards, the primary earnings indicator in segment reporting will be the operating result, instead of the segment result under IAS 14 as reported to date. Moreover, the first-time application will not have a material effect on the net assets and financial and earnings position of the Lufthansa Group.

In 2007 and in May 2008, amendments to IAS 23 Borrowing Costs were adopted, which are mandatory for financial years beginning on or after 1 January 2009. The option of either capitalising or recognising in profit or loss borrowing costs occurring in close connection with the financing of the purchase or production of an asset was replaced with the obligation to capitalise them. The amendment to IAS 23 in May 2008 also specified that the corresponding interest expense is to be determined using the effective interest method.

The main effects on the net assets, financial and earnings position of the Group will come from the capitalisation of financing costs for advance payments on aircraft orders placed after 1 January 2009.

In September 2007, the IASB published the revised version of IAS 1 "Presentation of Financial Statements". The new version requires the presentation of a statement of comprehensive income in the future, including "other comprehensive income", i.e. income and expenses previously recognised in equity without effect on the income statement. The amount of income tax payable on each component is also to be disclosed.

The application of IAS 1 (revised) is mandatory for financial years beginning on or after 1 January 2009. The standard will affect the presentation of the financial statements, but not the net assets and financial and earnings positions of the Lufthansa Group.

In January 2008, the revised versions of IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements were published. The new IFRS 3 includes rules on the scope of application, components of acquisition cost, on dealing with minority interests and goodwill and on the recognition of assets, liabilities and contingent liabilities. The standard also covers accounting for loss carry-forwards and the classification of contracts of the acquired company.

The new IAS 27 makes it obligatory to apply the “economic entity approach” to the purchase and disposal of equity stakes once the possibility of control has been acquired and while it is maintained. This means that transactions with minority shareholders are to be recognised in equity and not through profit or loss. For successive share purchases which result in the control of a company, or when shares are sold, resulting in the loss of control, the standard requires that the shares already or still held are revalued at fair value through profit or loss.

The revised versions of IFRS 3 and IAS 27 will primarily be applied prospectively for financial years beginning on or after 1 January 2010. Depending on the type and scope of future transactions, they may affect the net assets and financial and earnings position of the Lufthansa Group.

Amendments to IFRS 2 Share-based Payment on Vesting Conditions and Cancellations were also published in 2008. The new regulations contain a more precise definition of the conditions for exercising options rights in share-based remuneration agreements as well as rules on cancelling share-based payment agreements. The amendments to IFRS 2 are to be applied for financial years beginning on or after 1 January 2009, and are currently not relevant for the Lufthansa Group.

In February 2008, the IASB adopted amendment to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” entitled “Puttable Financial Instruments and Obligations Arising on Liquidation”. This new version of IAS 32 allows, under certain conditions, instruments puttable under the terms of a company agreement to be treated as equity. For instance, shares

in the German partnerships, among other things, can be treated as equity if they entitle the partner to a share of the net assets on liquidation. Application of the amendments is mandatory for financial years beginning on or after 1 January 2009.

The amendments are unlikely to have any effects on the Lufthansa Group’s net assets and financial and earnings position.

In May 2008, various other amendments to existing standards were published, which are mostly only applicable to the Lufthansa Group from the 2009 financial year onwards. To the extent that amendments described hereafter are only applicable from a later date, this will be specifically mentioned.

The amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations makes it clear that even in the event of a partial disposal that leads to the loss of possible control over a consolidated company, all the assets and liabilities of the consolidated company are to be reclassified as “held for sale”. The amendment is binding for financial years beginning on or after 1 July 2009.

The amendment to IAS 1 Presentation of Financial Statements makes it clear that financial debt not primarily classified as “held for trading” is to be categorised as current or non-current in line with general provisions.

IAS 16 Property, Plant and Equipment and IAS 7 Statement of Cash Flows have been amended in respect of the recognition of property, plant and equipment and proceeds from the disposal of property, plant and equipment generally sold on the expiry of their lease to third parties.

A further amendment to IAS 19 Employee Benefits specifies the criteria for distinguishing negative past service cost from curtailments to pension plans and short-term from long-term benefits to employees.

The amendment to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance stipulates that the difference between the interest rate on a public loan and the market rate is to be treated as a grant in accordance with IAS 20.

The amendment to IAS 27 Consolidated and Separate Financial Statements makes it clear that financial instruments recognised at fair value in line with IAS 39 are still to be recognised at fair value even in the event that they are classified as held for sale under IFRS 5.

The amendment to IAS 28 Investments in Associates and correspondingly to IAS 32 Financial Instruments Presentation and IFRS 7 Financial Instruments: Disclosures, makes it clear that for the purposes of impairment testing the shareholding in an associated company is to be considered as a single asset and that impairment losses are to be reversed as necessary.

The amendment to IAS 38 Intangible Assets deals with more precise rules on straight-line depreciation and amortisation and clarifies those cases in which an advance payment is to be considered an intangible asset.

The amendment to IAS 39 Financial Instruments: Recognition and Measurement, defines when the reclassification of financial instruments between the categories "at fair value through profit and loss" and "held for trading" is permitted and when not.

Following the amendments to IAS 40 Investment Property and IAS 16 Property, Plant and Equipment, internally generated property, which on the basis of its future use is to be considered as a financial investment, no longer comes under the scope of IAS 16, but under IAS 40 from the outset. Other amendments relate to subsequent measurement under IAS 40.

The amendments to existing standards published in May 2008 and described above will not have any or any significant effect on the net assets, financial and earnings position of the Group.

In July 2008 additions were published to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. The additions define the conditions under which inflationary risks can be hedged as a hedged transaction as well as ways of using options as a hedging instrument for hedging unilateral risks. These provisions are not currently relevant to the Lufthansa Group.

IFRIC 13 Customer Loyalty Programmes is mandatory for financial years beginning on or after 1 July 2008. From this point on, unused air miles distributed as part of bonus miles programmes in the Lufthansa Group are to be recognised at fair value using the

deferred revenue method. Compared to the additional cost method applied today, this will result in a considerably higher deferred value per mile. Following the switch to IFRIC 13, the obligation for bonus miles programmes increases as of 1 January 2009 from EUR 1,026m to EUR 1,454m, deferred tax liabilities decrease by EUR 103m and equity falls by EUR 325m. The average value of each deferred mile rises from EUR 0.0051 to EUR 0.0073. If IFRIC 13 had been applied in 2008, profit before taxes would have been EUR 74m lower and profit after taxes EUR 57m lower.

The interpretation IFRIC 15 Agreements for the Construction of Real Estate defines those transactions for which IAS 18 Revenue and those for which IAS 11 Construction Contracts is to be applied. The interpretation is binding for financial years beginning on or after 1 January 2009.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation deals with the balance sheet disclosure of hedges for investments in companies whose functional currency is not the Group currency. IFRIC 16 is binding for financial years beginning on or after 1 October 2008.

IFRIC 17 Distribution of Non-cash Assets to Owners covers distributions in kind to third parties and is applicable for financial years beginning on or after 1 July 2009.

IFRIC 18 Transfers of Assets from Customers was published in January 2009, primarily for the benefit of the energy sector.

IFRIC 15, 16, 17 and 18 are not currently relevant for the Lufthansa Group.

## 1) Group of consolidated companies

All significant subsidiaries under legal and/or actual control of Deutsche Lufthansa AG are included in the consolidated financial statements. Significant joint ventures or associated companies are accounted for using the equity method when the Group holds between 20 and 50 per cent of the shares and/or can, together with other shareholders, exercise control or significant influence.

A list of significant subsidiaries, joint ventures and associated companies can be found on pages 204–209. The list of shareholdings is published in the electronic edition of the Federal Gazette (Bundesanzeiger).



LSG Sky Chefs/GCC Ltd. is classified as a fully consolidated subsidiary in spite of a 50 per cent share of voting rights because the Lufthansa Group exercises economic and financial control over the company.

Special purpose entities in which the Group does not hold a voting majority are, nonetheless, classified as subsidiaries if the Group derives majority benefit from their activities or bears most of the risk. The companies affected are identified as such in the list of significant subsidiaries.

By virtue of its special-purpose status, AirTrust AG was already fully consolidated, although until 30 June 2007 Lufthansa only held 49 per cent of voting rights. In July 2007, after successful completion of the negotiations on air traffic rights, Lufthansa acquired the remaining 51 per cent of its capital and voting rights. At this point AirTrust AG already held 100 per cent of voting rights in Swiss International Airlines AG, but did not exercise a controlling influence as it was not represented on the administrative board, nor had any

other means of exerting control. Swiss International Airlines AG was therefore accounted for using the equity method in the consolidated financial statements until 30 June 2007. After the successful conclusion of negotiations on air traffic rights, AirTrust AG assumed economic and financial control over Swiss International Airlines AG as of 1 July 2007.

In addition to Deutsche Lufthansa AG as the parent company, the group of consolidated companies includes 69 domestic and 101 foreign companies (previous year: 67 domestic and 96 foreign companies) including special-purpose entities.

Changes in the group of consolidated companies during the 2008 financial year are shown in the following table:

Company	Date of initial consolidation	Date of deconsolidation	Reason
<b>MRO business segment</b>			
Lufthansa Technik Switzerland GmbH	1.10.2008		Established
<b>Catering business segment</b>			
UAB Airo Catering Services Lietuva, Vilna (Vilnius), Lithuania	1.1.2008		Consolidated for the first time
Myanmar LSG Lufthansa Service Ltd., Yangon, Myanmar	1.1.2008		Consolidated for the first time
Starfood S.r.l., Fiumicino, Italy	1.1.2008		Consolidated for the first time
SkylogistiX GmbH, Neu-Isenburg	1.1.2008		Consolidated for the first time
AVIAPIT-SOCHI OOO, Russia	1.1.2008		Purchase
LSG Sky Chefs Lounge GmbH, Neu-Isenburg	13.3.2008		Established
LSG Sky Chefs North America Solutions, Inc., USA	7.4.2008		Established
LSG Sky Chefs Rus, Russia	19.5.2008		Established
ZAO AeroMEAL, Russia	1.7.2008		Purchase
CLS Catering Services Ltd., Richmond, Canada	22.7.2008		Increased shareholding
LSG Sky Chefs España S.A., Spain		31.1.2008	Disposal
LSG-Airport Gastronomiegesellschaft mbH, Neu-Isenburg		1.7.2008	Disposal
Caterair International Corporation, Dover, USA		31.12.2008	Merger
Caterair Holdings Corporation, Wilmington, USA		31.12.2008	Liquidation
<b>Service and Financial Companies</b>			
Lufthansa International Finance (Netherlands) N.V.		15.5.2008	Company no longer active
Société d'investissement à capital variable – Fond d'investissement spécialisé, Luxembourg, Luxembourg	5.12.2008		Established

As of 1 January 2008, 100 per cent of the shares in AVIAPIT-SOCHI were acquired for a purchase price of EUR 4m. The shares acquired correspond to the voting rights. Calculating the fair value of the company's assets and liabilities on the acquisition date resulted in goodwill of EUR 3m.

As of 1 July 2008, 55 per cent of the shares in ZAO AeroMEAL were acquired for a purchase price of EUR 7m. The shares acquired correspond to the voting rights. Calculating the fair value of the company's assets and liabilities on the acquisition date resulted in goodwill of EUR 7m.

As of 22 July 2008, the stake in CLS Catering Services Ltd. was increased to 70 per cent through the acquisition of a further 30 per cent of the shares for a purchase price of EUR 4m. The shares acquired correspond to the voting rights. Calculating the fair value of the company's assets and liabilities on the acquisition date resulted in goodwill of EUR 3m.

The following table shows the companies' main assets and liabilities immediately before and after the acquisition date.

in €m	AVIAPIT-SOCHI		ZAO AeroMEAL		CLS Catering Services	
	Before acquisition 1.1.2008	After acquisition 1.1.2008	Before acquisition 1.7.2008	After acquisition 1.7.2008	Before acquisition 22.7.2008	After acquisition 22.7.2008
Non-current assets	0*	0*	0*	0*	5	5
Cash and cash equivalents	1	1	0*	0*	0*	0*
Other current assets	0*	0*	1	1	6	6
Current assets	1	1	1	1	6	6
<b>Total assets</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>11</b>	<b>11</b>
Equity	0*	0*	0*	0*	6	6
Non-current liabilities	1	1	–	–	–	–
Current liabilities	0*	0*	1	1	5	5
<b>Total equity and liabilities</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>11</b>	<b>11</b>

\* Rounded below EUR 1m.

Fully consolidating these companies contributed EUR 3m to net profit for the period. If they had been fully consolidated as of 1 January 2008 Group revenue would have been EUR 18m higher.

The following fully consolidated German Group companies made use of the exemption provisions in Sec. 264 Para. 3 and Sec. 264b German Commercial Code (HGB) in 2008.

Company name	Registered offices
Cargo Counts GmbH	Hattersheim
Condor Cargo Technik GmbH	Frankfurt/M.
Hamburger Gesellschaft für Flughafenanlagen mbH	Hamburg
In-Flight Management Solutions GmbH	Neu-Isenburg
LSG Asia GmbH	Neu-Isenburg
LSG-Food & Nonfood Handel GmbH	Frankfurt/M.
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH	Neu-Isenburg
LSG Lufthansa Service Europa/Afrika GmbH	Neu-Isenburg
LSG Lufthansa Service Holding AG	Neu-Isenburg
LSG Sky Chefs Catering Logistics GmbH	Neu-Isenburg
LSG Sky Chefs Deutschland GmbH	Neu-Isenburg
LSG-Sky Food GmbH	Alzey
LSG South America GmbH	Neu-Isenburg
Lufthansa A.E.R.O. GmbH	Alzey
Lufthansa Cargo AG	Kelsterbach
Lufthansa Cargo Charter Agency GmbH	Kelsterbach
Lufthansa CityLine GmbH	Cologne
Lufthansa Commercial Holding GmbH	Cologne

Company name	Registered offices
Lufthansa Flight Training Berlin GmbH	Berlin
Lufthansa Flight Training GmbH	Frankfurt/M.
Lufthansa Leasing GmbH & Co Echo-Zulu oHG	Grünwald
Lufthansa Process Management GmbH	Neu-Isenburg
Lufthansa Systems Aeronautics GmbH	Frankfurt/M.
Lufthansa Systems Airline Services GmbH	Kelsterbach
Lufthansa Systems Aktiengesellschaft	Kelsterbach
Lufthansa Systems AS GmbH	Norderstedt
Lufthansa Systems Berlin GmbH	Berlin
Lufthansa Systems Business Solutions GmbH	Raunheim
Lufthansa Systems Infratec GmbH	Kelsterbach
Lufthansa Systems Passenger Services GmbH	Kelsterbach
Lufthansa Technik AG	Hamburg
Lufthansa Technik Immobilien und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Technik Logistik GmbH	Hamburg
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa WorldShop GmbH	Frankfurt/M.
Mardu Grundstücks-Verwaltung mbH & Co oHG	Grünwald
Miles & More International GmbH	Neu-Isenburg

The consolidated financial statements include equity stakes in 66 joint ventures and 39 associated companies (previous year: 60 joint ventures and 42 associated companies), of which nine joint ventures (previous year: nine) and 17 associated companies (previous year: 17) were accounted for using the equity method.

The other joint ventures and associated companies were valued at amortised cost due to their minor overall significance.

The following assets and liabilities and income and expenses are attributed to the Group based on the equity stake held in each joint venture and associated company:

	2008			2007		
	Joint ventures	Associated companies	Associates not accounted for at equity	Joint ventures	Associated companies	Associates not accounted for at equity
in €m						
Non-current assets	78	235	340	58	196	438
Current assets	177	163	38	119	168	53
Shareholders' equity	117	90	26	60	83	27
Non-current liabilities	23	141	234	35	137	312
Current liabilities	115	167	118	82	144	152
Income	305	553	56	284	496	170
Expenses	275	545	49	281	476	161

The following tables show the effects of additions to consolidated companies and companies accounted for using the equity method.

#### Balance sheet

in €m	Group 31.12.2008	of which from changes in the group of consoli- dated companies	Group 31.12.2007	of which from changes in the group of consoli- dated companies
Non-current assets	14,975	+ 1	14,076	+ 558
Current assets	7,433	+ 13	8,244	+ 1,134
Shareholders' equity	6,919	+ 4	6,900	+ 522
Non-current provisions and liabilities	6,898	+ 1	7,149	+ 385
Current provisions and liabilities	8,591	+ 9	8,271	+ 785
Balance sheet total	22,408	+ 14	22,320	+ 1,692

#### Income statement

in €m	Group 2008	of which from SWISS 2008	of which from changes in the group of consoli- dated companies	Group 2007	of which from SWISS 2007 July–Dec.	of which from changes in the group of consoli- dated companies
Revenue	24,870	3,245	+ 35	22,420	1,490	+ 1,611
Operating income	27,017	3,314	+ 38	24,110	1,612	+ 1,714
Operating expenses	25,634	2,981	+ 32	22,524	1,442	+ 1,493
Profit from operating activities	1,383	+ 333	+ 6	+ 1,586	+ 170	+ 221
Financial result	– 579	– 20	– 1	+ 27	+ 4	– 40
Profit before income taxes	+ 804	+ 313	+ 5	+ 1,613	+ 174	+ 181
Income taxes	– 195	– 23	– 2	– 356	– 50	– 61
Profit from the discontinued Leisure Travel segment	–	–	–	+ 503	–	–
Profit after income taxes	+ 609	+ 290	+ 3	+ 1,760	+ 124	+ 120

The effects of changes in the group of consolidated companies were of minor significance in 2008. In addition to the effects of changes in the group of consolidated companies described in the table, a comparison between individual items of the income statement is hindered by the fact that the SWISS group was fully

consolidated for the entire 2008 financial year, but only from 1 July 2007 for the 2007 financial year. The effects this had are described in detail in the comments on the earnings position in the Group management report.

## 2) Summary of significant accounting policies and valuation methods and estimates used as a basis for measurement

The application of the accounting and valuation methods prescribed by IFRS and IFRIC requires making a large number of estimates and assumptions with regard to the future that may, naturally, not coincide with actual future conditions. All these estimates and assumptions are, however, reviewed continuously and are based either on past experience and/or expectations of future events that seem reasonable in the circumstances on the basis of sound business judgement.

Estimates and assumptions that are of material importance in determining the carrying amounts for assets and liabilities are explained in the following description of the accounting policies and valuation methods applied to material balance sheet items.

The fundamental valuation method applied in the consolidated financial statements is historical cost. Where IFRS stipulate that other methods of measurement be applied, these are used instead, and are referred to specifically in the following comments on measuring assets and liabilities.

### Recognition of income and expenses

Revenue and other operating income is recognised when the service has been provided or when the risk has passed to the customer. Traffic revenue in the Passenger Transportation and Logistics segments is recognised once a passenger coupon or airfreight document has been used. The amount recognised is calculated as a percentage of the total amount received for the flight document. Revenue for customer-oriented, longer-term production in the MRO and IT Services segments is recognised using the percentage of completion method. This involves estimating the proportion of the total contract already completed and the profit on the whole contract. The total amount of profit realised on long-term contracts in 2008 came to EUR 38m (previous year: EUR 23m).

Operating expenses are recognised when the product or service is used or the expense arises. Provisions for guarantees are made when the corresponding revenue is recognised. Interest income and expenses are accrued in the appropriate period. Dividends from shareholdings not accounted for using the equity method are recognised when a legal claim to them arises.

### Initial consolidation and goodwill

The initial consolidation of Group companies takes place using the purchase method. This involves measuring the fair value of the assets, liabilities and contingent liabilities, identified in accordance with the provisions of IFRS 3, of the company acquired at the acquisition date, and allocating the acquisition costs to them. The proportion of fair value of assets and liabilities not acquired is shown under minority interests.

Any excess of cost over the value of equity acquired is capitalised as goodwill and subject to a regular annual impairment test, thereafter.

If the value of the acquirer's interest in the shareholders' equity exceeds the costs incurred by the acquiring company, the difference is recognised immediately in profit or loss.

Differences from minority interests acquired after control has been assumed are to be set off directly against equity.

Annual impairment tests applied to goodwill are carried out using recognised discounted cash flow methods. This is done on the basis of expected future cash flows from the latest management planning, which are extrapolated on the basis of long-term revenue growth rates and assumptions with regard to margin development, and discounted for the capital costs of the business unit. Tests are performed at the cash generating unit (CGU) level. For individual premises on which impairment tests were based in the 2008 financial year, see Note 17.

Additional impairment tests are applied during the course of the year if events give reason to believe that goodwill could be permanently impaired.

### Currency translation and consolidation methods

The annual financial statements of foreign Group companies are translated into euros in accordance with the functional currency concept. The functional currency is mainly the currency of the country in which the company concerned is located. Occasionally, the functional currency differs from the national currency. Assets and liabilities are translated at the middle rates on the balance sheet date. Income statements are translated at the average exchange rates for the year. These translation differences are recognised directly in shareholders' equity without effect on profit or loss. Goodwill from capital consolidation of foreign subsidiaries prior to 2005 is carried at historical cost net of amortisation accumulated by the end of 2004.

Goodwill arising after 2005 has been recognised in the currency of the company acquired.

Transaction differences, however, are recognised in profit or loss. These differences arise in the financial statements of consolidated companies from assets and liabilities based on currency other than the company's functional currency. Any resulting exchange rate differences are included in other operating income as foreign currency transaction gains, or in other operating expenses as foreign exchange losses.

The most important exchange rates used in the consolidated financial statements have developed in relation to the euro as follows:

	2008		2007	
	Balance sheet exchange rate	Income statement average rate	Balance sheet exchange rate	Income statement average rate
USD	0.71063	0.67310	0.67854	0.73071
JPY	0.00788	0.00646	0.00606	0.00620
GBP	1.02412	1.26653	1.35584	1.46540
CAD	0.58384	0.64140	0.69399	0.68037
HKD	0.09168	0.08642	0.08699	0.09367
THB	0.02044	0.02028	0.02014	0.02123
SEK	0.09156	0.10477	0.10617	0.10815
NOK	0.10138	0.12281	0.12552	0.12483
DKK	0.13418	0.13410	0.13410	0.13422
CHF	0.67184	0.62885	0.60368	0.60884
KRW	0.00056	0.00062	0.00072	0.00079

The effects of intra-Group transactions are completely eliminated in the course of consolidation. Receivables and liabilities between consolidated companies are netted, intra-Group profits and losses in non-current assets and inventories are eliminated, and intra-Group income is set off against the corresponding expenses. Tax accruals and deferrals are made as required by IAS 12 for temporary differences arising from consolidation.

### Other intangible assets (except goodwill)

Acquired intangible assets are shown at cost, internally generated intangible assets from which the Group expects to derive future benefit, and which can be measured reliably, are capitalised at cost of production and amortised regularly using the straight-line method over an estimated useful life. The cost of production includes all costs directly attributable to the production process as well as appropriate portions of the indirect costs relating to this process. Borrowing costs are not capitalised.

Intangible assets with an indefinite useful life and any intangible assets not yet utilised are not amortised according to schedule but, like goodwill, are subjected to a regular annual impairment test.

### Property, plant and equipment

Tangible assets used in business operations for longer than one year are valued at cost less regular straight-line depreciation. The cost of production includes all costs directly attributable to the manufacturing process as well as appropriate portions of the indirect costs relating to this process. Borrowing costs are not capitalised. The useful lives applied to tangible assets correspond to their estimated/expected useful lives in the Group.

New aircraft and spare engines are depreciated over a period of twelve years to a residual value of 15 per cent.

A useful life between 20 and 45 years is assumed for buildings, whereby buildings, fixtures and fittings on rented premises are depreciated according to the terms of the lease or over a shorter useful life.



Depreciation rates are mainly between 10 and 20 per cent per annum. A useful life of up to ten years is fixed for plant and machinery. Operating and office equipment is depreciated over three to ten years in normal circumstances.

### Finance leases

In accordance with IAS 17, the economic ownership of leased assets is deemed to be transferred to the lessee if the lessee bears substantially all the risks and rewards associated with ownership of the leased asset. In addition to the duration of the non-terminable initial term of the lease and the present value of the leasing payments as a proportion of the total investment, particular consideration is given to the distribution of risks and rewards relating to the residual value of the asset not amortised over the remaining term of the lease. Insofar as its economic ownership is deemed to be with the Lufthansa Group, the asset is capitalised at the time the leasing contract was signed at the present value of the leasing instalments, plus any incidental expenses borne by the lessee. Depreciation methods and useful lives correspond to those applied to comparable purchased assets.

### Impairment losses on intangible assets and property, plant and equipment

In addition to amortisation and depreciation on intangible assets and property, plant and equipment, impairment losses are also recognised on the balance sheet date if the asset's recoverable amount has fallen below its carrying amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell, and the present value of the estimated net future cash flows from continued use of the asset.

Fair value less costs to sell is derived from recent market transactions, if available.

If it is impossible to forecast expected cash flows for an individual asset, the cash flows for the next larger asset unit are estimated, discounted at a rate reflecting the risk involved, and the recoverable amount allocated to the individual assets in proportion to their respective carrying amounts.

If the reasons for an impairment loss recognised in previous years should cease to exist, in whole or in part, in subsequent periods, the impairment loss is reversed.

### Repairable spare parts for aircraft

Repairable spare parts for aircraft are held at continually adjusted prices based on average acquisition costs. For measurement purposes, spare parts are assigned to individual aircraft models and depreciated at the same rate as the aircraft models for which they can be used.

### Investment property

Property held exclusively for letting to companies outside the Group is classified as a financial investment and valued at historical cost less depreciation.

### Investments accounted for using the equity method

Financial assets accounted for using the equity method are capitalised at cost at the time of acquisition.

In subsequent periods, the carrying amounts are either increased or reduced annually by changes in the shareholders' equity of the associated company or joint venture that is held by the Lufthansa Group. The principles of purchase price allocation that apply to full consolidation are applied accordingly to the initial measurement of any difference between the acquisition cost of the investment and the pro rata share of shareholders' equity of the company in question. An impairment test for goodwill is only carried out in subsequent periods if there are indications of a potential impairment in the entire investment valuation. Interim profits and losses from sales between Group companies and companies accounted for using the equity method are eliminated pro rata in relation to the equity stake.

### Financial assets

Financial assets are classified within the Lufthansa Group as "at fair value through profit or loss", "loans and receivables" and "available-for-sale financial assets".

The category "at fair value through profit and loss" includes financial assets held for trading purposes, e.g. derivatives which do not qualify as hedging transactions as part of a hedging relationship.

The category “loans and receivables” consists of financial assets with fixed payment schedules which are not traded in an active market. They are classified as non-current or current assets according to their remaining maturity.

“Available-for-sale financial assets” are non-derivative financial assets which are not attributable to one of the other categories. Securities, equity investments and cash and bank balances count as available for sale.

Derivatives which qualify as hedging transactions within a hedging relationship are not classified in any of these categories.

Financial assets are capitalised on the settlement date, i.e. the date at which the asset is created or transferred, at fair value plus transaction costs. Long-term low or non-interest bearing loans are recognised at net present value using the effective interest method.

Trade receivables from production or service contracts not completed at the balance sheet date are recognised at production costs plus a profit margin, if the result of the production contract can be reliably estimated. For other incomplete customer contracts the production costs are capitalised if these are likely to be covered by revenue.

Assets classified as **at fair value through profit or loss** are always recognised at fair value. Changes in fair value are recognised in profit or loss and included in the financial result.

Subsequent measurement of **loans and receivables** is at amortised cost, using the effective interest method for low or non-interest bearing receivables.

If there are doubts as to the recoverability of receivables they are recognised at the lower recoverable amount. Subsequent reversals (write-backs) are recognised in profit or loss.

Receivables denominated in foreign currencies are measured at the balance sheet date rate.

**Available-for-sale financial assets** are recognised at fair value in subsequent periods to the extent that this can be reliably measured.

The fair value of securities is determined by the price quoted on an active market. For unlisted fixed-interest securities, the fair value is determined from the difference between the effective and the market interest rate at the valuation date.

Fluctuations in fair value between balance sheet dates are recognised in equity without effect on profit or loss. The cumulative amount is removed from equity and recognised in profit or loss either on disposal or if fair value falls below the carrying amount on a permanent basis. If an impairment loss recognised in previous years due to fair value falling below the carrying amount no longer exists it is reversed – without effect on profit or loss for securities classified as equity instruments, through profit or loss for debt securities.

Subsequent measurement of **equity investments for which no quoted price exists on an active market** is at cost. If the recoverable amount falls below the carrying amount, an impairment loss is recognised. Such losses are not reversed.

**Derivative financial instruments** are measured at fair value on the basis of published market prices. If there is no quoted price on an active market, other appropriate valuation methods are applied.

Appropriate valuation methods take all factors into account which independent, knowledgeable market participants would consider in arriving at a price and which constitute recognised, established economic models for calculating the price of financial instruments.

In accordance with its internal guidelines, the Lufthansa Group uses derivative financial instruments to hedge interest rate and exchange rate risks, and to hedge fuel price risks. This is based on a hedging policy defined by the Executive Board and monitored by a committee, and also involves entering into interest rate and exchange rate hedging transactions with non-consolidated Group companies.

Interest rate swaps and interest rate/currency swaps are used to manage interest rate risks. Interest rate/currency swaps also hedge exchange rate risks arising from borrowing in foreign currencies.

The Lufthansa Group uses currency futures and currency options to hedge exchange rate exposure. This involves the use of spread options that combine the purchase and simultaneous sale of currency options in the same currency. Spread options are concluded as zero-cost options, i.e. the option premium to be paid is equal to the premium resulting from the sale of the option.

Fuel price hedging takes the form of spread options and other hedging combinations, primarily for crude oil. To a limited extent, hedging is also undertaken for other products, such as gas oil.

Hedging transactions are used to secure either fair values or future cash flows.

To the extent that the financial instruments used qualify as effective cash flow hedging instruments within the scope of a hedging relationship, in accordance with the provisions of IAS 39, any fluctuations in fair value will not affect the result for the period during the term of the derivative.

Changes in the fair value of the effective portion of an effective cash flow hedge are recognised without effect on profit or loss in equity.

If the hedged cash flow is an investment, the result of the hedging transaction, which has previously been recognised in equity, is set off against the cost of the investment at the time the underlying transaction matures.

In all other cases the cumulative gain or loss previously stated in equity is included in net profit or loss for the period on maturity of the hedged cash flow.

In the case of effective hedging of fair values, any changes in fair value of the hedged asset, or the hedged debt and those of the financial instrument, will balance out in the income statement.

Where the financial instruments used do not qualify as effective hedging transactions, but as trading under IAS 39, any changes in fair value are recognised directly as a profit or loss in the income statement. Embedded derivatives – to the extent that they cannot be separated from the financial host contract – are considered with these as trading transactions for measurement purposes. Changes in fair value are also recognised directly as a profit or loss in the income statement. Both types must be classified as financial assets stated at fair value through profit or loss.

It is the Group's hedging policy (see Note 48) only to enter into effective derivatives for the purpose of hedging interest rate, exchange rate and fuel price risks.

Hedging transactions with non-consolidated Group companies and interest/currency swaps do not, however, satisfy the qualifying criteria for effectiveness as defined in IAS 39. Changes in fair value arising from these transactions are therefore recognised directly in profit or loss.

### **Inventories**

This item includes non-repairable spare parts, raw materials, consumables and supplies, purchased merchandise and advance payments made for inventories. They are measured at cost, determined on the basis of average prices, or at cost to produce. The cost of production includes all costs directly attributable to the manufacturing process as well as appropriate portions of the indirect costs relating to this process. Borrowing costs are not

taken into account. Measurement on the balance sheet date is at the lower of cost and realisable value less costs to sell. Average capacity utilisation of 95 per cent is assumed in determining the costs of production. Realisable value less costs to sell is calculated on the basis of the finished product.

#### **Assets held for sale**

Individual, formerly non-current assets or groups of assets which are expected to be sold within the next twelve months are measured at the lower of their carrying amount at the time they are reclassified and fair value less costs to sell.

#### **Provisions**

Measurement of pension provisions is based on the projected unit credit method prescribed by IAS 19 for defined benefit pension plans. The measurement of pension provisions within the balance sheet is based on a number of estimates and assumptions.

They include, in particular, assumptions about long-term salary and pension trends and average life expectancy. The assumptions about salary and pension trends are based on developments observed in the past and take into account national interest and inflation rates and labour market trends. Estimates of average life expectancy are based on recognised biometric calculation formulas.

The interest rate used for discounting future payment obligations is the country-specific market rate for long-term risk-free cash investments with a comparable time to maturity.

The expected long-term development of existing plan assets is also determined with regard to the country concerned and depending on the fund structure, taking past experience into account.

Changes in estimates and assumptions from year to year and deviations from actual annual effects are reflected in actuarial gains/losses and are, if they exceed 10 per cent of the higher of obligation and plan assets, amortised pro rata via the income statement

over the beneficiaries' remaining period of service. The 10 per cent corridor rule prevents fluctuations in the balance sheet and the income statement from year to year.

Actuarial losses not disclosed in the balance sheet as of 31. December 2008 amount to EUR 466m (previous year: EUR 40m). In the 2008 financial year EUR 11m (previous year: EUR 23m) was amortised via staff costs.

Other provisions and provisions for taxes (effective income tax obligations) are recognised if an obligation toward third parties exists as a result of a past event that is likely to lead to an outflow of resources which can be reliably estimated. If no provision could be recognised because one of the stated criteria was not fulfilled, the corresponding obligations are shown as contingent liabilities.

The amount of provisions is determined by the amount that is likeliest to arise.

Calculation of the provision for obligations arising from bonus miles programmes is based on several estimates and assumptions. Accumulated but as yet unused bonus miles are valued by the additional cost method to the extent that they are likely to be used on Lufthansa or SWISS flights. A weighted average cost unit rate per mile is derived from past passenger behaviour and the cost incurred. Miles that are likely to be used on flights with partner airlines are valued at the price per mile to be paid to the partners in question.

No provisions are recognised for miles that are expected to lapse. The quota of miles that have been allowed to lapse in the past is used to estimate the number of miles that will probably lapse subject to current expiry rules.

As of 31 December 2008, total of 194.0 billions of miles had to be valued; the provision amounts to EUR 991m. An additional provision of EUR 35m has been made for obligations under the PartnerPlusBenefit programme. For the effects of applying IFRIC 13 from the 2009 financial year see the comments on published but not yet mandatory IFRS and IFRIC in the first chapter.

Provisions for obligations that are not expected to lead to an outflow of resources in the following year are recognised to the amount of the present value of the expected outflow, taking foreseeable price rises into account.

The assigned value of provisions is reviewed on each balance sheet date. Provisions in foreign currencies are translated at reporting date rates.

### Financial liabilities

Liabilities arising from finance leases are recognised at the present value of the leasing instalments at the time the lease was concluded. Other financial liabilities are recognised at fair value. Liabilities for which interest is not payable at a market rate are recognised at present values.

Measurement in subsequent periods is at amortised cost, using the effective interest rate method for high- and low-interest bearing liabilities.

Liabilities in foreign currencies are measured at the middle rate on the balance sheet date.

Share-based liabilities from option programmes for managers were measured at fair value in accordance with IFRS 2 "Share-based Payment". Fair value was measured using a Monte Carlo simulation.

The obligation was recognised on the basis of the resulting fair value, taking the term of the programme into account.

Details of the premises used for the model and the structure of the options programmes can be found in Note 42.

### Liabilities from unused flight documents

Until they are used, sold flight documents are recognised as liability from unused flight documents. Once a passenger coupon or an airfreight document has been used, the amount carried as a liability is recognised as traffic revenue in the income statement. Coupons that are unlikely to be used are also recognised at the end of the year as traffic revenue in the income statement at their estimated value. The estimate is based on past statistical data.

### Financial guarantees

If a claim on a financial guarantee given to a third party becomes probable, the obligation is recognised at fair value. For subsequent measurement, the carrying amount is the higher of initial measurement and best estimate of the expenditure required to settle the obligation on the balance sheet date.

### Deferred tax items

In accordance with IAS 12, deferred taxes are recognised for all temporary differences between the balance sheets for tax purposes of individual companies and the consolidated financial statements. Tax loss carry-forwards are recognised to the extent that the deferred tax assets are likely to be used in the future. Company earnings forecasts and specific, realisable tax strategies are used to determine whether deferred tax assets from tax losses carried forward are usable or not, i.e. whether they have a value that can be realised.

The total amount of deferred tax assets that could not be capitalised as of 31. December 2008 was EUR 383m (previous year: EUR 393m).

Deferred foreign tax rates in the 2008 financial year ranged from 5 to 40 per cent, as in the previous year. For measuring deferred taxes, the relevant taxation rules in force or adopted at the balance sheet date are used.

Deferred tax assets and liabilities are netted out if a legal claim exists to do so, and the deferred tax assets and liabilities relate to the same tax authority.

## Notes to the consolidated income statement

### 3) Traffic revenue

Traffic revenue by sector		
in €m	2008	2007
Passenger	16,854	14,798
Freight and mail	3,144	2,770
	<b>19,998</b>	<b>17,568</b>
Scheduled	19,540	17,165
Charter	458	403
	<b>19,998</b>	<b>17,568</b>

In addition to revenue of EUR 16,853m generated in the Passenger Transportation segment, passenger traffic revenue includes EUR 1m, as in the previous year, from transporting passengers on cargo flights. This is shown in the segment reporting of the Logistics business segment (Note 49). A total of EUR 2,766m in freight and mail revenue was generated in the Logistics segment. Freight and mail revenue at SWISS and at Germanwings from marketing cargo space on passenger flights amounted to EUR 378m (previous year: EUR 169m), and is shown in the segment reporting as other revenue from the Passenger Transportation segment.

### 4) Other revenue

By sector		
in €m	2008	2007
MRO	2,052	1,977
Catering services	1,586	1,658
Travel (commissions)	157	132
IT Services	288	284
Ground services	84	99
Other services	705	702
	<b>4,872</b>	<b>4,852</b>

MRO services make up the majority of external revenue in the MRO segment. Other revenue in the MRO segment from the sale of material and hiring out material and engines, as well as logistics services, are classified as other services.

The revenue listed under catering services originates exclusively in the Catering segment. LSG-Food & Nonfood Handel GmbH and LSG Airport Gastronomiegesellschaft mbH, in particular, also earn revenue in the Catering segment, which does not relate to catering services and is shown under other services.

Revenue from IT Services relates to revenue from the IT Services segment.

Other revenue includes revenue of EUR 222m (previous year: EUR 174m) from unfinished services in connection with long-term production and service contracts. This revenue has been recognised in line with the percentage of completion method. If earnings from the whole contract could not be estimated reliably, the costs incurred for the contract were recognised. If the realisable revenue in these cases was below the costs incurred for the contract, write-downs were made accordingly. The percentage of completion was calculated on the basis of the ratio of contract costs incurred by the balance sheet date to the estimated total costs for the contract.

Accumulated costs for unfinished contracts, i.e. including amounts recognised in prior years, amounted to EUR 244m (previous year: EUR 218m). Profits of EUR 38m were recognised (previous year: EUR 23m). Advance payments by customers amounted to EUR 288m (previous year: EUR 142m). Unfinished contracts with a net debit balance – less any write-downs – are disclosed in trade receivables (Note 29). Unfinished contracts for which advance payments by customers exceed the costs plus any recognised pro rata profit are shown as advance payments (see Note 44). No payments were withheld by customers.

### 5) Changes in inventories and work performed by the enterprise and capitalised

Changes in inventories and work performed by the enterprise and capitalised		
in €m	2008	2007
Increase/decrease in finished goods and work in progress	- 2	2
Other internally produced and capitalised assets	180	117
	<b>178</b>	<b>119</b>



## 6) Other operating income

<b>Other operating income</b>		
In €m	2008	2007
Income from the disposal of non-current assets	29	20
Income from the disposal of non-current available-for-sale financial assets	7	4
Income from the reversal of impairment losses on fixed assets	6	0*
Foreign exchange gains	912	529
Income from the reversal of provisions and accruals	157	163
Commission income	175	144
Re-invoicing of charges for computerised distribution systems	25	2
Reversal of write-downs on receivables	30	41
Income from staff secondment	34	31
Compensation received for damages	14	26
Rental income	21	28
Income from sub-leasing aircraft	26	27
Income from the disposal of current available-for-sale financial assets	3	35
Miscellaneous other operating income	530	521
	<b>1,969</b>	<b>1,571</b>

\* Rounded below EUR 1m.

EUR 3m of the proceeds from disposal of property, plant and equipment comes from sales of aircraft and reserve engines; a further EUR 26m results from the disposal of other items of property, plant and equipment in connection with the sale of shares in the previously consolidated companies LSG Sky Chefs España S.A. and LSG-Airport Gastronomiegesellschaft mbH. In the previous year, EUR 9m came from the sale of aircraft and reserve engines and EUR 9m from the sale of land and property in the Catering segment.

Foreign exchange gains mainly include gains from differences between the exchange rate on the transaction date (average rate for the month) and at the time of payment (spot exchange rate) along with foreign exchange gains from measurement at the closing date rate. Foreign exchange losses from these transactions are reported under other operating expenses (Note 10).

Income from the reversal of provisions relate to a number of provisions recognised in prior years which have not been fully used. In contrast, expenses from insufficient provisions recognised in prior years are recognised together with the primary expense item to which they relate.

Miscellaneous other operating income includes items not attributable to any of the other categories, such as the taxable cash equivalents of benefits in kind provided by the employer (offset entry in staff costs), advertising income and canteen income.

## 7) Cost of materials and services

<b>Cost of materials and services</b>		
In €m	2008	2007
Aircraft fuel and lubricants	5,377	3,860
Other raw materials, consumables and supplies	1,873	1,841
Purchased goods	541	567
<b>Total cost of raw materials, consumables and supplies and of purchased goods</b>	<b>7,791</b>	<b>6,268</b>
Fees and charges	3,499	3,174
Charter expenses	518	485
External MRO services	843	761
In-flight services	213	152
Operating lease payments	280	200
External IT services	94	76
Other services	469	437
<b>Total cost of purchased services</b>	<b>5,916</b>	<b>5,285</b>
	<b>13,707</b>	<b>11,553</b>

## 8) Staff costs

<b>Staff costs</b>		
in €m	<b>2008</b>	2007
Wages and salaries	4,685	4,468
Social security contributions	639	625
Expenses for pension plans and other employee benefits	368	405
	<b>5,692</b>	<b>5,498</b>

Expenses for pension plans principally consist of additions to the pension provisions (see Note 37).

<b>Employees</b>				
	<b>Average for the year 2008</b>	Average for the year 2007	<b>As of 31.12.2008</b>	As of 31.12.2007
Ground staff	79,468	75,638	78,799	77,756
Flight staff	27,430	23,947	27,595	26,244
Trainees	1,225	1,194	1,406	1,261
	<b>108,123</b>	<b>100,779</b>	<b>107,800</b>	<b>105,261</b>

The annual average is calculated pro rata temporis from the time companies are consolidated or deconsolidated. The average figure for 2007 only includes staff at the SWISS group for the second half-year.

## 9) Depreciation, amortisation and impairment

The notes to the individual items show the breakdown of depreciation, amortisation and impairment charges between intangible assets, aircraft and property, plant and other equipment. Total depreciation, amortisation and impairment came to EUR 1,289m (previous year: EUR 1,204m).

Impairment losses of EUR 15m were recognised in the 2008 financial year. Of the total, EUR 14m related to four aircraft held for sale and recognised at fair value less costs to sell.

An additional EUR 1m concerned other items of property, plant and equipment which were written down to fair value less costs to sell as they were not expected to be put to any further use.

In 2007 impairment losses of EUR 44m were recognised; EUR 43m on advance payments and capitalised internal expenses for intangible assets and EUR 1m on technical equipment. They were necessary as cash flow surpluses were no longer anticipated from these assets.

Annual impairment testing in 2008 and 2007 did not result in any impairment losses on goodwill.

Further information on impairment testing can be found in Note 17.

## 10) Other operating expenses

<b>Other operating expenses</b>		
in €m	<b>2008</b>	2007
Sales commission paid to agencies	614	651
Rental and maintenance expenses	717	723
Staff-related expenses	820	726
Expenses for computerised distribution systems	327	278
Advertising and sales promotion	311	282
Foreign exchange losses	892	431
Auditing, consulting and legal expenses	149	116
Other services	130	123
Insurance premiums for flight operations	40	46
Write-downs on receivables	119	58
Communications costs	52	52
Other taxes	66	59
Losses on disposal of non-current assets	11	33
Losses on current available-for-sale financial assets	105	7
Consultancy fees in connection with financial transactions	6	4
Losses on disposal of other current assets	0*	0*
Restructuring costs	0*	0*
Miscellaneous other operating expenses	587	680
	<b>4,946</b>	<b>4,269</b>

\* Rounded below EUR 1m.

Foreign exchange losses mainly consist of losses from differences between the exchange rate on the transaction date (monthly average rate), and the rate at the time of payment (spot rate) as well as translation losses from measurement at the exchange rate on the balance sheet date (see Note 6).

## 11) Result of equity investments

<b>Result of equity investments</b>		
in €m	<b>2008</b>	2007
Result of joint ventures accounted for using the equity method	14	21
Result of associated companies accounted for using the equity method	– 36	202
<b>Result of equity investments accounted for using the equity method</b>	<b>– 22</b>	<b>223</b>
Dividends from other joint ventures	1	3
Dividends from other associated companies	5	6
Income from profit transfer agreements	30	26
Expenses from loss transfer agreements	– 15	– 8
Dividends from other equity investments	21	104
<b>Result of other equity investments</b>	<b>42</b>	<b>131</b>
	<b>20</b>	<b>354</b>

Income and expenses from profit and loss transfer agreements are shown including tax contributions.

In the previous year, the result of financial investments accounted for using the equity method included EUR 180m from the equity valuation of the Swiss group from 1 January to 30 June 2007.

Dividends from equity investments in the previous year included in addition to distributions received from various companies income from equity investments in connection with the share buy-back by WAM Acquisition S.A. (EUR 71m).

## 12) Net interest

<b>Net interest</b>		
in €m	<b>2008</b>	2007
Income from other securities and financial loans	11	13
Other interest and similar income	191	164
<b>Interest income</b>	<b>202</b>	<b>177</b>
Interest expenses on pensions obligations	– 119	– 154
Interest expenses on other provisions	– 16	– 9
Interest and other similar expenses	– 239	– 208
<b>Interest expenses</b>	<b>– 374</b>	<b>– 371</b>
	<b>– 172</b>	<b>– 194</b>

Net interest from financial instruments calculated under the effective interest method of EUR –37m (previous year: EUR –31m) comes solely from financial instruments not held at fair value through profit or loss.

## 13) Other financial items

<b>Other financial items</b>		
in €m	<b>2008</b>	2007
Write-downs on available-for-sale financial assets	– 121	– 2
Write-downs on loans	– 35	– 10
Gains/losses on fair value changes of hedged items	– 44	9
Gains/losses on fair value changes of derivatives used as fair value hedges	48	– 12
Result of derivatives held for trading classified as at fair value through profit or loss	– 199	– 118
Ineffective portion of derivatives that were used as cash flow hedge	– 76	–
	<b>– 427</b>	<b>– 133</b>

Write-downs on available-for-sale financial assets include the impairment of EUR 113m in the value of the JetBlue shares, due to movements in the share price and the US dollar as of 30 June 2008, which was recognised in the income statement. As both the share price and the US dollar have since recovered, the fair value of the shares as of 31 December 2008 had gone back up by EUR 114m. The write-back was made directly in equity without effect on income.

In 2008, expenses from the ineffective portion of derivatives used as cash flow hedges resulted exclusively from the total write-off of positive market values from fuel price, interest rate and currency hedges concluded with Lehman Brothers or its subsidiaries.

## 14) Income taxes

<b>Income taxes</b>		
in €m	<b>2008</b>	2007
Current income taxes	109	118
Deferred income taxes	86	238
	<b>195</b>	<b>356</b>

Effective income taxes for 2008 include corporation tax, solidarity surcharge, trade tax and other income taxes paid outside Germany totalling EUR 140m (previous year: EUR 127m). EUR 31m in taxes were refunded for prior years (previous year: EUR 9m).

The following table reconciles expected and effective tax expenses. Expected tax expense is calculated by multiplying pre-tax profit by a tax rate of 25 per cent for the parent company (previous year: 35 per cent). This is made up of 15 per cent for corporation tax (previous year: 25 per cent) and 10 per cent for trade tax and solidarity surcharge together. The reduction in the tax rate due to the Tax Reform Act 2008, which came into effect at the end of 2007, is shown in the following table as income from changes in tax rates.

in €m	2008		2007	
	Basis of assessment	Tax expenses	Basis of assessment	Tax expenses
Expected income tax expense/refund	804	201	1,613	+ 565
Tax-free income, other allowances and permanent differences*		+ 49		- 47
Profits from equity investments without deferred taxes		- 19		- 87
Difference between local taxes and the deferred tax rates of the parent company		- 2		- 42
Unrecognised tax loss carry-forwards and deferred tax assets on losses		- 22		+ 173
Income from changes in the tax rate		-		- 192
Other		- 12		- 14
<b>Recognised income tax expense</b>		<b>195</b>		<b>356</b>

\* Incl. taxes from other periods recognised in effective tax expenses.

Deferred taxes are recognised on retained earnings of equity investments accounted for using the equity method for the amount of taxes payable on distribution.

Deferred tax liabilities of EUR 9m (previous year: EUR 10m) were not recognised on temporary differences in the values of shares in subsidiaries between the tax balance sheet and the consolidated financial statements as the companies are not likely to be sold in the foreseeable future.

Deferred tax liabilities of EUR 31m (previous year: deferred tax liabilities of EUR 11m) were recognised without effect on profit and loss in 2008.

Deferred tax assets and liabilities in 2008 and 2007 are attributable to the following categories:

in €m	31.12.2008		31.12.2007	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards and tax credits	88	-	116	-
Pension provisions	213	-	331	-
Finance leases for aircraft	-	11	-	11
Intangible assets, property, plant and equipment	-	619	-	639
Non-current financial assets	201	-	165	-
Fair value measurement of financial instruments	-	2	-	18
Provisions for contingent losses	27	-	16	-
Receivables/liabilities/other provisions	-	749	-	747
Offset amounts	- 568	- 568	- 666	- 666
Other	67	-	57	-
	<b>28</b>	<b>813</b>	<b>19</b>	<b>749</b>

In addition to recognised deferred tax assets from tax loss carry-forwards and tax credits, further tax loss carry-forwards and temporary differences totalling EUR 1,542m (previous year: EUR 1,579m) exist for which no deferred tax assets could be recognised.

Out of the tax loss carry-forwards EUR 2m can only be used until 2009, EUR 299m until 2011, EUR 59m until 2012, EUR 2m until 2013 and EUR 822m until past 2016. A total of EUR 383m (previous year: EUR 393m) in deferred tax assets were not capitalised.

## 15) Profit from the discontinued Leisure Travel segment

On 22 December 2006, Deutsche Lufthansa AG and Kars-tadtQuelle AG signed a letter of intent under which Lufthansa was to sell its 50 per cent stake in the Thomas Cook group. In 2007, following completion of the transaction, book gains of EUR 503m after taxes were realised.

## 16) Earnings per share

Undiluted earnings per share are calculated by dividing consolidated net profit by the weighted average number of shares in circulation during the financial year. To calculate the average number of shares, the shares bought back and reissued for the

## Notes to the consolidated balance sheet

### ASSETS

#### 17) Goodwill and intangible assets with an indefinite useful life

employee share programmes are included pro rata temporis. In the previous year, a total of 2,014 new shares were issued on 5 April 2007, when conversion rights from the convertible bond issued on 4 January 2002 were exercised.

To calculate diluted earnings per share, the maximum number of common shares which can be issued when conversion rights from the convertible bond issued by Deutsche Lufthansa AG on 4 January 2002 are exercised are also added to the average. At the same time, consolidated net profit is increased by the amounts expensed on the convertible bond.

Following the partial redemption of the convertible bond in April 2007, the maximum number of shares which could be issued at the end of 2007, was 2,534,944. In 2008 a further partial redemption of EUR 205,000 was made, so that as of the end of 2008 the maximum number of shares which can be issued is 2,524,622.

		2008	2007
Undiluted earnings per share	€	1.31	3.61
Consolidated net profit/loss	€m	+ 599	+ 1,655
Weighted average number of shares		457,868,804	457,855,828

		2008	2007
Diluted earnings per share	€	1.30	3.60
Consolidated net profit/loss	€m	+ 599	+ 1,655
+ interest expenses on the convertible bond	€m	+ 1	+ 1
– current and deferred taxes	€m	0*	0*
Adjusted net profit for the period	€m	+ 600	1,656
Weighted average number of shares		460,393,426	460,390,772

\* Rounded below EUR 1m.

In the previous year, the discontinued segment Leisure Travel accounted for undiluted/diluted earnings of EUR 1.10 and EUR 1.09, respectively.

In 2008, EUR 1.25 per share was distributed as a dividend from the net profit for 2007.

in €m	Goodwill from consolidation	Intangible assets with indefinite useful life	Total
Cost as of 1.1.2007	889	–	889
Accumulated amortisation	– 300	–	– 300
<b>Carrying amount 1.1.2007</b>	<b>589</b>	<b>–</b>	<b>589</b>
Currency translation difference	– 7	–	– 7
Additions due to changes in consolidation	–	203	203
Additions	12	–	12
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–	–
Disposals	–	–	–
Reclassifications to assets held for sale	–	–	–
Amortisation	–	–	–
Reversal of impairment losses	–	–	–
<b>Carrying amount 31.12.2007</b>	<b>594</b>	<b>203</b>	<b>797</b>
Cost as of 1.1.2008	882	203	1,085
Accumulated amortisation	– 288	–	– 288
<b>Carrying amount 1.1.2008</b>	<b>594</b>	<b>203</b>	<b>797</b>
Currency translation difference	– 12	23	11
Additions due to changes in consolidation	–	–	–
Additions	13	0*	13
Reclassifications	0*	0*	0*
Disposals due to changes in consolidation	–	–	–
Disposals	–	–	–
Reclassifications to assets held for sale	–	–	–
Amortisation	–	–	–
Reversal of impairment losses	–	–	–
<b>Carrying amount 31.12.2008</b>	<b>595</b>	<b>226</b>	<b>821</b>
Cost as of 31.12.2008	895	226	1,121
Accumulated amortisation	– 300	–	– 300

\* Rounded below EUR 1m.

In 2008 as in the previous year, all goodwill, as well as the brand, were subjected to a regular impairment test in line with IAS 36. The tests were performed at the level of the smallest cash generating unit (CGU) on the basis of value in use. Goodwill originating from the acquisition of Air Dolomiti S.A. and the Eurowings group was tested at the level of Deutsche Lufthansa AG and its regional partners as the smallest independent cash generating unit.

The following table provides an overview of the goodwill tested and the assumptions made in the respective impairment tests.

Name of the CGU	Lufthansa AG and regional partners (Segment: Passenger Transportation)	SWISS Aviation Training Ltd. (Segment: Passenger Transportation)	LSG Sky Chefs USA Group (Segment: Catering)	LSG Sky Chefs Korea (Segment: Catering)	LSG Sky Chefs Havacilik Hizmetleri A.S. (Segment: Catering)	LSG Sky Chefs Birmingham Ltd. (Segment: Catering)	CLS Catering Services Ltd. (Segment: Catering)	AVIAPIT-SOCHI (Segment: Catering)	ZAO AeroMEAL (Segment: Catering)
Carrying amount of goodwill	EUR 249m	EUR 2m	EUR 277m	EUR 44m	EUR 8m	EUR 2m	EUR 3m	EUR 3m	EUR 7m
Impairment losses	–	–	–	–	–	–	–	–	–
Revenue growth p. a. over planning period	3.2% to 6.7%	0% to 1.9%	1.3% to 4.7%	1.7% to 3.9%	0% to 5.8%	0% to 3.4%	3.0%	5.0% to 10.1%	5.0% to 6.6%
EBITDA margin over planning period	8.7% to 11.3%	22.6% to 24.1%	4.6% to 9.0%	28.4% to 29.4%	20.3% to 22.0%	4.6% to 7.0%	9.0% to 10.7%	35.0% to 38.1%	31.0% to 32.0%
Investment ratio over planning period	10.6% to 12.4%	7.0% to 8.1%	1.5% to 2.8%	1.0%	1.4% to 1.5%	0% to 1.0%	1.5% to 2.5%	1.0% to 2.2%	0.8% to 1.0%
Length of planning period	3 years	3 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Revenue growth p.a. after the end of the planning period	4.0%	1.0%	2.0%	3.9%	3.0%	3.0%	3.0%	5.0%	5.0%
EBITDA margin after end of planning period	11.3%	24.0%	9.0%	29.4%	22.0%	7.0%	10.7%	35.0%	31.0%
Investment ratio after end of planning period	8.6%	8.0%	1.5%	1.0%	1.5%	1.0%	1.5%	1.0%	1.0%
Discount rate	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%

The assumptions on revenue growth for the planning period used for the impairment tests are based on external sources. In some cases reductions were made for risk to allow for special regional features and market share trends specific to the respective companies. Assuming sustained revenue growth of 2 per cent at the end of the planning period by the LSG Sky Chefs USA group as described, the recoverable amount would exceed the carrying amount by EUR 255m. Assuming a 3.6 per cent decline in revenue per annum, the recoverable amount would be equal to the carrying amount for the asset.

The EBITDA margins used are based on past experience or were developed on the basis of cost-cutting measures initiated. The investment rates are based on past experience and take account of the replacement of any means of production envisaged during the planning period.

The intangible assets with indefinite useful life consist of slots purchased as part of a company acquisition and an acquired brand name.

The regular impairment test for the brand was carried out at the level of the smallest cash generating unit (CGU) on the basis of value in use. The revenue generated with the acquired brand in the Passenger Transportation segment was defined as the CGU.

The following assumptions were used in the impairment test for the brand:

Carrying amount for brand	EUR 170m
Impairment losses	–
Revenue growth for brand p.a. over planning period	3.8% to 6.9%
Length of planning period	3 years
Revenue growth for brand p.a. after end of the planning period	2.0%
Savings in hypothetical leasing payments before taxes (royalty rate)	0.4%
Discount rate	9.1%

Assuming sustained brand-related revenue growth after the end of the planning period of 2.0 per cent, the recoverable amount



exceeds the carrying amount by EUR 10m. Assuming sustained revenue growth of 1.5 per cent, the recoverable amount would be equal to the carrying amount.

The carrying amount for the purchased slots of EUR 56m was tested on the basis of current published transaction prices for sales/purchases of slots between market participants. There were no impairment charges to be made in the Passenger Transportation segment.

## 18) Other intangible assets

in €m	Concessions, intellectual property rights and licences	Internally developed software	Advance payments made	Total
Cost as of 1.1.2007	449	87	57	593
Accumulated amortisation	– 358	– 61	– 2	– 421
<b>Carrying amount 1.1.2007</b>	<b>91</b>	<b>26</b>	<b>55</b>	<b>172</b>
Currency translation difference	– 1	–	0*	– 1
Additions due to changes in consolidation	126	0*	3	129
Additions	31	5	31	67
Reclassifications	15	– 5	– 17	– 7
Disposals due to changes in consolidation	–	–	–	–
Disposals	– 1	0*	– 2	– 3
Reclassifications to assets held for sale	0*	–	0*	0*
Amortisation	– 51	– 10	– 44	– 105
Reversal of impairment losses	–	–	–	–
<b>Carrying amount 31.12.2007</b>	<b>210</b>	<b>16</b>	<b>26</b>	<b>252</b>
Cost as of 1.1.2008	618	88	72	778
Accumulated amortisation	– 408	– 72	– 46	– 526
<b>Carrying amount 1.1.2008</b>	<b>210</b>	<b>16</b>	<b>26</b>	<b>252</b>
Currency translation difference	13	0*	1	14
Additions due to changes in consolidation	0*	–	–	0*
Additions	35	5	31	71
Reclassifications	11	2	– 19	– 6
Disposals due to changes in consolidation	–	–	–	–
Disposals	– 9	–	0*	– 10
Reclassifications to assets held for sale	–	–	–	–
Amortisation	– 52	– 8	–	– 60
Reversal of impairment losses	–	–	–	–
<b>Carrying amount 31.12.2008</b>	<b>208</b>	<b>15</b>	<b>38</b>	<b>261</b>
Cost as of 31.12.2008	646	96	82	824
Accumulated amortisation	– 438	– 81	– 44	– 563

\* Rounded below EUR 1m.

Intangible assets carried at EUR 5m were acquired by means of finance leases. Non-capitalised research and development expenses for intangible assets of EUR 6m (previous year: EUR 3m)

were incurred in the period. Firm orders have been placed for intangible assets worth EUR 2m (previous year: EUR 4m), but they are not yet at the Group's economic disposal.

## 19) Aircraft and spare engines

in €m	Aircraft and spare engines	Advance payments for aircraft and spare engines	Total
Cost as of 1.1.2007	15,742	782	16,524
Accumulated depreciation	– 9,119	–	– 9,119
<b>Carrying amount 1.1.2007</b>	<b>6,623</b>	<b>782</b>	<b>7,405</b>
Currency translation difference	– 16	– 3	– 19
Additions due to changes in consolidation	766	9	775
Additions	455	689	1,144
Reclassifications	270	– 266	4
Disposals due to changes in consolidation	–	–	–
Disposals	– 23	– 4	– 27
Reclassifications to assets held for sale	0*	–	0*
Depreciation	– 902	–	– 902
Reversal of impairment losses	–	–	–
<b>Carrying amount 31.12.2007</b>	<b>7,173</b>	<b>1,207</b>	<b>8,380</b>
Cost as of 1.1.2008	17,066	1,209	18,275
Accumulated depreciation	– 9,893	– 2	– 9,895
<b>Carrying amount 1.1.2008</b>	<b>7,173</b>	<b>1,207</b>	<b>8,380</b>
Currency translation difference	95	20	115
Additions due to changes in consolidation	–	–	–
Additions	681	661	1,342
Reclassifications	499	– 495	4
Disposals due to changes in consolidation	–	–	–
Disposals	– 26	0*	– 26
Reclassifications to assets held for sale	– 21	–	– 21
Depreciation	– 1,030	–	– 1,030
Reversal of impairment losses	–	–	–
<b>Carrying amount 31.12.2008</b>	<b>7,371</b>	<b>1,393</b>	<b>8,764</b>
Cost as of 31.12.2008	17,918	1,393	19,311
Accumulated depreciation	– 10,547	–	– 10,547

\* Rounded below EUR 1m.

The item aircraft includes 16 aircraft (thirteen Boeing MD11Fs and three Boeing B747-400s) at a carrying amount of EUR 536m (previous year: EUR 641m), which are the subject of transactions aimed at realising present value benefits from cross-border leasing constructions. These transactions generally involve entering into a 40

to 50 year head lease agreement with a lessee in the Bermudas. The leasing instalments paid by the lessee are transferred to the lessor in a single amount. At the same time, the lessor concludes a sub-lease agreement with a shorter duration (14–16 years) with the lessee and pays the leasing obligations on this agreement in a single amount to a bank for the benefit of the lessee.

Following the transaction, the risks and rewards associated with the aircraft and legal ownership of them remain with the Lufthansa Group, so under SIC 27 the aircraft are treated not as leased assets within the meaning of IAS 17, but in the same way as they would be without the transaction.

The transaction does entail some operating constraints, as the aircraft may not be primarily deployed in American airspace.

The present value benefit derived from the transaction is recognised through profit or loss pro rata temporis over the duration of the sub-lease agreement. In 2008, as in the previous year, EUR 7m was recognised in other operating income.

The item also includes 48 aircraft carried at EUR 1,904m (previous year: 44 aircraft carried at EUR 1,819m), which have been sold and leased back to Japanese and British leasing companies, leasing companies in the Bermudas and to a Swedish bank with the aim of obtaining favourable financing terms. The duration of these leasing agreements is between ten and 26 years. The Group is entitled to buy the aircraft back at a fixed price at a given point in time.

As the risks and rewards associated with these aircraft remain with the Lufthansa Group, they are also not treated as leased assets under SIC 27.

Operating constraints apply to two of these aircraft financed via leasing companies in the Bermudas. They may not be primarily deployed in American airspace.

Purchase commitments for aircraft and spare engines amount to EUR 7.1bn (previous year: EUR 7.4bn).

Within this item, aircraft held at EUR 1,970m (previous year: EUR 1,910m) serve as collateral for current financing arrangements and aircraft held at EUR 147m (previous year: EUR 118m) were also acquired under finance leases (see Note 22).

## 20) Property, plant and other equipment

	Land and property	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and plant under construction	<b>Total</b>
in €m					
Cost as of 1.1.2007	1,740	800	1,079	93	3,712
Accumulated depreciation	– 736	– 636	– 835	0*	– 2,207
<b>Carrying amount 1.1.2007</b>	<b>1,004</b>	<b>164</b>	<b>244</b>	<b>93</b>	<b>1,505</b>
Currency translation difference	– 12	– 4	– 4	– 1	– 21
Additions due to changes in consolidation	34	40	14	5	93
Additions	69	27	118	184	398
Reclassifications	46	6	7	– 40	19
Disposals due to changes in consolidation	–	–	–	–	–
Disposals	– 5	– 3	– 7	– 3	– 18
Reclassifications to assets held for sale	0*	– 1	– 5	0*	– 6
Depreciation	– 60	– 37	– 100	–	– 197
Reversal of impairment losses	–	–	–	–	–
<b>Carrying amount 31.12.2007</b>	<b>1,076</b>	<b>192</b>	<b>267</b>	<b>238</b>	<b>1,773</b>
Cost as of 1.1.2008	1,831	843	1,117	238	4,029
Accumulated depreciation	– 755	– 651	– 850	–	– 2,256
<b>Carrying amount 1.1.2008</b>	<b>1,076</b>	<b>192</b>	<b>267</b>	<b>238</b>	<b>1,773</b>
Currency translation difference	– 3	– 2	1	0*	– 4
Additions due to changes in consolidation	4	0*	1	0*	5
Additions	37	46	123	166	372
Reclassifications	142	66	6	– 212	2
Disposals due to changes in consolidation	– 2	–	– 3	–	– 5
Disposals	– 5	– 1	– 5	– 2	– 13
Reclassifications to assets held for sale	–	–	–	–	–
Depreciation	– 62	– 42	– 95	–	– 199
Reversal of impairment losses	–	–	–	–	–
<b>Carrying amount 31.12.2008</b>	<b>1,187</b>	<b>259</b>	<b>295</b>	<b>190</b>	<b>1,931</b>
Cost as of 31.12.2008	1,982	925	1,178	191	4,276
Accumulated depreciation	– 795	– 666	– 883	– 1	– 2,345

\* Rounded below EUR 1m.

Charges of EUR 40m (previous year: EUR 39m) exist on land and property. As in the previous year, pre-emption rights are registered for land held at EUR 262m (previous year: EUR 262m). Other property, plant and equipment carried at EUR 43m (previous year: EUR 39m) serves as collateral for existing financing arrangements. Other equipment carried at EUR 106m (previous year: EUR 108m) was acquired by means of finance leases (see Note 22).

The following items of property, plant and equipment have been ordered, but are not yet at the Group's economic disposal:

in €m	31.12.2008	31.12.2007
Land and buildings	18	16
Technical equipment	18	36
Operating and office equipment	43	24
	<b>79</b>	<b>76</b>

## 21) Investment property

in €m	Investment property
Cost as of 1.1.2007	26
Accumulated depreciation	- 6
<b>Carrying amount 1.1.2007</b>	<b>20</b>
Currency translation difference	- 1
Additions due to changes in consolidation	-
Additions	-
Reclassifications	- 16
Disposals due to changes in consolidation	-
Disposals	-
Reclassifications to assets held for sale	-
Depreciation	-
Reversal of impairment losses	-
<b>Carrying amount 31.12.2007</b>	<b>3</b>
Cost as of 1.1.2008	4
Accumulated depreciation	- 1
<b>Carrying amount 1.1.2008</b>	<b>3</b>
Currency translation difference	0*
Additions due to changes in consolidation	-
Additions	-
Reclassifications	0*
Disposals due to changes in consolidation	-
Disposals	-
Reclassifications to assets held for sale	-
Depreciation	-
Reversal of impairment losses	-
<b>Carrying amount 31.12.2008</b>	<b>3</b>
Cost as of 31.12.2008	3
Accumulated depreciation	0*

\* Rounded below EUR 1m.

Two plots of land held exclusively as financial investments are carried at EUR 3m as in the previous year. Their fair value as estimated by surveyors using market data is EUR 5m.

In the previous year, the fair value for one plot of land was EUR 3m and for the second there was no estimate.

## 22) Assets leased or leased out

Property, plant and equipment also includes leased assets which are deemed to be the property of the Group as the underlying contracts are structured as finance leases. The following table shows leased assets for which the Group is either lessor or lessee:

in €m	Aircraft and spare engines for which Group is lessor	Aircraft and spare engines for which Group is lessee	Aircraft and spare engines for which Group is both lessor and lessee	Buildings for which Group is lessee	Buildings and land for which Group is lessor	Intangibles and technical equipment for which Group is lessee	Other equipment, office and factory equipment for which Group is lessee
Cost as of 1.1.2007	251	212	15	137	23	–	23
Accumulated depreciation	– 177	– 122	– 2	– 54	– 6	–	– 22
<b>Carrying amount 1.1.2007</b>	<b>74</b>	<b>90</b>	<b>13</b>	<b>83</b>	<b>17</b>	<b>–</b>	<b>1</b>
Currency translation difference	–	– 4	–	– 2	–	–	0*
Additions due to changes in consolidation	–	10	–	30	–	–	1
Additions	0*	38	–	2	–	1	0*
Reclassifications	7	13	– 7	– 1	– 16	–	0*
Disposals due to changes in consolidation	–	–	–	–	–	–	–
Disposals	– 10	1	–	2	–	–	0*
Reclassifications to assets held for sale	–	–	–	–	–	–	– 1
Depreciation	– 8	– 34	– 2	– 8	–	0*	0*
Reversal of impairment losses	–	–	–	–	–	–	–
<b>Carrying amount 31.12.2007</b>	<b>63</b>	<b>114</b>	<b>4</b>	<b>106</b>	<b>1</b>	<b>1</b>	<b>1</b>
Cost as of 1.1.2008	247	201	5	166	1	1	17
Accumulated depreciation	– 184	– 87	– 1	– 60	0*	0*	– 16
<b>Carrying amount 1.1.2008</b>	<b>63</b>	<b>114</b>	<b>4</b>	<b>106</b>	<b>1</b>	<b>1</b>	<b>1</b>
Currency translation difference	–	10	–	1	–	0*	0*
Additions due to changes in consolidation	–	–	–	–	–	–	–
Additions	–	22	–	5	–	5	–
Reclassifications	–	29	–	1	–	0*	– 1
Disposals due to changes in consolidation	–	–	–	–	–	–	–
Disposals	0*	– 1	–	0*	– 1	0*	–
Reclassifications to assets held for sale	– 3	–	–	–	–	–	–
Depreciation	– 7	– 30	– 1	– 8	–	0*	0*
Reversal of impairment losses	–	–	–	–	–	–	–
<b>Carrying amount 31.12.2008</b>	<b>53</b>	<b>144</b>	<b>3</b>	<b>105</b>	<b>–</b>	<b>6</b>	<b>0*</b>
Cost as of 31.12.2008	243	239	5	170	–	6	17
Accumulated depreciation	– 190	– 95	– 2	– 65	–	0*	– 17

\* Rounded below EUR 1m.

### Finance leases

The total amount of leased assets attributed to the Group's economic ownership under IAS 17 is EUR 258m (previous year: EUR 226m), EUR 147m of which (previous year: EUR 118m) relates to aircraft (one Airbus A340, one Airbus A319, six ATRs).

As a rule, aircraft finance lease agreements cannot be terminated during a fixed basic lease term of at least four years and they run for a maximum of twelve years.

Once the lease term has expired the lessee is usually entitled to acquire the asset at its residual value. If the lessee does not exercise this option the lessor will sell the aircraft at the best possible market price. If the sales price is lower than the residual value, the difference has to be paid by the lessee. Some lease agreements provide for variable lease payments to the extent that the interest portion is linked to market interest rates, normally the three or six-month Libor rate.

In addition, the Group has a variety of finance leases for buildings, fixtures and for operating and office equipment. For buildings and fixtures the leases run for 20 to 30 years. The lease agreements have lease payments based partly on variable and partly on fixed interest rates, and some have purchase options at the end of the lease term. The agreements cannot be terminated. Options for extending the contracts generally rest with the lessee, if at all.

For technical equipment and operating and office equipment, the lease terms are generally from four to five years. The leases normally have fixed lease payments and occasionally also have purchase options at the end of the lease term. The contracts cannot normally be extended by the lessee and cannot be terminated.

The following lease payments are due for finance leases, whereby the variable lease payments have been extrapolated on the basis of the most recent interest rate:

in €m	2009	2010–2013	from 2014
Lease payments	74	171	131
Discounted amounts	4	22	38
Present values	70	149	93
Payments from sub-leasing	1	–	–

In the previous year the following figures were given for finance leases:

in €m	2008	2009–2012	from 2013
Lease payments	27	125	84
Discounted amounts	1	18	34
Present values	26	107	50
Payments from sub-leasing	1	1	–

### Operating leases

In addition to the finance leases, a large number of leases have been signed which, on the basis of their economic parameters, are qualified as operating leases, i.e. the leased asset is deemed to belong to the lessor. As well as 106 additional aircraft on operating leases, these are mainly aircraft leased as part of the Lufthansa Regional concept and leases for buildings.

The operating leases for aircraft have a term of between one and nine years. These agreements generally end automatically after the term has expired, but there is sometimes an option for extending the agreement.

The leases for buildings generally run for up to 25 years. The fixtures at the airports in Frankfurt and Munich are leased for 30 years.



The following payments are due in the years ahead:

in €m	2009	2010–2013	from 2014
Aircraft	209	343	–
Various buildings	213	872	215 p.a.
Other leases	70	273	56 p.a.
	<b>492</b>	<b>1,488</b>	<b>271 p.a.</b>
Payments from sub-leasing	9	13	1 p.a.

In the previous year the following figures were given for operating leases:

in €m	2008	2009–2012	from 2013
Aircraft	196	418	–
Various buildings	236	920	227 p.a.
Other leases	80	306	65 p.a.
	<b>512</b>	<b>1,644</b>	<b>292 p.a.</b>
Payments from sub-leasing	14	13	2 p.a.

Four aircraft and spare engines, at year-end 2008 legally and economically the property of the Group, have been leased to third parties under non-cancellable operating leases. These leases, which run for up to ten years, give rise to the following payments:

in €m	2009	2010–2013	from 2014
Payments received from operating leases	9	8	3 p.a.

At the end of 2007, nine aircraft and spare engines legally and economically the property of the Group had been leased to third parties under non-terminable operating leases. These leases gave rise to the following payments:

in €m	2008	2009–2012	from 2013
Payments received from operating leases	16	19	4 p.a.

## 23) Investments accounted for using the equity method

in €m	Investments in joint ventures	Investments in associated companies	Total
Cost as of 1.1.2007	93	706	799
Accumulated impairment losses	–	– 8	– 8
<b>Carrying amount 1.1.2007</b>	<b>93</b>	<b>698</b>	<b>791</b>
Currency translation difference	– 3	– 27	– 30
Additions due to changes in consolidation	0*	1	1
Additions	83	227	310
Reclassifications	0*	0*	0*
Disposals due to changes in consolidation	–	– 718	– 718
Disposals	– 22	– 9	– 31
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
<b>Carrying amount 31.12.2007</b>	<b>151</b>	<b>172</b>	<b>323</b>
Cost as of 1.1.2008	151	180	331
Accumulated impairment losses	–	– 8	– 8
<b>Carrying amount 1.1.2008</b>	<b>151</b>	<b>172</b>	<b>323</b>
Currency translation difference	9	13	22
Additions due to changes in consolidation	–	–	–
Additions	31	15	46
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	– 5	– 5
Disposals	– 26	– 64	– 90
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	0*	0*
Reversal of impairment losses	–	–	–
<b>Carrying amount 31.12.2008</b>	<b>165</b>	<b>133</b>	<b>298</b>
Cost as of 31.12.2008	165	140	305
Accumulated impairment losses	–	– 7	– 7

\* Rounded below EUR 1m.

In two cases (previous year: two cases) the carrying amounts for associated companies were not reduced below EUR 0m. Losses at associated companies of EUR 17m (previous year: EUR 7m) were not taken into account.

Transferring the SWISS group from the group of associated companies to the group of consolidated companies led to a reduction of EUR 717m in the carrying amount in 2007.

## 24) Financial assets by category

### Financial assets in the balance sheet as of 31.12.2008

in €m	Loans and receivables	At fair value through profit or loss	Available for sale	Derivative financial instruments which are an effective part of a hedging relationship
Other equity investments	–	–	790	–
Non-current securities	–	106	403	–
Loans	162	–	–	–
Non-current receivables	313	–	–	–
Non-current derivative financial instruments	–	55	–	284
Trade receivables and other current receivables	3,015	–	–	–
Current derivative financial instruments	–	22	–	191
Current securities	–	–	1,834	–
Cash and cash equivalents	–	–	1,444	–
<b>Total</b>	<b>3,490</b>	<b>183</b>	<b>4,471</b>	<b>475</b>

### Financial assets in the balance sheet as of 31.12.2007

in €m	Loans and receivables	At fair value through profit or loss	Available for sale	Derivative financial instruments which are an effective part of a hedging relationship
Other equity investments	–	–	777	–
Non-current securities	–	–	298	–
Loans	190	–	–	–
Non-current receivables	209	–	–	–
Non-current derivative financial instruments	–	261	–	107
Trade receivables and other current receivables	3,448	–	–	–
Current derivative financial instruments	–	35	–	446
Current securities	–	–	1,528	–
Cash and cash equivalents	–	–	2,079	–
<b>Total</b>	<b>3,847</b>	<b>296</b>	<b>4,682</b>	<b>553</b>

All financial assets in the category “at fair value through profit or loss” from both financial years are assets held for trading. Otherwise, no financial assets have been classified as “at fair value through profit or loss”.

The net result of the different categories of financial assets is made up as follows:

<b>2008</b>					
in €m	Other operating income	Other operating expenses	Result from equity investments	Other financial items	<b>Net result</b>
Loans and receivables	30	119	–	– 35	– 124
Financial assets at fair value through profit or loss	–	–	–	– 199	– 199
Ineffective portion of derivatives used as cash flow hedges				– 76	– 76
Available-for-sale financial assets	10	105	42	– 121	– 174
<b>2007</b>					
in €m	Other operating income	Other operating expenses	Result from equity investments	Other financial items	<b>Net result</b>
Loans and receivables	41	58	–	– 10	– 27
Financial assets at fair value through profit or loss	–	–	–	– 118	– 118
Available-for-sale financial assets	39	7	131	– 2	161

## 25) Other equity investments and non-current securities

The following table shows changes in other equity investments and non-current securities in the years 2008 and 2007:

in €m	Stakes in affiliated companies	Equity investments	Non-current securities	Total
Cost as of 1.1.2007	213	649	556	1,418
Accumulated impairment losses	- 42	- 53	- 3	- 98
<b>Carrying amount 1.1.2007</b>	<b>171</b>	<b>596</b>	<b>553</b>	<b>1,320</b>
Currency translation difference	- 2	0*	0*	- 2
Additions due to changes in consolidation	-	-	1	1
Additions	36	20	3	59
Reclassifications	0*	-	-	0*
Disposals due to changes in consolidation	- 7	-	-	- 7
Disposals	-	- 35	- 259	- 294
Reclassifications to assets held for sale	-	-	0*	0*
Impairment losses	- 2	0*	-	- 2
Reversal of impairment losses	-	-	-	-
<b>Carrying amount 31.12.2007</b>	<b>196</b>	<b>581</b>	<b>298</b>	<b>1,075</b>
Cost as of 1.1.2008	239	630	301	1,170
Accumulated impairment losses	- 43	- 49	- 3	- 95
<b>Carrying amount 1.1.2008</b>	<b>196</b>	<b>581</b>	<b>298</b>	<b>1,075</b>
Currency translation difference	0*	0*	0*	0*
Additions due to changes in consolidation	-	-	-	-
Additions	46	328	241	615
Reclassifications	0*	0*	-	0*
Disposals due to changes in consolidation	- 2	-	-	- 2
Disposals	- 1	- 204	- 27	- 232
Reclassifications to assets held for sale	- 2	- 31	-	- 33
Impairment losses	- 8	- 113	- 3	- 124
Reversal of impairment losses	-	-	-	-
<b>Carrying amount 31.12.2008</b>	<b>229</b>	<b>561</b>	<b>509</b>	<b>1,299</b>
Cost as of 31.12.2008	272	674	516	1,462
Accumulated impairment losses	- 43	- 113	- 7	- 163

\* Rounded below EUR 1m.

Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. For equity investments held at EUR 54m (previous year: EUR 68m) and non-current securities held at EUR 23m (previous year: EUR 22m) there is no active market with publicly available market prices.

In the previous year, equity investments and securities held at EUR 2m were sold, which had previously not been held at fair value as there was no active market for them. This resulted in a gain of EUR 1m. Securities held at EUR 14m (previous year: EUR 13m) were pledged as collateral for liabilities.

## 26) Non-current loans and receivables

<b>Loans and receivables</b>		
in €m	<b>31.12.2008</b>	31.12.2007
Loans to and receivables from affiliated companies	113	72
Loans to and receivables from other equity investments	0*	0*
Other loans and receivables	361	322
Pre-financed rental property	1	5
	<b>475</b>	<b>399</b>

\* Rounded below EUR 1m.

The carrying amount of non-current loans and receivables corresponds to their fair value, as they earn floating rate or market standard interest.

As in the previous year, other receivables include expected reimbursements of EUR 3m for obligations for which provisions have been made.

Of the non-current receivables, EUR 21m serve as collateral for liabilities.

## 27) Derivative financial instruments

Derivative financial instruments qualifying as effective hedging instruments within a hedging relationship have the following balances:

in €m	<b>31.12.2008</b>	31.12.2007
Positive market values – long-term	284	107
Positive market values – short-term	191	446
Negative market values – long-term	– 56	– 290
Negative market values – short-term	– 154	– 135
	<b>265</b>	<b>128</b>

They relate to the following hedged items:

in €m	<b>31.12.2008</b>	31.12.2007
Fuel price hedges	– 162	553
Exchange rate hedges	393	– 415
Interest rate hedges	34	– 10

Derivative financial instruments measured at fair value through profit or loss are shown in the following table:

in €m	<b>31.12.2008</b>	31.12.2007
Positive market values – long-term	55	261
Positive market values – short-term	22	35
Negative market values – long-term	– 62	– 81
Negative market values – short-term	– 338	– 346
	<b>– 323</b>	<b>– 131</b>

In the previous year, the positive long-term market values included embedded derivatives amounting to EUR 254m, which could not be separated from the host contract and were therefore measured together with this at fair value through profit or loss.

As of 31 December 2008, the remaining long-term bonded loan, which contains embedded derivatives, was recognised as a non-current security.

Of the short-term negative market values, EUR 312m (previous year: EUR 205m) are from the negative market value of a put option granted in connection with the acquisition of an equity stake. As there is no publicly quoted price on an active market for this option, measurement was made using a recognised discounted cash flow method.

In the previous year, the negative short-term market values also included the obligation under the earn-out agreement with former shareholders of Swiss International Air Lines AG in connection with the acquisition of the company via AirTrust AG in 2005, which was measured at fair value. After a period of three years, this agreement provided for a cash payment of up to CHF 390m in March 2008, depending on the performance of the Lufthansa share in comparison with an index of competitors. As there was no publicly quoted market price on an active market for this option, measurement was made with the help of a Monte Carlo simulation using historical reference prices, volatilities and correlations between the shares included in the index of competitors. The fair value measured in this way came to EUR 141m as of 31 December 2007. In March 2008, CHF 269m or EUR 167m was paid under the earn-out agreement. The change in fair value of EUR 26m (previous year: EUR 92m) has been recognised in expenses from other financial items.

The other positive and negative market values are from derivatives, which do not qualify under IAS 39 as effective hedging instruments within a hedging relationship. Their fair value is, on balance, negative and amounts to EUR 11m (previous year: EUR 39m).

Fair values are all calculated on the basis of recognised financial and mathematical methods, using publicly available market information.

## 28) Inventories

<b>Inventories</b>		
in €m	<b>31.12.2008</b>	31.12.2007
Raw materials, consumables and supplies	490	425
Finished goods and work in progress	91	86
Advance payments	0*	0*
	<b>581</b>	<b>511</b>

\* Rounded below EUR 1m.

Inventories valued at EUR 36m (previous year: EUR 29m) are pledged as collateral for liabilities.

The gross value of inventories as of 31 December 2008 was EUR 701m (previous year: EUR 626m). Of these, inventories at a carrying amount of EUR 477m (previous year: EUR 414m) were recognised at fair value less costs to sell (net realisable value). Write-downs of EUR 119m (previous year: EUR 115m) were made to net realisable value. In the reporting period new write-downs were made of EUR 25m (previous year: EUR 9m). In the previous year prior write-downs of EUR 3m were reversed.

## 29) Trade receivables and other current receivables

in €m	<b>31.12.2008</b>	31.12.2007
<b>Trade receivables</b>		
Trade receivables from affiliated companies	115	348
Trade receivables from other equity investments	29	30
Trade receivables from third parties	1,919	2,083
	<b>2,063</b>	<b>2,461</b>
- of which: from unfinished orders less advance payments received	(132)	(125)
<b>Other receivables</b>		
Receivables from affiliated companies	110	211
Receivables from other equity investments	0*	0*
Other receivables	842	776
	<b>952</b>	<b>987</b>
<b>Total</b>	<b>3,015</b>	<b>3,448</b>

\* Rounded below EUR 1m.

EUR 6m of trade receivables (previous year: EUR 10m) were pledged as collateral for liabilities.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 2m (previous year: EUR 6m).

Of the other receivables, EUR 50m serve as collateral for liabilities.

## 30) Deferred charges and prepaid expenses

Deferred charges and prepaid expenses consist mainly of rents, insurance premiums and interest paid in advance for subsequent periods.

## 31) Current securities

Current securities are almost exclusively fixed income securities, participation certificates and investments in money market funds. They are held at fair value, derived from publicly available market prices in active markets.

In the previous year, EUR 2m of the current securities served as collateral for liabilities.



## Notes to the consolidated balance sheet

### SHAREHOLDERS' EQUITY AND LIABILITIES

#### 34) Issued capital

Deutsche Lufthansa AG's issued capital amounts to EUR 1,172m and is divided into 457,937,572 registered shares. Each share corresponds to EUR 2.56 of the issued capital.

A resolution passed at the Annual General Meeting on 25 May 2005 authorised the Executive Board until 24 May 2010, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 200m by issuing new registered shares for payment in cash or in kind (Authorised Capital A). Existing shareholders are to be granted subscription rights. In the case of shares issued for payment in kind these rights may be ruled out, while in the case of shares issued for payment in cash they may be ruled out for residual amounts. The Executive Board is further authorised, in the case of a capital increase for payment in cash, to rule out, subject to approval by the Supervisory Board, subscription rights for existing shareholders on condition that the new shares must not exceed 10 per cent of issued capital and that the issue price must not be significantly lower than the market price.

A resolution passed at the Annual General Meeting on 16 June 2004 authorised the Executive Board until 15 June 2009, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 25m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded.

A resolution passed at the Annual General Meeting on 17 May 2006 authorised the Executive Board until 16 May 2011, subject to approval by the Supervisory Board, to issue bearer or registered convertible bonds, bond/warrant packages, profit sharing rights or participating bonds, on one or more occasions, for a total nominal value of up to EUR 1.5bn, with or without restrictions on maturity. To do so, contingent capital (contingent capital II) was created for a contingent capital increase of up to EUR 117,227,520 by issuing up to 45,792,000 new registered shares. The contingent capital increase will only take place insofar as the holders of convertible bonds or warrants from bond/warrant packages decide to exercise their conversion and or option rights.

#### 32) Cash and cash equivalents

The bank balances denominated in euros with various banks mostly earned interest at a rate of 1.2 to 3.5 per cent (previous year: 3.8 to 4.6 per cent). USD balances were invested at an average interest rate of 0.4 per cent (previous year: 4.5 per cent) and balances in Swiss francs at an average rate of 1.5 per cent (previous year: 2.4 per cent).

Some EUR 21m of the bank balances (previous year: EUR 1m) was pledged as collateral for liabilities.

Bank balances in foreign currencies are translated at the exchange rate on the balance sheet date.

#### 33) Assets held for sale

At year-end 2008, the 10 per cent stake in Condor Flugdienst GmbH and the additional stake of 14.9 per cent which were acquired with the sale of the shares in Thomas Cook AG and had already been recognised as a receivable, are shown as assets held for sale after Thomas Cook AG exercised the call option.

The item also contains five Airbus 300-600s held for sale and a stake in a joint venture sold in January 2009.

As of year-end 2007, this item included an aircraft from the Passenger Transportation segment for which a sales contract had already been signed, as well as the assets of the fully consolidated company LSG Sky Chefs España S.A., whose shares were sold on 19 November 2007, subject to the approval of the relevant competition authorities. All assets were sold in the 2008 financial year (see Note 46).

Under the authorisation dated 16 June 1999, Deutsche Lufthansa AG had issued EUR 750m in convertible bonds with effect from 4 January 2002. The subscription rights of existing shareholders were excluded. A total of 750,000 conversion rights were issued that after the 2004 capital increase entitled the holders to convert them into up to 37,764,350 Deutsche Lufthansa AG shares at a price of EUR 19.86 each. After early redemption of EUR 699m on 4 January 2006, and conversion of 349 conversion rights into 17,572 Deutsche Lufthansa AG shares and the redemption of EUR 205,000 in convertible bonds as of 4 January 2008, 50,139 conversion rights were still outstanding as of 31 December 2008 that entitled the holders to convert them into up to 2,524,622 Deutsche Lufthansa AG shares at a price of EUR 19.86.

As of 31 December 2008, there was contingent capital available (contingent capital I) for a contingent increase in issued capital of up to EUR 97,644,615.68 through the issue of 38,142,428 new registered shares.

A resolution passed at the Annual General Meeting held on 29 April 2008 again authorised the Executive Board to purchase treasury shares until 28 October 2009. The authorisation is limited to 10 per cent of current issued capital which can be purchased on the stock exchange or by a public purchase offer to all shareholders. At the same Annual General Meeting the existing authorisation to purchase treasury shares which was to expire on 17 October 2008 was revoked.

In 2008, Deutsche Lufthansa AG bought back a total of 2,571,935 of its own shares at an average price of EUR 13.89. This is equivalent to 0.56 per cent of issued capital.

These shares were used as follows:

- 1,859,305 shares were offered to staff of Deutsche Lufthansa AG and 34 other affiliated companies and equity investments as part of the profit sharing scheme 2007, and as part of the performance-related variable remuneration for managers and non-pay scale staff of Deutsche Lufthansa AG and 25 other affiliated companies and equity investments at an average price of EUR 15.77.
- 707,383 shares were used as part of performance-related variable remuneration in 2008 for managers and non-pay scale staff of Deutsche Lufthansa AG and 25 further affiliated companies and equity investments at a price of EUR 10.73.
- 5,247 shares were resold at an average price of EUR 11.00.

On the balance sheet date treasury shares were no longer held.

### Additional information on changes in equity

The Lufthansa Group aims for a sustainable equity ratio of 30 per cent, in order to ensure long-term financial flexibility and stability as a basis for its growth targets. As of 31 December 2008 and 2007, equity and total assets were as follows:

in €m	31.12.2008	31.12.2007
Shareholders' equity in EUR m	6,919	6,900
in % of total assets	30.9	30.9
Liabilities	15,489	15,420
in % of total assets	69.1	69.1
<b>Total capital</b>	<b>22,408</b>	<b>22,320</b>

The equity ratio in 2008 remained stable compared with the previous year at 30.9 per cent. Total capital rose by EUR 88m and shareholders' equity went up accordingly by EUR 19m; the equity ratio therefore did not change as a result.

Lufthansa's Articles of Association do not require any particular amounts of capital. Obligations to issue shares still exist in connection with the convertible bond to the extent that the options have not yet been exercised. No conversion rights were exercised in 2008. The conversion rights still outstanding are listed in the comments on contingent capital.

## 35) Notifications on the shareholder structure

### Notification on the shareholder structure in accordance with Section 25 Paragraph 1 Securities Trading Act (WpHG) dated 14 July 2006

On 7 July 2006, AXA Investment Managers Deutschland GmbH, Bleichstrasse 2–4, 60313 Frankfurt, notified us on behalf and with the authorisation of AXA S.A., Paris, 25 avenue Matignon, 75008 Paris, France, that:

The voting rights of Alliance Bernstein L.P., 1345 Avenue of the Americas, New York, NY 10105, USA, in Deutsche Lufthansa AG exceeded the threshold of 10 per cent on 3 July 2006, and now come to 10.09 per cent. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 WpHG.

The voting rights of AllianceBernstein Corporation, 1345 Avenue of the Americas, New York, NY 10105, USA, in Deutsche Lufthansa AG exceeded the threshold of 10 per cent on 3 July 2006, and now come to 10.09 per cent. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of Equitable Holdings, LLC, 1290 Avenue of the Americas, New York, NY 10019, USA, in Deutsche Lufthansa AG exceeded the threshold of 10 per cent on 3 July 2006, and now came to 10.09 per cent. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of AXA Equitable Life Insurance Company, 1290 Avenue of the Americas, New York, NY 10019, USA, in Deutsche Lufthansa AG exceeded the threshold of 10 per cent on 3 July 2006, and now came to 10.09 per cent. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of AXA Financial Services, LLC, 1290 Avenue of the Americas, New York, NY 10019, USA, in Deutsche Lufthansa AG exceeded the threshold of 10 per cent on 3 July 2006, and now came to 10.09 per cent. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of AXA Financial, Inc., 1290 Avenue of the Americas, New York, NY 10019, USA, in Deutsche Lufthansa AG exceeded the threshold of 10 per cent on 3 July 2006, and now came to 10.09 per cent. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of AXA S.A., Paris, 25 avenue Matignon, 75008 Paris, France, in Deutsche Lufthansa AG exceeded the threshold of 10 per cent on 3 July 2006, and now came to 10.56 per cent. 10.50 per cent of these voting rights are attributed to AXA S.A. pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG, and a further 0.06 per cent pursuant to Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

#### Note

AXA S.A. (parent company) is required under Sections 21 et seq. WpHG to make the above notifications as its share of voting rights in Lufthansa exceeded the threshold of 10 per cent and now, cumulatively, i.e. including the attributable shares of its subsidiaries, amounts to 10.56 per cent.

A similar notification in accordance with Section 25 Paragraph 1 WpHG was made by the same companies when they reached the threshold of 5 per cent, and was published on 16 June 2006.

#### Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 11 January 2008

On 11 January 2008, ATON GmbH, Germany, sent us notification in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 10 January 2008, and it now holds 3.09 per cent (14,130,000 voting shares).

On 11 January 2008, Dr Lutz M. Helmig, Germany, sent us notification in accordance with Section 21 Paragraph 1 WpHG that his share of voting rights in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 10 January 2008, and he now holds 3.11 per cent of voting rights (14,261,200 voting shares).

Of these voting rights, 3.09 per cent (14,131,000 voting shares) are attributed to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. These attributed voting rights are held by ATON GmbH, which he controls and which holds 3 per cent or more of the voting rights in Deutsche Lufthansa AG.

An additional 0.03 per cent (131,200 voting shares) are attributed to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

#### Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 18 June 2008

Allianz SE, Munich, Germany, notified us on 18 June 2008 in accordance with Section 21, Paragraph 1 WpHG and Section 24 WpHG that the share of voting rights held by its subsidiary Süddeutsche Industrie-Beteiligungs-GmbH, Frankfurt am Main, Germany, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 16 June 2008, and now comes to 3.06 per cent (14,000,000 voting shares).

#### Note

The share of voting rights held by Allianz SE in Deutsche Lufthansa AG has not changed. Shares were simply transferred between companies within the group.

#### Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 2 September 2008

On 2 September 2008, Barclays Global Investors UK Holdings Ltd, England, wrote to notify us of the following in accordance with Sections 21 and 22 WpHG regarding its voting rights in Deutsche Lufthansa AG, Frankfurt am Main, on its own behalf and on behalf of the following subsidiaries:

- Barclays Global Investors Finance Limited, 1 Churchill Place, London, E14 5PH, England;
- Barclays California Corporation, 45 Freemont Street, San Francisco, CA 94105-2204, USA.

**Notification on voting shares on behalf of, and for the account of, Barclays Global Investors UK Holdings Ltd**

On 14 March 2008, Barclays Global Investors UK Holdings Ltd, 1 Churchill Place, London, E14 5HP, England, fell below the 5 per cent and 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main. This 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main, was attributed to Barclays Global Investors UK Holdings Ltd in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

This notification is due to the fact that Barclays Global Investors UK Holdings Ltd fulfils the requirements of Section 32 Paragraphs 2–4 Investment Act (InvG), Section 22 Paragraph 3a WpHG and Section 29a Paragraph 3 WpHG.

**Notification on voting shares on behalf of, and for the account of, Barclays Global Investors Finance Limited**

On 14 March 2008, Barclays Global Investors Finance Limited, 1 Churchill Place, London, E14 5HP, England, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main. This 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main, was attributed to Barclays Global Investors Finance Limited in accordance with Section 22 Paragraph 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

This notification is due to the fact that Barclays Global Investors Finance Limited fulfils the requirements of Section 32 Paragraphs 2–4 Investment Act (InvG), Section 22 Paragraph 3a WpHG and Section 29a Paragraph 3 WpHG.

**Notification on voting shares on behalf of, and for the account of, Barclays California Corporation**

On 14 March 2008, Barclays California Corporation, 45 Freemont Street, San Francisco, CA 94105-2204, USA, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main. This 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main, was attributed to Barclays California Corporation in accordance with Section 22 Paragraph 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

This notification is due to the fact that Barclays California Corporation fulfils the requirements of Section 32 Paragraphs 2–4 Investment Act (InvG), Section 22 Paragraph 3a WpHG and Section 29a Paragraph 3 WpHG.

**Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 23 October 2008**

Barclays Global Investors UK Holdings Ltd, England, UK, notified us of the following in accordance with Sections 21 and 22 WpHG on behalf of its subsidiary Barclays Global Investors NA regarding its voting rights in Deutsche Lufthansa AG.

**Notification on voting shares on behalf of, and for the account of, Barclays Global Investors NA**

On 16 October 2008, Barclays Global Investors NA, San Francisco, USA, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 2.98 per cent of voting rights (i.e. 13,643,842 voting shares) in Deutsche Lufthansa AG.

Of the total, 2.71 per cent of voting rights (i.e. 12,416,681 voting shares) in Deutsche Lufthansa AG are attributable to Barclays Global Investors NA in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and 0.27 per cent of voting rights (i.e. 1,227,161 voting shares) in Deutsche Lufthansa AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

**Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 14 November 2008**

On 13 November 2008, Barclays Global Investors UK Holdings Ltd, England, UK, notified us of the following in accordance with Sections 21 and 22 WpHG on behalf of its subsidiary Barclays Global Investors NA regarding its voting rights in Deutsche Lufthansa AG.

**Notification of voting shares on behalf of, and for the account of, Barclays Global Investors NA**

On 11 November 2008, Barclays Global Investors NA, San Francisco, USA, exceeded the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 3.07 per cent of voting rights (i.e. 14,070,133 voting shares) in Deutsche Lufthansa AG.

Of the total, 2.79 per cent of voting rights (i.e. 12,765,708 voting shares) in Deutsche Lufthansa AG are attributable to Barclays Global Investors NA in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and 0.28 per cent of voting rights (i.e. 1,304,425 voting shares) in Deutsche Lufthansa AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

#### **Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 13 January 2009**

On 13 January 2009, Allianz SE, Munich, Germany, notified us in accordance with Section 21 Paragraph 1 WpHG that in the course of the sale of Dresdner Bank AG to Commerzbank AG its share of voting rights in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 12 January 2009 and at this time came to 0.056 per cent (258,668 voting shares). Of these, 0.052 per cent (237,538 voting shares) were attributed to Allianz SE in accordance with Section 22 Paragraph 1 No. 1 WpHG and 0.005 per cent (21,130 voting shares) in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

At the same time, Allianz SE, Munich, Germany, notified us in accordance with Section 21 Paragraph 1 WpHG and Section 24 WpHG that the share of voting rights held by Allianz Finanzbeteiligungs GmbH, Munich, Germany, in Deutsche Lufthansa AG fell below the 3 per cent threshold on 12 January 2009 and at this point came to 0 per cent (0 voting shares).

#### **Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 14 January 2009**

On 14 January 2009, Commerzbank AG, Frankfurt am Main, Germany, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 12 January 2009, and it now holds 3.06 per cent of voting rights (14,024,907 voting shares). Of this, 3.06 per cent (14,000,000 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

Voting rights attributed to it are held by the following companies which it controls and whose share of voting rights in Deutsche Lufthansa AG is each equal to or greater than 3 per cent:

- Dresdner Bank AG
- Süddeutsche Industrie-Beteiligungs-GmbH

#### **Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 21 January 2009**

On 21 January 2009, Barclays Global Investors UK Holdings Ltd, England, UK, notified us of the following in accordance with Sections 21 and 22 WpHG on behalf of its subsidiary Barclays Global Investors NA regarding its voting rights in Deutsche Lufthansa AG:

#### **Notification on voting shares on behalf of, and for the account of, Barclays Global Investors NA**

On 16 January 2009 Barclays Global Investors NA, San Francisco, USA, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 2.97 per cent (i.e. 13,582,029 voting shares) in Deutsche Lufthansa AG.

Of the total, 2.64 per cent of voting rights (i.e. 12,093,072 voting shares) in Deutsche Lufthansa AG are attributable to Barclays Global Investors NA in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and 0.33 per cent of voting rights (i.e. 1,488,957 voting shares) in Deutsche Lufthansa AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

### **36) Reserves**

Capital reserves only include the share premium paid on capital increases and a convertible bond. In the previous year, a total share premium of EUR 34,842.20 was allocated to reserves from the conversion of 40 conversion rights from the 2002 convertible bond into 2,014 shares.

The statutory reserve included in retained earnings remains unchanged at EUR 26m; other reserves consist of retained earnings.

Changes in reserves can be seen in the statement of shareholders' equity.

### **37) Pension provisions**

A company pension scheme exists for staff working in Germany and staff seconded abroad. For staff who joined the Group before 1995 the supplementary pension scheme for state employees (VBL) was initially retained as the Company's pension scheme. Following collective agreements in 2003 to harmonise retirement benefits for ground and flight staff, the pension scheme for ground and flight staff was also converted to an average salary plan for cockpit staff under the terms of the 4 December 2004 wage settlement. The retirement benefit commitment is now equal to that for staff who joined the Company after 1994. In each case, one salary component is converted into one pension component, retirement



benefit being defined as the sum of the accumulated pension components. Under IAS 19 these pension obligations must be regarded as performance-related and therefore taken into account for the amount of obligations and as expenses.

Flight staff are additionally entitled to a transitional pension arrangement covering the period between the end of their active in-flight service and the beginning of their statutory/company pension plans. Benefits depend on the final salary before retirement (final salary plans).

Defined contribution retirement benefit schemes also exist within the Group, funded entirely by contributions paid to an external pension provider. Lufthansa runs no financial or actuarial risks from these obligations. In 2008, contributions toward defined contribution pension plans amounted to EUR 339m (previous year: EUR 319m).

Company pension schemes and transitional pension arrangements for Germany are financed mainly by pension provisions. Obligations are measured annually using the projected unit credit method. In the 2004 financial year, work began on building up plan assets to fund future pension payments and transfer them to the Lufthansa Pension Trust. The aim is to outsource the pension obligations in full within 10 to 15 years. In 2008, a further EUR 283m was transferred for staff, taking the total transferred to the pension trust to EUR 3,483m.

Staff abroad are also entitled to retirement benefits and in some cases to medical care, based mainly on length of service and salary earned. As a rule, benefits are financed by means of external funds.

In the course of acquiring Swiss International Air Lines AG on 1 July 2007, pension obligations, mainly statutory obligations, were also taken on. The retirement benefits are funded via pension funds known as collective foundations. The retrospective application of IFRIC 14 had no material effects on the surplus of the previous year at Swiss International Air Lines AG.

In measuring pension provisions and determining pension costs the 10 per cent corridor rule is applied. Actuarial gains and losses are not taken into account unless they exceed 10 per cent of total obligations or 10 per cent of the fair value of existing plan assets. The amount that exceeds the corridor is divided over the expected average remaining years of service of active staff through profit or loss and recognised in the balance sheet.

Pension obligations are calculated on the basis of the following assumptions:

<b>Actuarial assumptions</b>			
in %	<b>31.12.2008</b>	31.12.2007	31.12.2006
Interest rate in Germany	6.0	5.5	4.5
Projected salary increase in Germany	2.75	2.75	2.75
Projected pension increase in Germany	1.0 – 2.75	1.0 – 2.75	1.0 – 2.75
Interest rates abroad	3.9 – 6.7	3.4 – 6.0	4.5 – 6.0
Projected salary increases abroad	1.5 – 4.5	1.2 – 4.5	2.9 – 4.25
Projected pension increases abroad	0.0 – 2.8	0.5 – 3.2	1.25 – 3.0
Health care cost trend for pensioners abroad	10.0	11.0	12.0
Expected return on external plan assets in Germany*	5.2	5.75	5.75
Expected return on external plan assets abroad	3.5 – 8.3	3.75 – 8.0	5.2 – 8.25

\* Post-tax interest from 2008.

Since 31 December 2005 biometric calculations have been based on the 2005 G Heubeck life-expectancy tables, with fluctuation estimated on the basis of age and gender.

The projected return on plan assets is generally based on the plan's investment policy relating to the selection of asset classes. The projected return on equity investments takes into account historic interest rates, future inflation rates, expected dividends and economic growth. The projected return on fixed-interest instruments is based on current interest rates for long-term securities, subject to a risk discount if appropriate. The projected return on property assets corresponds to that of equity investments. For other assets, mainly bank balances, the interest paid on current deposits on the balance sheet date was applied.

An increase or decrease in the assumed health care costs for pensioners by 1 per cent would have the following effects:

in € thousand	Increase	Decrease
Service costs and interest expenses	+ 21	– 23
Health care commitments	+ 404	– 422



On the balance sheet date the present value of pension obligations and the fair values of plan assets were as follows:

in €m	31.12.2008	31.12.2007	31.12.2006
Present value of funded pension obligations in Germany	4,081	4,068	4,455
Plan assets in Germany	3,445	3,580	1,839
<b>Deficit (+)/surplus (-)</b>	<b>636</b>	<b>488</b>	<b>2,616</b>

in €m	31.12.2008	31.12.2007	31.12.2006
Present value of funded pension obligations abroad	1,712	1,603	532
Plan assets abroad	1,476	1,648	469
<b>Deficit (+)/surplus (-)</b>	<b>236</b>	<b>- 45</b>	<b>63</b>
<b>Present value of unfunded pension obligations</b>	<b>1,961</b>	<b>1,948</b>	<b>2,042</b>

On the balance sheet date for 2008 the portfolio of external plan assets is made up as follows:

	Plan assets Germany		Plan assets abroad	
	in €m	in %	in €m	in %
Shares	1,375	39.9	508	34.4
Fixed-income instruments, bonds	1,602	46.5	642	43.5
Real Estate	-	-	158	10.7
Other	468	13.6	168	11.4
	<b>3,445</b>	<b>100.0</b>	<b>1,476</b>	<b>100.0</b>

In 2008, the effective loss on plan assets came to EUR 725m (previous year: gain of EUR 107m).

Change in present value of pension obligations		
in €m	2008	2007
Carried forward 1.1.	7,619	7,029
Exchange rate differences carried forward	112	- 53
Additions from company acquisitions	-	-
Other changes in the group of consolidated companies	0*	1,084
Current service costs	305	317
Past service costs	- 12	0*
Interest expenses	386	338
Contributions by plan participants	30	10
Actuarial gains/losses	- 450	- 917
Pension payments	- 241	- 209
Plan cuts/settlements	- 4	-
Other**	9	20
<b>Balance on 31.12</b>	<b>7,754</b>	<b>7,619</b>

Change in fair value of plan assets		
in €m	2008	2007
Carried forward 1.1.	5,228	2,308
Exchange rate differences carried forward	103	- 45
Additions from company acquisitions	-	-
Other changes in the group of consolidated companies	-	1,160
Projected return on plan assets	281	184
Actuarial gains/losses	- 1,006	- 77
Contributions by plan participants	30	10
Employer contributions	338	1,640
Pension payments	- 53	- 39
Other**	0*	87
<b>Balance on 31.12</b>	<b>4,921</b>	<b>5,228</b>

\* Rounded below EUR 1m.

\*\* The amounts in 2008 are almost exclusively for benefit obligations which were measured in accordance with IAS 19 for the first time as of 31.12.2007. The amounts of plan assets in 2007 were almost exclusively assets which qualified as plan assets in 2007

The carrying amount of pension provisions is lower than the present value of pension obligations due to unrecognised actuarial losses.

<b>Funding status</b>		
in €m	2008	2007
Present value of unfunded pension obligations	1,961	1,948
Present value of funded pension obligations abroad	1,712	1,603
Present value of funded pension obligations in Germany	4,081	4,068
External plan assets abroad	- 1,476	- 1,648
External plan assets Germany	- 3,445	- 3,580
Unrecognised actuarial losses	- 466	- 40
Adjustment for asset ceiling	-	110
"Unrealised" asset surpluses	+ 33	-
	<b>2,400</b>	<b>2,461</b>

The year-on-year changes in funding status mainly result from changes in assumptions, especially the rise in interest rates.

In the 2008 and 2007 financial years pension provisions developed as follows:

<b>Pension provisions</b>		
in €m	2008	2007
Carried forward	2,461	3,814
Exchange rate differences carried forward	1	- 3
Changes in the group of consolidated companies	0*	26
Pensions payments	- 188	- 170
Additions	419	501
Allocation to plan assets/staff changes	- 293	- 1,707
<b>Year-end total</b>	<b>2,400</b>	<b>2,461</b>

\* Rounded below EUR 1m.

The expenses recognised in the income statement due to allocations to the pension provisions are made up as follows:

in €m	2008	2007
Current service costs	305	317
Recognised actuarial losses	11	23
Recognised actuarial gains	0*	-
Past service costs	- 12	0*
Plan cuts/settlements	- 4	-
Interest effect of projected pension obligations	386	338
Projected return on external plan assets	- 281	- 184
Net effect of adjustment for asset ceiling	14	7
	<b>419</b>	<b>501</b>

\* Rounded below EUR 1m.

Current service costs and actuarial losses/gains are recognised as staff costs, while the interest effect of projected pension obligations less projected external plan asset earnings, is recognised as interest expenses.

Adjustments to pension obligations and plan assets based on past experience were as follows:

<b>Adjustments from past experience</b>				
in €m	2008	2007	2006	2005
Pension obligations	+ 122	+ 30	+ 7	- 140
Plan assets	- 1,006	- 77	- 0*	95
<b>Total</b>	<b>- 1,128</b>	<b>- 107</b>	<b>- 7</b>	<b>+ 235</b>

\* Rounded below EUR 1m.

A minus sign before pension obligations in the table means a reduction in the commitment and, therefore, a gain. A minus sign before plan assets means a loss, however. For the total amount a negative sign signifies an overall loss.

In 2009 an estimated EUR 826m will be transferred to plans. The transfers are made up of planned allocations and benefit payments which are not covered by equivalent reimbursements from plan assets.

### 38) Other provisions

Other provisions disclosed in the balance sheet as non-current and current provisions are made up as follows:

<b>Other provisions</b>						
	<b>31.12.2008</b>			31.12.2007		
in €m	<b>Total</b>	Non-current	Current	Total	Non-current	Current
Obligations under partial retirement contracts	104	25	79	143	52	91
Other staff costs	106	52	54	123	55	68
Expected losses from uncompleted transactions	117	19	98	73	29	44
Environmental restoration	29	23	6	27	23	4
Litigation costs	83	8	75	65	34	31
Restructuring/severance payments	22	3	19	21	3	18
Fixed-price customer maintenance contracts	157	37	120	156	33	123
Overhaul of aircraft on operating leases	177	63	114	131	77	54
Bonus miles programmes	1,026	–	1,026	947	–	947
Warranties	26	–	26	34	–	34
Other provisions	317	61	256	315	43	272
<b>Total</b>	<b>2,164</b>	<b>291</b>	<b>1,873</b>	<b>2,035</b>	<b>349</b>	<b>1,686</b>

Provisions for staff costs mainly relate to staff anniversary bonuses, variable payment portions and other current obligations. Expected losses from uncompleted transactions result from ongoing obligations or other contractual relationships in which performance and consideration are out of balance. Provisions for environmental

restoration are based on surveyors' findings and the assumption that all contamination is removed within ten years without any further legal requirements. Provision for litigation costs is based on an assessment of the likely outcome of the legal proceedings.

In 2008 changes in groups of individual provisions were as follows:

<b>Other provisions</b>						
in €m	Obligations under partial retirement contracts	Other staff costs	Expected losses from uncompleted transactions	Environmental restoration	Litigation costs	Restructuring/severance payments
As of 1.1.2008	143	123	73	27	65	21
Consolidation changes	–	0*	–	–	0*	–
Exchange rate differences	–	1	1	0*	3	0*
Utilisation	– 93	– 35	– 26	– 3	– 6	– 12
Addition/new provisions	53	22	93	4	24	14
Interest added back	1	2	1	1	2	0*
Reversal	0*	– 1	– 27	–	– 5	– 1
Reclassification	0*	– 6	2	–	0*	– 1
<b>As of 31.12.2008</b>	<b>104</b>	<b>106</b>	<b>117</b>	<b>29</b>	<b>83</b>	<b>22</b>

in €m	Fixed-price customer maintenance contracts	Overhaul of aircraft on operating leases	Bonus miles programmes	Warranties	Other provisions	<b>Total</b>
As of 1.1.2008	156	131	947	34	315	2,035
Consolidation changes	–	–	–	–	1	1
Exchange rate differences	0*	12	11	0*	– 10	19
Utilisation	– 68	– 69	– 331	– 23	– 86	– 752
Addition/new provisions	68	108	399	17	148	950
Interest added back	3	5	–	–	2	17
Reversal	0*	– 16	–	– 2	– 11	– 63
Reclassification	– 2	6	0*	0*	– 42	– 43
<b>As of 31.12.2008</b>	<b>157</b>	<b>177</b>	<b>1,026</b>	<b>26</b>	<b>317</b>	<b>2,164</b>

\* Rounded below EUR 1m.

The funding status for provisions for obligations to staff under partial retirement contracts is as follows:

<b>Funding status</b>		
in €m	<b>2008</b>	2007
Present value of funded obligations under partial retirement contracts	253	282
External plan assets	– 149	– 139
	<b>104</b>	<b>143</b>

In 2005, EUR 97m was transferred to an external trust fund as insolvency insurance for employer's performance arrears, under partial retirement agreements under which the employee at first works full-time for less pay and then retires early on the same reduced pay. In 2007, a further EUR 39m was transferred. These assets, which fulfil the requirements for plan assets and therefore reduce the net amount of obligations accordingly, are measured at market value on the balance sheet date.

Obligations under partial retirement agreements were calculated on the basis of the following assumptions:

<b>Assumptions</b>			
in %	<b>2008</b>	2007	2006
Interest rate	6.0	5.5	4.5
Projected earnings from external plan assets	6	6	6

The following cash outflows are estimated for the non-current portion of the other groups of provisions:

in €m	2010	2011	2012	2013 and thereafter
Expected losses from uncompleted transactions	9	3	3	7
Environmental restoration	3	3	3	19
Restructuring/severance payments	1	1	1	0*
Fixed-price customer maintenance contracts	37	4	–	–
Overhaul of aircraft on operating leases	37	14	6	26
Other provisions	32	8	2	26

\* Rounded below EUR 1m.

At the end of 2007 the cash outflows were estimated as follows:

in €m	2009	2010	2011	2012 and thereafter
Expected losses from uncompleted transactions	9	7	5	12
Environmental restoration	3	3	3	19
Restructuring/severance payments	1	1	0*	1
Fixed-price customer maintenance contracts	33	3	–	–
Overhaul of aircraft on operating leases	26	23	29	25
Other provisions	19	15	11	73

\* Rounded below EUR 1m.

### 39) Financial liabilities according to category

#### Financial liabilities in the balance sheet as of 31.12.2008

in €m	Liabilities at fair value through profit or loss	Derivative financial instruments which are an effective part of a hedging relationship	Other financial liabilities at cost
Borrowing	–	–	3,581
Derivative financial instruments	400	210	–
Trade payables	–	–	2,359
Other financial liabilities	–	–	1,318
<b>Total</b>	<b>400</b>	<b>210</b>	<b>7,258</b>

#### Financial liabilities in the balance sheet as of 31.12.2007

in €m	Liabilities at fair value through profit or loss	Derivative financial instruments which are an effective part of a hedging relationship	Other financial liabilities at cost
Borrowing	–	–	3,345
Derivative financial instruments	427	425	–
Trade payables	–	–	2,576
Other financial liabilities	–	–	1,438
<b>Total</b>	<b>427</b>	<b>425</b>	<b>7,359</b>

## 40) Borrowings

Borrowings consist of a non-current portion with a residual term of more than one year and a current portion with a residual term of less than one year which is shown under current liabilities. The following table shows the total amount of borrowings:

<b>Borrowings 31.12.2008</b>			
in €m	<b>Total</b>	Non-current	Current
Bonds	610	610	–
Liabilities to banks	628	409	219
Leasing liabilities and other loans	2,343	2,142	201
<b>31.12.2008</b>	<b>3,581</b>	<b>3,161</b>	<b>420</b>

<b>Borrowings 31.12.2007</b>			
in €m	<b>Total</b>	Non-current	Current
Bonds	584	584	–
Liabilities to banks	593	505	88
Leasing liabilities and other loans	2,168	2,009	159
<b>31.12.2007</b>	<b>3,345</b>	<b>3,098</b>	<b>247</b>

The following table shows the carrying amounts and market values for individual categories of borrowings. The market values given for the bonds are their quoted prices. The market values for other types of borrowing have been calculated using the applicable interest rates for the remaining term to maturity and repayment structures at the balance sheet date based on available market information (Reuters).

<b>Borrowings</b>	<b>31.12.2008</b>		<b>31.12.2007</b>	
	Carrying amount	Market value	Carrying amount	Market value
in €m				
Bonds	610	586	584	580
Liabilities to banks	628	626	593	602
Leasing liabilities and other loans	2,343	2,413	2,168	2,150
	<b>3,581</b>	<b>3,625</b>	<b>3,345</b>	<b>3,332</b>

Collateral was provided for EUR 269m of the bank debt (previous year: EUR 152m).

There were no delays or defaults on payment obligations under these loan agreements in either 2008 or 2007.

Leasing liabilities and other loans relate exclusively to finance leases described in Note 22 and aircraft financing arrangements described in Note 19.

## 41) Other non-current financial liabilities

<b>Other non-current financial liabilities</b>		
in €m	<b>31.12.2008</b>	31.12.2007
Liabilities to banks	–	–
Liabilities to affiliated companies	0*	–
Liabilities to other equity investments	–	–
Other financial liabilities	51	55
	<b>51</b>	<b>55</b>

\* Rounded below EUR 1m.

The carrying amount for financial liabilities is equivalent to their fair value, as they pay interest at a floating or market-standard rate.

## 42) Non-current advance payments received, deferred income and other non-financial liabilities

<b>Non-current advanced payments received, deferred income and other non-financial liabilities</b>		
in €m	<b>31.12.2008</b>	31.12.2007
Advance payments received	2	2
Accruals and deferrals	49	58
Other non-financial liabilities	13	6
	<b>64</b>	<b>66</b>

Deferred income mainly relates to deferred accounting profits from finance lease transactions, which are realised in profit or loss over the duration of the leases in accordance with SIC 27.

Other non-financial liabilities include obligations to return material valued at EUR 4m (previous year: EUR 3m) and the EUR 4m (previous year: EUR 3m) non-current portion of obligations recognised at fair value under share-based remuneration agreements that form part of the variable remuneration of Executive Board members, managers and non-pay scale staff. A further EUR 14m (previous year: EUR 11m) is included in current other non-financial liabilities.



As part of the share-based remuneration agreements, Lufthansa and other Group companies offer a 30 per cent discount on staff investment in Lufthansa shares for the ongoing 2005 and 2006 programmes (Executive Board Programme 2006: 50 per cent) and an outperformance option over a term of three (for non-pay scale staff) to four years (for managers and Executive Board members). Depending on the performance of the Lufthansa share compared with a fictitious index consisting of European competitors' shares, beneficiaries receive a cash payment for every percentage point of outperformance when the option is exercised. The cash payment is capped at an outperformance of 30 per cent.

€ per percentage point	1%–10%	11%–20%	21%–30%	> 30% (cap)
Managers	250	350	450	Max. 10,500
Executive Board*	500	700	900	Max. 21,000

\* Until 2006, Executive Board members took part in the option programmes for managers.

Non-payscale staff receive EUR 250 per option for an outperformance of 1 to 10 per cent, EUR 500 for 11 to 20 per cent, EUR 750 for 21 to 30 per cent and a maximum of EUR 1,000 per option above 30 per cent.

The 2007 and 2008 outperformance programmes offer a discount of 50 per cent on staff investment in Lufthansa shares and is open to Executive Board members, managers and staff outside pay scales.

The previous outperformance option, which is linked to the performance of the Lufthansa share compared with a fictitious index composed of competitors' shares, has been supplemented by a performance option linked to the absolute performance of the Lufthansa share. If the share price goes up by more than 33 per cent, a cash payment is due. This is capped for share price increases of more than 49 per cent (48 per cent for staff outside pay scales).

The cash payment from the outperformance option is capped at an outperformance of more than 20 per cent.

Programmes 2007 and 2008 outperformance option		
	€ per percentage point from 1%	Maximum per tranche in €
Executive Board	1,000	20,000
Managers	400	8,000
Non-pay scale staff	200	1,000

Programmes 2007 and 2008 outperformance option		
	€ per percentage point from 33% Performance	Maximum per tranche in €
Executive Board	10,000 + 1,250 per percentage point	20,000
Managers	4,000 + 500 per percentage point	8,000
Non-pay scale staff	500 + 100 per percentage point	1,000

The 2007 and 2008 programmes each run for three years.

All options can be exercised at a fixed time in the final year. The (out)performance is calculated on the principle of total shareholder return. The shares may not be sold until the option is exercised.

The outperformance option from 2005 could be exercised for the first time after three years in 2008, and the outperformance option from 2004 for the last time. As the options from the outperformance programme 2005 were all exercised in full, there were no more options from the 2004 and 2005 programmes as of year-end 2008. A total of EUR 3m was paid on the outperformance option 2004. The total of EUR 10m for the 2005 outperformance option will be paid out in January 2009.

During the financial years 2007/2008 the number of options changed as follows:

	2008		2007	
	Number of options/option packages**	Cash settlement in € thousand	Number of options/option packages**	Cash settlement in € thousand
Outstanding options on 1.1	8,299		7,369	
Options issued	3,249		3,172	
Expired or unused options	912	–	1,182	–
Options exercised	2,089	12,802*	1,060	718
Outstanding options on 31.12	8,547	12,802	8,299	718

\* Of which EUR 10m will be paid out in January 2009.

\*\* The outperformance option and the performance option from the 2007 and 2008 programmes are known as an option package.

On 1 January 2008, members of the Executive Board, managers, captains and non-payscale staff held 1,261,566 shares under the various programmes, and on 31 December 2008, they held 1,821,078 shares.

The fair values of eleven options programmes still running were calculated using Monte Carlo simulations. This involves simulating the future returns of the shares in the index and of Lufthansa AG and calculating the value of the option rights as the forecast amount of a dividend.

Overall the following fair values were measured:

in € per option	Own investment	Fair value
<b>Executive Board*</b>		
2006 outperformance option	1,000	9,772
Options 2007	2,000	12,747
Options 2008	2,000	8,805
<b>Managers</b>		
2005 outperformance option	2,500	10,500
2006 outperformance option	2,500	4,886
Options 2007	2,000	5,099
Options 2008	2,000	3,522
<b>Non-pay scale staff</b>		
2005 outperformance option	1,000	1,000
2006 outperformance option	1,000	529
Options 2007	1,000	645
Options 2008	1,000	446

\* Until 2006, Executive Board members took part in the option programmes for managers.

The weighted average share prices at the calculation date were used in the Monte Carlo simulation. As stated in the terms of the programme, these are 100-day averages (2007 and 2008 programmes: 50-day averages) for the shares of Lufthansa AG and the competitors included in the comparative index. The volatilities and correlations used are forecasts for a specific date and maturity on the basis of current market estimates.

Swap rates for the remaining term of the outperformance option were used as interest rates in each case. The maximum term of the programmes was used for measurement purposes.

The parameters used by the external service provider are shown in the following table:

	Outperform- ance option 2005	Outperform- ance option 2006	Outperform- ance option 2007	<b>Options 2008</b>
<b>Reference price in €</b>				
Lufthansa	10.91	15.34	19.54	13.54
Air France-KLM	13.81	21.17	25.52	15.14
British Airways	287.5	396.46	389.77	191.45
Iberia	2.5	2.05	3.41	1.82
Alitalia	0.24	0.85	–	–
Ryanair	6.71	7.75	5.26	2.46
easyJet	280.74	441.44	586.41	326.86
Air Berlin	–	11.23	11.73	3.46

	Option programmes 2005–2007	<b>Options 2008</b>
<b>Expected volatilities (depending on programme term) in %</b>		
Lufthansa	36.13	32.03
Air France-KLM	46.56	40.57
British Airways	55.45	47.99
Iberia	50.67	43.42
Alitalia	70.31	–
Ryanair	73.91	61.86
easyJet	54.70	47.77
Air Berlin	62.96	59.56
Risk-free interest rate	1.98% – 2.30% for euro zone, 1.75% – 2.80% for Great Britain	
Fluctuation	5%	

The total expenses for options programmes included in staff costs were EUR 7m (previous year: EUR 8m).

#### 43) Trade payables and other current financial liabilities

<b>Trade payables and other current financial liabilities</b>		
in €m	31.12.2008	31.12.2007
<b>Trade payables</b>		
Trade payables to affiliated companies	47	130
Trade payables to other equity investments	34	26
Trade payables to third parties	2,278	2,420
	<b>2,359</b>	<b>2,576</b>
<b>Other liabilities</b>		
Liabilities to banks	58	24
Other liabilities to affiliated companies	183	435
Other liabilities to equity investments	–	–
Other financial liabilities	1,026	924
	<b>1,267</b>	<b>1,383</b>
<b>Total</b>	<b>3,626</b>	<b>3,959</b>

#### 44) Current advance payments received, deferred income and other non-financial liabilities

<b>Current advanced payments received, deferred income and other non-financial liabilities</b>		
in €m	31.12.2008	31.12.2007
Advance payments received	14	23
Net debit balance of advance payments received and receivables from uncompleted contracts	167	61
Deferred income	30	25
Other non-financial liabilities	177	180
	<b>388</b>	<b>289</b>

Deferred income includes EUR 4m (previous year: EUR 9m) for grants and subsidies received for capital expenditure, which are realised over the useful life of the capital goods.

Other liabilities include accruals of EUR 163m (previous year: EUR 168m) for outstanding holiday allowance and overtime, EUR 14m (previous year: EUR 11m) for the current portion of fair value obligations under share-based remuneration agreements (cf. Note 42) and in the previous year EUR 1m for obligations to return material.

#### 45) Provisions and liabilities relating to disposal groups

In the previous year, this item consisted of provisions and liabilities of the fully consolidated company LSG Sky Chefs España S.A., whose shares were to be sold following approval by the relevant competition authorities.

## Other disclosures

### 46) Contingencies and events after the balance sheet date

<b>Contingent liabilities</b>		
in €m	<b>31.12.2008</b>	<b>31.12.2007</b>
From guarantees, bills of exchange and cheque guarantees	861	758
From warranty contracts	901	820
From providing collateral for third-party liabilities	3	3

Guarantees include EUR 838m (previous year: EUR 676m) and warranty agreements include EUR 300m (previous year: EUR 296m) in contingent liabilities toward creditors of joint ventures. A total of EUR 1,138m (previous year: EUR 972m) relate to joint and several guarantees and warranties. This amount is offset by compensatory claims against the co-debtors in the amount of EUR 1,040m (previous year: EUR 880m). Insofar as annual financial statements have yet to be published, these figures are preliminary.

Several provisions could not be made because an outflow of resources was not sufficiently probable. The potential financial effect of these provisions on the result would have been EUR 195m (previous year: EUR 187m) for subsequent years.

The sale of an equity investment generated a potential earn-out payment of up to EUR 3m, which is expected to be realised in 2009. In the reporting period EUR 3m was realised.

A contract signed at the end of the 2007 financial year for the sale of a Canadair regional jet produced a cash inflow of EUR 4m in the 2008 financial year.

In addition, sales proceeds of EUR 17m and book gains of EUR 11m were realised on the contract also signed as of year-end 2007 for the sale of the shares in LSG Sky Chefs España S.A.

In the past, the Company incurred significant economic loss from acts of negligence by the former management of LSG Holding AG in connection with the conclusion of a long-term catering agreement with SAS. Arbitration now completed found that the D&O policy covers EUR 153m of the first layer of the damage. Final clarification of the claim and the amount of damages with insurers who underwrote EUR 130m of this layer is due to be provided by an arbitration tribunal. The remaining EUR 23m of cover and a further

EUR 102m in the second layer are the subject of litigation. Claims were lodged with the Frankfurt and Cologne district courts in the fourth quarter of 2005. Negotiations are taking place in parallel with the insurance companies with the aim of bringing the proceedings, which have been ongoing for seven years, to an imminent close by mutual concessions.

On 26 January 2009, the European Commission announced that it would carry out a more detailed review of the planned acquisition of SN Airholding NV, the parent company of Brussels Airlines. The deadline for examining the merger was therefore extended until 10 June 2009. A decision had originally been expected for the end of January 2009. Lufthansa is nevertheless expecting the planned transaction to be approved.

In response to the drastic fall in freight volumes in recent months Lufthansa Cargo AG has adopted a wide-ranging set of counter-measures. Since 1 March 2,600 employees have been on reduced working hours. The corresponding works agreement was signed on 12 February. This is initially to apply for twelve months and allows production volumes to be reduced flexibly by up to 20 per cent. At the beginning of the year, Lufthansa Cargo had already cut freighter capacities by 10 per cent in response to lower demand. The company is also monitoring demand very closely and will use available flexibility and take additional measures in the event of further deterioration.

Lufthansa Italia began scheduled services on 2 February 2009. Since then the first two Airbus A319s have been connecting Milan to Paris and Barcelona. Four more destinations followed in March – Brussels, Budapest, Bucharest and Madrid. Furthermore, non-stop connections to London and Lisbon are to begin from the start of the summer 2009 flight timetable. Lufthansa is thus exploiting available opportunities on the attractive North Italian market.

With the expiry of the wage settlement on 31 December 2008, the trade union UFO presented demands for an increase of 15 per cent in remuneration for Lufthansa's 16,000 flight attendants. Lufthansa put forward an extensive offer, based on the agreement reached in August 2008 with Lufthansa ground staff, which includes an increase in remuneration, a profit-share payment and concrete suggestions for improving working conditions. The union has nevertheless carried out warning strikes. In mid-February 2009 UFO walked out of negotiations in the fifth round and called for a strike ballot.

## 47) Other financial commitments

As of 31 December 2008, there were purchase commitments for EUR 7.2bn (previous year: EUR 7.5bn) for capital expenditure on property, plant and equipment and for intangible assets. There were also capital and shareholder loan commitments of EUR 62m towards equity investments (previous year: EUR 70m). Sales contracts and put options granted to third parties gave rise to purchase commitments for Company shares amounting to EUR 0.5bn (previous year: EUR 0.2bn). The negative market value of a put option sold in connection with the acquisition of an equity stake has been recognised at EUR 312m (previous year: EUR 205m) in current derivative financial instruments.

## 48) Hedging policy and financial derivatives

As an aviation group with worldwide operations, Lufthansa is exposed to exchange rate, interest rate and fuel price movement risks, as well as to credit and liquidity risks. It is Company policy to limit these risks by systematic financial management.

### Price risk

The major price risks to which the Lufthansa Group is exposed are exchange rate fluctuations between the euro and other currencies, interest rate fluctuations in international money and capital markets and price fluctuations in the oil and petroleum products markets. Hedging policy for limiting these risks is laid down by the Executive Board and documented by internal Group guidelines. It also provides for the use of financial derivatives. The corresponding financial transactions are concluded only with first-rate counterparties.

For US dollars, Lufthansa is mainly in a net payer position in regards to currency risks from its operating business, as fuel payments are dollar-denominated. For other currencies there is always a net surplus. The main risks in this respect stem from the pound sterling and the Japanese yen. Currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts. The average hedging level is 50 per cent.

At the end of 2008, exposure from operations for the next 24 months was as follows:

in million	USD	JPY	GBP
Exposure (currency)	– 6,990	124,037	712
Exposure (EUR at spot rate)	– 5,023	983	748
Hedges (currency)	3,348	– 58,768	– 285
Hedging level	48%	47%	40%

Currency risks from capital expenditure on aircraft are 50 per cent hedged when the contract is signed. The hedging level is increased if, over the lifetime of the contract, the exchange rate goes significantly above or below that used to calculate the investment. In the last 24 months before payment the hedging level is increased in semi-annual steps of 10 per cent, to reach 90 per cent at the end. Spread options and futures are used as hedging instruments. From the position at year-end 2008 exposure for capital expenditure was as follows:

in million	2009	2010	2011	2012	2013
Exposure from net capital expenditure (USD)	– 2,126	– 2,531	– 1,973	– 1,241	– 309
Exposure from net capital expenditure (EUR at spot rate)	– 1,527	– 1,819	– 1,418	– 892	– 222
Hedges (USD)	1,821	1,927	1,509	1,063	290
Hedging level	86%	76%	76%	86%	94%

Lufthansa aims to finance 85 per cent of its financial liabilities at floating rates of interest. This proportion recognises the need to both minimise long-term interest expense and reduce earnings volatility. Interest rate risks on financial liabilities are therefore only hedged to 15 per cent.

At the end of 2008, the ratio of floating to fixed interest rates for long-term borrowing was as follows:

<b>Exposure</b>											
in €m	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fixed LH	542	415	371	338	266	193	186	179	164	114	61
Floating LH	3,092	2,754	2,408	1,931	1,727	1,091	813	500	314	213	128
Floating/fixed ratio	85%	87%	87%	85%	87%	85%	81%	74%	66%	65%	68%

In contrast, foreign currency risks from financial liabilities are always hedged to 100 per cent by means of interest rate/currency swaps. These hedging transactions are treated as trading in accordance with IAS 39.

In 2008, fuel costs accounted for 20.8 per cent of the Lufthansa Group's operating expenses (previous year: 17.1 per cent). Significant changes in fuel prices can therefore have a considerable effect on the Group's result.

Fuel price risk is generally limited by the use of crude oil hedges. The hedging level and the time horizon depend on the risk profile, which is derived from the business model of a Group company. As a rule up to 5 per cent of exposure is hedged monthly for up to 24 months by spread options and other combinations of hedges. This means that the maximum hedging level reached in month seven is 85 per cent.

Deviations from the rule-based hedging policy described above are permitted within the scope of a pre-defined system of limits.

From a year-end perspective fuel exposure was as follows:

		2009	2010
Fuel requirement	1,000 tonnes	8,272	8,541
Hedges	1,000 tonnes	5,203	2,223
Hedging level	%	62.9	26.0

At the balance sheet date, exchange rate, interest and fuel price risks are hedged by means of the following hedging transactions:

in €m	Fair value hedge		Cash flow hedge	
	Market value 31.12.2008	Market value 31.12.2007	Market value 31.12.2008	Market value 31.12.2007
Interest rate swaps	34	- 10	- 0*	- 0*
Spread options for fuel hedging	-	-	- 10	337
Hedging combinations for fuel hedging	-	-	- 152	216
Futures contracts for currency hedging	0*	- 2	290	- 235
Spread options for currency hedging	-	-	103	- 178
<b>Total</b>	<b>34</b>	<b>- 12</b>	<b>231</b>	<b>140</b>

\* Rounded below EUR 1m.

The market values stated for financial derivatives correspond to the price at which an independent third party would assume the rights and/or obligations from the financial instrument.

The fair values of interest rate derivatives correspond to their respective market values, which are measured using appropriate mathematical methods, such as discounting future cash flows. Discounting takes market-standard interest rates and the residual term of the respective instruments into account.

Currency futures and swaps are individually discounted to the balance sheet date based on their respective futures rates and the appropriate interest rate curve. The market prices of currency options and the options used to hedge fuel prices are determined using acknowledged option pricing models.

From a current perspective, the fuel price and currency cash flow hedges will have the following effects on the result for the period and/or on the acquisition costs of hedged capital expenditure:

Financial year in €m	Result for the period	First-time measurement of acquisition costs*	<b>Total</b>
2009	190	- 152	38
2010	48	- 27	21
2011	84	5	89
2012	61	15	76
2013	-	7	7
<b>Total</b>	<b>383</b>	<b>- 152</b>	<b>231</b>

\* Minus signs mean increased acquisition costs.

In 2008, EUR 605m for maturing fuel price hedges was booked from equity to reduce fuel expenses. For currency hedges EUR 460m was booked from equity to other operating income, EUR 369m to other operating expenses and EUR 161m to additional purchase costs for aircraft.

Interest rate swaps to hedge cash flows will also affect the result for the period as follows, taking effect successively over the time to maturity:

Maturity financial year in €m	<b>Market value 31.12.2008</b>
2011	0*
<b>Total</b>	<b>0*</b>

\* Rounded below EUR 1m.



Changes in the market values of derivatives which do not qualify as effective hedging transactions under IAS 39 can be seen in the income statement (Note 13).

The following sensitivity analyses as prescribed in IFRS 7 show how net profit and equity would change if the price risk variables had been different from the perspective of the balance sheet date.

in €m	Effects on net profit**	Effects on equity**
<b>Fuel price</b>		
+ 10%	–	+ 46
– 10%	–	– 45
<b>Currency – USD</b>		
+ 10%	– 16	+ 621
– 10%	+ 10	– 500
<b>Currency – JPY</b>		
+ 10%	– 9	– 38
– 10%	+ 8	+ 31
<b>Currency – GBP</b>		
+ 10%	– 0*	+ 2
– 10%	+ 1	– 2
<b>Interest</b>		
– 100 basis points	+ 16	+ 23
+ 100 basis points	– 17	– 22

\* Rounded below EUR 1m.

\*\* All amounts after deferred tax effects; +/- signs relate to net profit and/or equity.

The figures shown above for the interest risk component do not reflect sensitivity for a non-current bonded loan for which value-at-risk analysis was carried out. The performance of this non-current bonded loan is linked to a special portfolio of investments. This bonded loan (previous year: two bonded loans) includes embedded derivatives and is measured at fair value through profit and loss (fair value as of 31 December 2008: EUR 106m; previous year: EUR 254m).

The historical value-at-risk analysis carried out shows that in 99 per cent of all cases losses did not exceed 1.1 per cent (EUR 1m) in the following ten days.

### Liquidity risk

Complex financial planning systems enable Lufthansa to identify its future liquidity position at an early stage. Based on the results of the Group strategy and planning processes, a monthly rolling liquidity plan is drawn up with a planning horizon of 24 months. This planning method offers an up-to-date picture of anticipated liquidity developments as regards the Company and currencies.

Lufthansa holds a liquidity reserve of at least EUR 2bn that is available at short notice. As of 31 December 2008, the Lufthansa Group held confirmed unused lines of credit totalling EUR 1.8bn (previous year: EUR 2.3bn).

A maturity analysis for the borrowing stated in Note 40, including interest rate derivatives listed in Note 27 and based on undiscounted gross cash flows including the relevant interest payments, shows the following projected cash outflows from the perspective of the balance sheet date 31 December 2008.

in €m	
1st quarter	220
Up to 1 year *	358
1–5 years	2,192
Later	1,394

\* Without payments in 1st quarter.

### Credit risk

The sale of passenger travel and freight documents mostly takes place via agencies. These agencies are mostly connected to national clearing systems for billing passenger and freight sales. The creditworthiness of the agents is reviewed by the clearing system responsible. Due to the broad diversification, credit risk for the agencies is relatively low worldwide.

Receivables and liabilities between airlines are offset through bilateral arrangements or via the IATA clearing house, insofar as the contracts underlying services do not explicitly specify otherwise. Systematic settlement of monthly receivables and liability balances significantly reduces the default risk. Service contracts occasionally require collateral for miscellaneous transactions.

All other contractual relationships are subject to credit rules, which, depending on the type and volume of the contract involved, require collateral, credit ratings/references or historical data from prior dealings, particularly payment history, in order to avoid defaults.

Counterparty risks in connection with credit card companies are monitored closely and incoming payments reviewed daily. Payment targets with some credit card companies were significantly reduced in 2007 and 2008 to lessen default risk.

If risks are identified receivables are written down accordingly.

As of 31 December 2008, the maximum credit risk from the potential insolvency of debtors for loans and receivables was EUR 3,490m, made up as follows:

<b>Credit risk</b>		
in €m	<b>31.12.2008</b>	31.12.2007
Loans	162	190
Non-current receivables	313	209
Trade receivables and other current receivables	3,015	3,448
<b>Total</b>	<b>3,490</b>	<b>3,847</b>

Loans and receivables impaired developed as follows:

in €m	<b>1.1.2008</b>
Gross amount	133
Impairment charges	- 121
<b>Carrying amount 1.1.2008</b>	<b>12</b>

in €m	<b>31.12.2008</b>
Gross amount	200
Impairment charges	- 175
<b>Carrying amount 31.12.2008</b>	<b>25</b>

A further EUR 120m (previous year: EUR 155m) was already past due, but not yet written down.

The term structure of overdue receivables is as follows:

in €m	
Less than 90 days	78
Between 90 and 180 days	11
More than 180 days	31

There is collateral of EUR 10m (previous year: EUR 1m) for the receivables which were impaired. There is no collateral for overdue receivables not yet written down.

There is a credit risk on available-for-sale financial assets in the amount of the securities which do not represent equity instruments. Securities classified as non-current and current are made up as follows:

in €m	<b>31.12.2008</b>
Debt instruments	2,280
Equity instruments	63
<b>Total securities</b>	<b>2,343</b>

Securities representing debt are rated as follows (Standard & Poor's):

in €m	
AAA	826
AA+	52
AA	165
AA-	377
A+	255
A	177
A-	232
BBB+	98
BBB	54
Below BBB or unrated	44

The credit risk from derivative financial instruments is that of a counterparty's insolvency. The maximum credit risk is the sum of transactions with the business partners in question for which the market values are on balance positive.

As of 31 December 2008, the credit risk from derivative financial instruments, which are an effective part of a hedging relationship, was EUR 472m (previous year: EUR 553m). The counterparty default risk for financial market transactions is limited by defining a maximum risk, taking the credit score given by recognised rating agencies into account.

Positive market values on the balance sheet date exist for transactions with business partners rated as follows (Standard & Poor's):

in €m	
AA	38
AA–	181
A+	93
A	144
A–	13
Unrated	3

The credit risk arising from financial derivatives shown at fair value through profit and loss amounted to EUR 66m as of 31 December 2008, and consisted of the total amount of business with contractual partners that on balance showed a positive market value. The contractual partners have the following ratings (Standard & Poor's):

in €m	
AAA	7
AA+	2
AA	3
AA–	35
A+	2
A	16
A–	0*
BBB	1

\* Rounded below EUR 1m.

## 49) Segment reporting

The Lufthansa Group operates in five major business segments: scheduled passenger air traffic ("Passenger Transportation") via Deutsche Lufthansa AG, Lufthansa CityLine GmbH, Swiss International Air Lines AG, Air Dolomiti S.p.A., Eurowings Luftverkehrs AG and Germanwings GmbH; scheduled airfreight services ("Logistics") via the Lufthansa Cargo group; maintenance, repair and overhaul ("MRO") via the Lufthansa Technik group; information technology ("IT Services") via the Lufthansa Systems group; and catering ("Catering") via the LSG Lufthansa Service/Sky Chefs group.

Lufthansa Commercial Holding GmbH, AirPlus Servicekarten GmbH, Lufthansa Flight Training GmbH and other equity investments which supplement the Lufthansa Group's operating business make up the "Service and Financial Companies" business segment.

Sales and revenue between business segments are based on arm's length prices. Administrative services are charged as cost allocations.

For information on external traffic revenue see Note 3.

## Segment information by business segment for 2008

in €m	Passenger Trans- portation*	Logistics*	MRO	IT Services	Catering*	Service and Financial Companies*	Segment total	Recon- ciliation	Group
External revenue	17,730	2,882	2,216	279	1,763	–	24,870		24,870
- of which traffic revenue	16,853	2,767	–	–	–	–	19,620	378	19,998
Inter-segment revenue	663	25	1,501	378	562	–	3,129	– 3,129	
<b>Total revenue</b>	<b>18,393</b>	<b>2,907</b>	<b>3,717</b>	<b>657</b>	<b>2,325</b>	<b>–</b>	<b>27,999</b>	<b>– 3,129</b>	<b>24,870</b>
Other operating income	1,225	101	156	52	92	465	2,091	– 161	1,930
Total operating income	19,618	3,008	3,873	709	2,417	465	30,090	– 3,290	26,800
Operating expenses	18,896	2,844	3,574	669	2,347	396	28,726	– 3,280	25,446
- of which cost of material and services	11,503	2,010	1,828	79	1,059	31	16,510	– 2,803	13,707
- of which staff costs	3,215	332	1,010	232	824	95	5,708	– 6	5,702
- of which depreciation and amortisation	938	123	84	37	59	29	1,270	5	1,275
<b>Operating result</b>	<b>722</b>	<b>164</b>	<b>299</b>	<b>40</b>	<b>70</b>	<b>69</b>	<b>1,364</b>	<b>– 10</b>	<b>1,354</b>
Other segment income	123	16	29	1	24	195	388	– 171	217
Other segment expenses	7	– 4	5	2	4	236	250	– 62	188
- of which impairment losses	14	–	–	–	1	7	22	– 7	15
Result of investments shown at equity	– 50	17	6	–	4	1	– 22	22	–
<b>Segment result</b>	<b>788</b>	<b>201</b>	<b>329</b>	<b>39</b>	<b>94</b>	<b>29</b>	<b>1,480</b>	<b>– 97</b>	<b>1,383</b>
Segment assets	10,641	976	2,690	244	1,215	3,208	18,974	3,434	22,408
- of which from investments shown at equity	76	31	117	–	59	3	286	12	298
Segment liabilities	7,594	521	1,193	200	475	1,337	11,320	4,169	15,489
- of which from investments shown at equity	–	–	–	–	–	–	–	–	–
Segment capital expenditure	1,390	22	122	58	116	198	1,906	248	2,154
- of which from investments shown at equity	–	–	1	–	3	10	14	– 14	–
Other significant non-cash expenses	242	15	59	12	24	3	355	–	355
Staff on balance sheet date	48,599	4,655	19,804	3,033	30,273	1,436	107,800	–	107,800
Average staff numbers	48,697	4,619	19,199	3,002	31,215	1,391	108,123	–	108,123

\* Previous year's figures only partially comparable due to changes in the group of consolidated companies.

## Segment information by business segment for 2007

in €m	Passenger Trans- portation**	Logistics**	MRO	IT Services	Catering**	Service and Financial Companies**	Segment total	Recon- ciliation	Group
External revenue	15,367	2,718	2,185	281	1,869	–	22,420		22,420
- of which traffic revenue	14,801	2,598	–	–	–	–	17,399	169	17,568
Inter-segment revenue	589	18	1,386	398	527	–	2,918	– 2,918	
<b>Total revenue</b>	<b>15,956</b>	<b>2,736</b>	<b>3,571</b>	<b>679</b>	<b>2,396</b>	<b>–</b>	<b>25,338</b>	<b>– 2,918</b>	<b>22,420</b>
Other operating income	912	82	168	36	82	387	1,667	– 294	1,373
Total operating income	16,868	2,818	3,739	715	2,478	387	27,005	– 3,212	23,793
Operating expenses	16,042	2,682	3,446	692	2,378	334	25,574	– 3,159	22,415
- of which cost of material and services	9,270	1,836	1,845	38	1,081	32	14,102	– 2,549	11,553
- of which staff costs	2,959	334	992	243	886	89	5,503	– 5	5,498
- of which depreciation and amortisation	822	128	83	38	57	30	1,158	2	1,160
<b>Operating result</b>	<b>826</b>	<b>136</b>	<b>293</b>	<b>23</b>	<b>100</b>	<b>53</b>	<b>1,431</b>	<b>– 53</b>	<b>1,378</b>
Other segment income	136	19	17	2	9	244	427	– 110	317
Other segment expenses	3	0*	1	45	4	62	115	– 6	109
- of which impairment losses	–	–	–	43	–	1	44	–	44
Result of investments shown at equity	187	15	10	–	11	0*	223	– 223	–
<b>Segment result</b>	<b>1,146</b>	<b>170</b>	<b>319</b>	<b>– 20</b>	<b>116</b>	<b>235</b>	<b>1,966</b>	<b>– 380</b>	<b>1,586</b>
Segment assets	10,064	1,209	2,397	216	1,177	3,507	18,570	3,750	22,320
- of which from investments shown at equity	126	30	103	–	60	4	323	–	323
Segment liabilities	7,298	522	1,153	198	546	1,542	11,259	4,161	15,420
- of which from investments shown at equity	–	–	–	–	–	–	–	–	–
Segment capital expenditure	1,228	18	194	54	153	70	1,717	– 339	1,378
- of which from investments shown at equity	58	–	–	–	–	–	58	– 58	–
Other significant non-cash expenses	286	27	64	12	23	4	416	–	416
Staff on balance sheet date	47,230	4,607	18,892	3,102	30,101	1,329	105,261	–	105,261
Average staff numbers	43,088	4,589	18,733	3,175	29,880	1,314	100,779	–	100,779

\* Rounded below EUR 1m.

\*\* Previous year's figures only partially comparable due to changes in the group of consolidated companies.

The reconciliation column includes both the effects of consolidation activities and the amounts resulting from different definitions of segment item contents compared with the corresponding Group items.

Eliminated business segment revenue generated with other consolidated business segments is shown in the reconciliation column for revenue. For other operating income, inter-segment income has also been eliminated (reconciliation column for other income). In the 2008 financial year it consisted especially of rental income from subletting buildings, foreign currency transaction gains from short-term intra-Group foreign currency loans and revenue from intra-Group training and services. To the extent that eliminated revenue and other operating income is matched by operating expenses in the companies receiving the services, these expenses are also eliminated (reconciliation columns for expenses).

The amounts in the reconciliation column for the operating result include the effects of consolidation procedures on profit or loss in which income and expense do not figure for two companies at the same amount, or in the same period.

Other segment income includes, for example, income from the reversal of provisions and book gains from disposals, which are attributed to the segment result but not to the operating result. Here too, income from other segments is eliminated (reconcili-

ation column for other segment income). The same applies vice versa to other segment expenses, which include expense items not attributable to operations but which must be reflected in the segment result, such as accounting losses or impairment charges. The components of the consolidated operating result which are included in neither the operating nor the segment result, such as gains/losses from current financial investments, for example, are added back in the reconciliation columns for other segment income and other segment expenses.

By contrast, the result of the segment's equity investments accounted for using the equity method is part of the segment result, at Group level not belonging to the operating result, however, but to the financial result. The corresponding amounts are, therefore, fully eliminated in the reconciliation column for the result of investments shown at equity.

Segment assets primarily include property, plant and equipment, intangible assets, equity investments accounted for using the equity method, inventories and receivables.

Segment liabilities consist of operating liabilities and provisions. Tax and financial items have not been allocated to segments. However, segment assets and segment liabilities for the Service and Financial Companies segment do include the financial assets and liabilities of the financial companies it contains.

<b>31.12.2008</b>	Passenger Transportation	Logistics	MRO	IT Services	Catering	Service and Financial Companies	Segment total	Reconciliation		<b>Group</b>
in €m								Not allocated	Consolidation	
Segment assets	10,565	945	2,573	244	1,156	3,205	18,688	10,066	- 6,644	22,110
Financial investments shown at equity	76	31	117	0	59	3	286	-	12	298
Total segment assets	10,641	976	2,690	244	1,215	3,208	18,974	10,066	- 6,632	22,408
Segment liabilities	7,594	521	1,193	200	475	1,337	11,320	9,672	- 5,503	15,489

<b>31.12.2007</b>	Passenger Transportation	Logistics	MRO	IT Services	Catering	Service and Financial Companies	Segment total	Reconciliation		<b>Group</b>
in €m								Not allocated	Consolidation	
Segment assets	9,938	1,179	2,294	216	1,117	3,503	18,247	10,058	- 6,308	21,997
Financial investments shown at equity	126	30	103	-	60	4	323	-	-	323
Total segment assets	10,064	1,209	2,397	216	1,177	3,507	18,570	10,058	- 6,308	22,320
Segment liabilities	7,298	522	1,153	198	546	1,542	11,259	7,150	- 2,989	15,420



Segment capital expenditure includes additions to property, plant and equipment and intangible assets, as well as expenditure for equity investments shown at equity; the Service and Financial Companies segment also includes capital expenditure for non-current financial assets.

### Segment information by region for 2008

in €m	Europe including Germany	North America	Central and South America	Asia/Pacific	Middle East	Africa	Other	Segment total
Traffic revenue**	13,635	2,710	466	2,453	358	376	–	19,998
Other operating revenue	2,592	934	122	764	281	179	0*	4,872
Other segment income***	1,995	34	11	53	20	16	18	2,147
Income from equity valuation	– 52	9	1	20	–	–	–	– 22
Segment assets	16,800	1,304	90	579	99	102	–	18,974
- of which from equity valuation	108	62	6	122	–	–	–	298
Segment capital expenditure	1,869	25	1	10	–	1	–	1,906
- of which from equity valuation	0*	1	12	1	–	–	–	14

\* Rounded below EUR 1m.

\*\* Traffic revenue is allocated according to the place of sale.

\*\*\* Other segment income corresponds to operating income of the Group (incl. income from financial assets).

### Segment information by region for 2007

in €m	Europe including Germany	North America	Central and South America	Asia/Pacific	Middle East	Africa	Other	Segment total
Traffic revenue**	11,953	2,439	335	2,317	228	296	–	17,568
Other operating revenue	2,566	951	108	819	285	123	0*	4,852
Other segment income***	1,548	51	8	45	13	10	15	1,690
Income from equity valuation	190	9	0*	24	–	–	–	223
Segment assets	16,418	1,354	94	540	86	78	–	18,570
- of which from equity valuation	153	56	6	108	–	–	–	323
Segment capital expenditure	1,678	28	1	9	–	1	–	1,717
- of which from equity valuation	58	–	–	–	–	–	–	58

\* Rounded below EUR 1m.

\*\* Traffic revenue is allocated according to the place of sale.

\*\*\* Other segment income corresponds to operating income of the Group (incl. income from financial assets).

The allocation of traffic revenue to regions is based on the original place of sale, the allocation of other revenue is based on the geographical location of the customer, and the allocation of other segment income is based on the place where the service is provided. Items resulting from investments valued at equity are allocated to regions depending on the location of the head office of the investment in question.

The regions are defined on a geographical basis. An exception is made for traffic revenue generated in the states of the former Soviet Union, in Turkey and in Israel, which is attributed to Europe.

The "other" column consists of items that cannot be allocated to any specific region.

Lufthansa controls its air traffic operations on the basis of network results and not on the basis of regional earnings contributions. The same applies to the Catering segment. Consequently, the presentation of regional segment results is of no informational value for the Lufthansa Group.

The notes on the Passenger Transportation business segment in the general section of this annual report include a presentation of traffic revenue generated in the Passenger Transportation segment by traffic region, rather than by original place of sale.

## 50) Related party disclosures

The Lufthansa Group business segments render numerous services to related parties within the scope of their ordinary business activities. Conversely, the companies in question provide services to the Lufthansa Group as part of their normal business. These extensive supply and service relationships take place on the basis of market prices.

In addition, the Group and certain non-consolidated subsidiaries have concluded numerous billing agreements, partly governing the joint use of services. In these cases the administrative services provided are charged as cost allocations.

The Group's cash management is centralised, and, in this respect, the Lufthansa Group also performs a "banking function" vis-à-vis the non-consolidated companies of the Group. Non-consolidated Group companies included in the Group's cash management invest their available cash with the Group or borrow funds from the Group, and carry out their derivative hedging transactions with the Group. All transactions take place on arm's length terms.

Due to geographical proximity in many cases, a large number of subletting contracts exist between the Lufthansa Group and related parties. In these cases the Group usually charges the rental costs and incidental expenses incurred to the companies in question on a pro rata basis.

The following table shows the volume of significant services provided to or by related parties.

in €m	Volume of services rendered		Volume of services received	
	2008	2007	2008	2007
<b>Non-consolidated subsidiaries</b>				
Airline Accounting Center Sp. z o. o.	1	1	6	4
Albatros Versicherungsdienste GmbH	7	2	46	51
Cargo Future Communications (CFC) GmbH	0*	0*	5	5
Delvag Luftfahrtversicherungs-AG	9	11	8	9
DLH Fuel Company mbH	15	7	684	450
Global Tele Sales (PTY) Ltd., South Africa	1	1	9	8
Global Tele Sales Ltd., Ireland	0*	1	10	13
Global Telesales of Canada, Inc.	0*	0*	6	6
GlobeGround India Private Ltd.	0*	0*	7	8
LRS Lufthansa Revenue Services GmbH	11	9	49	53
Lufthansa Cagri Merkezi ve Müsteri Hizmetleri A.S.	0*	0*	5	4
Lufthansa Engineering and Operational Services GmbH	5	5	26	27
Lufthansa Global Tele Sales GmbH	1	1	11	10
Lufthansa Service-Center Kassel GmbH	0*	1	8	8
Lufthansa Systems FlightNav AG, Switzerland	4	2	15	17
Lufthansa Systems Hungaria Kft	1	2	26	20
Lufthansa Systems Network Services GmbH	1	1	50	40
Lufthansa Systems Poland sp. z o.o.	0*	0*	6	6
Lufthansa Technical Training GmbH	7	8	24	22
Lufthansa Technik Budapest Repülőgép Nagyjavító Kft.	6	6	28	27
Lufthansa Technik Logistik of America LLC	2	4	14	13
Lufthansa Technik Logistik Services GmbH	1	-	6	-
Lufthansa Technik Malta Limited	5	1	9	8
Lufthansa Technik Services India Private Limited	14	15	2	1
Lufthansa Technik Shenzhen Co., Ltd.	6	3	4	4
Lufthansa Technik Tulsa Corporation	3	3	6	5
Lufthansa Technik Turbine Shannon Limited	3	2	19	14
LZ-Catering GmbH	9	6	15	11

\* Rounded below EUR 1m.

in €m	Volume of services provided		Volume of services received	
	2008	2007	2008	2007
<b>Joint ventures</b>				
Aircraft Maintenance and Engineering Corp.	4	5	12	5
Alitalia Maintenance Systems S.p.A.	11	23	11	23
EFM – Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH	0*	0*	7	8
FraCareServices GmbH	5	–	1	–
GlobeGround Berlin GmbH	–	0*	–	27
Shanghai Pudong International Airport Cargo Terminal Co. Ltd.	0*	0*	5	1
Star Alliance Services GmbH	8	9	8	7
Terminal 2 Betriebsgesellschaft mbH & Co oHG	11	3	132	129
Terminal One Group Association, L.P.	0*	0*	8	9
<b>Associated companies</b>				
Airmail Center Frankfurt GmbH	0*	0*	7	6
AviationPower GmbH	0*	0*	17	14
BELAC LLC	0*	0*	9	11
British Midland plc	14	6	6	20
HEICO Aerospace Holdings Corp.	–	–	23	16
Jade Cargo International Company Limited	7	1	46	6
LSG Lufthansa Service Hong Kong Ltd.	2	2	7	9

\* Rounded below EUR 1m.

No individual shareholders of Lufthansa AG exercise significant influence over the Group. For related-party transactions with members of the Executive Board and the Supervisory Board please refer to Note 51.

## 51) Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed on page 201 et. seq.

### Remuneration report for the Executive Board

The Executive Board's remuneration consists of the following components:

- Basic remuneration, paid monthly as a salary.
- Variable remuneration depends on the Lufthansa Group's operating result and the change in this result compared with the

previous year. In years with weak operating results due to extraordinary exogenous factors, the Steering Committee may award Executive Board members a discretionary bonus.

- Executive Board members are also able to participate in the option programmes for managers, since 2006 with their own parameters, which vary from those of the general managers' programme (Note 42).

The following remuneration was paid to individual Executive Board members in 2008:

in €	Basic salary	Variable remuneration	Payments from maturing options programmes	Change in fair value of option programmes	Other *	Total
Wolfgang Mayrhober	726,250	1,354,000	252,000	602,043	191,345	3,125,638
Stephan Gemkow	518,750	947,800	42,000	371,545	148,419	2,028,514
Stefan Lauer	518,750	947,800	105,000	342,445	164,420	2,078,415
<b>Effective remuneration for the 2008 financial year</b>	<b>1,753,750</b>	<b>3,249,600</b>	<b>399,000</b>	<b>1,316,033</b>	<b>504,184</b>	<b>7,232,567</b>

\* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Note 42), benefits from concessionary travel in accordance with the relevant IATA regulations and attendance fees and daily allowances for work on the supervisory boards of subsidiaries.

The following remuneration was paid to individual Executive Board members in 2007:

in €	Basic salary	Variable remuneration	Payments from maturing options programmes	Change in fair value of option programmes	Other *	Total
Wolfgang Mayrhober	700,000	1,400,000	–	398,149	107,847	2,605,996
Stephan Gemkow	458,333	916,667	17,000	178,809	84,803	1,655,612
Stefan Lauer	500,000	1,000,000	34,000	186,703	104,132	1,824,835
<b>Effective remuneration for the 2007 financial year</b>	<b>1,658,333</b>	<b>3,316,667</b>	<b>51,000</b>	<b>763,661</b>	<b>296,782</b>	<b>6,086,443</b>
<b>Reconciliation with recognised remuneration:</b>						
Recognition of the discretionary bonus for 2006 as an expense in 2007**		440,000				440,000
<b>Expenses according to the income statement for 2007</b>	<b>1,658,333</b>	<b>3,756,667</b>	<b>51,000</b>	<b>763,661</b>	<b>296,782</b>	<b>6,526,443</b>

\* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Note 42), benefits from concessionary travel in accordance with the relevant IATA regulations and attendance fees and daily allowances for work on the supervisory boards of subsidiaries.

\*\* The discretionary bonus was adopted in March 2007 for 2006.

As of 31 December 2008 (2007), the members of the Executive Board hold the following shares from current option programmes:

	2004 programme		2005 programme		2006 programme		2007 programme		2008 programme	
	Number of shares purchased from own funds	Number of outperformance options	Number of shares purchased from own funds	Number of outperformance options	Number of shares purchased from own funds	Number of outperformance options	Number of shares purchased from own funds	Number of outperformance options	Number of shares purchased from own funds	Number of outperformance options
Wolfgang Mayrhuber	– (8,808)	– (24)	– (7,416)	– (24)	10,169 (10,169)	90 (90)	11,714 (11,714)	45 (45)	16,740 (–)	45 (–)
Stephan Gemkow (from 1.6.2006)	– (–)	– (–)	– (1,236)	– (4)	6,779 (6,779)	60 (60)	7,809 (7,809)	30 (30)	11,160 (–)	30 (–)
Stefan Lauer	– (–)	– (–)	– (3,090)	– (10)	6,779 (6,779)	60 (60)	7,809 (7,809)	30 (30)	10,788 (–)	29 (–)

See Note 42 for the caps on payments.

The pro rata change for 2008 in the fair value of option programmes forms part of the individual Executive Board members' total remuneration and is stated in the remuneration table.

The total fair value of the 2008 option programme for Mr Mayrhuber on the date of issue was EUR 396,225. For Mr Gemkow the figure was EUR 264,150 and for Mr Lauer EUR 255,345.

Serving members of the Executive Board will benefit from various contractual entitlements when their employment comes to an end.

Pensions and payments to surviving dependants were revised in 2006. For each Executive Board member a personal pension account has been set up with effect from 1 January 2006, into which Deutsche Lufthansa AG pays contributions amounting to 25 per cent of their contractually guaranteed annual salary and bonus during the time of their employment. Since 1 April 2007, the obligations have been funded by equivalent contributions to the Lufthansa Pension Trust. The investments guidelines for the pension account are based on the same investment concept as applies to staff members of Deutsche Lufthansa AG.

As of 31 December 2008, Mr Mayrhuber's retirement benefit entitlement amounted to EUR 10.0m (previous year: EUR 10.6m). That of Mr Gemkow was EUR 3.3m (previous year: EUR 3.3m) and that of Mr Lauer EUR 4.7m (previous year: EUR 4.9m).

If employment ends before an Executive Board member reaches retirement age, he or she retains the pension entitlement from the pension account, which is continued without further contributions. On reaching retirement age (65 or early retirement between 60 and 65), or in the event of disability, the account holder will acquire a pension credit equivalent to the balance of the pension account at that time. Lufthansa guarantees a minimum payment equivalent to the contributions paid in. For Mr Gemkow and Mr Lauer a supplementary risk capital sum will be added to the pension credit in the event of a claim for a disability pension or a pension for surviving dependants. This sum will consist of the average contributions paid into the pension account over the past three years multiplied, when a disability pension entitlement arises, by the number of full years by which the claimant is short of the age of 60.

The pension credit is paid out in ten instalments. On application by the Executive Board member or his widow the pension credit will, subject to approval by the Company, be converted into a pension. On application by the Executive Board member or his surviving dependants, a single payment or payment in fewer than ten instalments may also be made.

The widow's pension is 60 per cent of the deceased's pension entitlement. If the Board member dies while in the Company's employment his widow will be paid his full salary until the end of the financial year, or for a period of at least six months.



The cost of pension entitlements accrued in 2008 for Mr Mayrhofer was EUR 0.5m; for Mr Gemkow and Mr Lauer EUR 0.4m each. The total cost of EUR 1.3m (previous year: EUR 1.4m), plus EUR 7.2m (previous year: EUR 6.5m) in overall remuneration as shown in the remuneration table is listed under staff costs, amounting to EUR 8.5m (previous year: EUR 7.9m).

If Mr Lauer's employment contract is terminated for reasons for which he is not responsible when he is over 55, or the term of his current contract extends beyond his 55th birthday, he is entitled to a transitional pension until he becomes 60. His transitional pension entitlement amounts to 45 per cent of his fixed basic salary, increasing by 3 percentage points up to a maximum of 60 per cent for each year of service commenced from 1 January 2007 as a full member of the Executive Board.

If Mr Gemkow's employment contract is terminated for reasons for which he is not responsible when he is over 58 he is entitled to a transitional pension until he becomes 60. This entitlement, amounting to 30 per cent of his fixed basic salary, will take effect once Mr Gemkow has served at least five years as a full Board member of Deutsche Lufthansa AG or Lufthansa Cargo AG, and has been reappointed by the Supervisory Board. From this time onward, his entitlement will increase for each year of service commenced as a full member of the Executive Board of Deutsche Lufthansa AG by 3 percentage points up to a maximum of 60 per cent of his basic salary.

Deutsche Lufthansa AG pays outgoing Executive Board members 65 per cent of their last basic salary as compensation for the two-year period during which they are forbidden to compete. During this period all pension entitlements are dormant.

If a contract is terminated early for reasons other than good cause or a change of control, the Company will not remunerate more than the value of outstanding entitlements for the remainder of the contract, as recommended by the German Corporate Governance Code, whereby these payments including ancillary benefits may not exceed annual remuneration for two years (maximum compensation). Maximum compensation is calculated by reference to total remuneration for the last full financial year before departure from the Executive Board, as shown in the remuneration report, and including expected total remuneration for the current financial year.

If the contract between the Executive Board member and Deutsche Lufthansa AG is terminated in connection with a change of control at the Company, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract.

In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract and described above.

Current payments to former members of the Executive Board and their surviving dependants came to EUR 3.2m (EUR 3.4m). This includes payments by subsidiaries as well as benefits in kind and concessionary travel.

Pension obligations toward former Executive Board members and their surviving dependants amount to EUR 36.9m (previous year: EUR 39.7m). They are included in pension provisions (see Note 38).

### Remuneration report for the Supervisory Board

In the 2008 financial year, Supervisory Board remuneration included EUR 522,000 (previous year: EUR 514,000) in fixed payments for work on the Lufthansa AG Supervisory Board. In addition, variable payments amounting to EUR 1,174,000 were made (previous year: EUR 2,572,000). Variable remuneration depends on the dividend paid for the financial year. The figures for the individual Supervisory Board members are shown in the table on page 198.

Other remuneration, mainly attendance fees, amounted to EUR 109,000 (previous year: EUR 89,000), including benefits for concessionary travel in accordance with IATA regulations.

In addition, as in the previous year, Dr Schlede was paid EUR 32,000 in 2008 for consultancy services in connection with the integration of Swiss International Airlines into the Lufthansa Group.

The Lufthansa AG Supervisory Board members were also paid EUR 39,000 (previous year: EUR 43,000) for work on supervisory boards of Lufthansa Group companies.

in €	2008				2007			
	Fixed remuneration	Remuneration for committee work	Variable remuneration	Total Supervisory Board remuneration	Fixed remuneration	Remuneration for committee work	Variable remuneration	Total Supervisory Board remuneration
Dipl.-Ing. Dr-Ing. E.h. Jürgen Weber, Chairman	60,000	15,000	168,750	243,750	60,000	15,000	375,000	450,000
Frank Bsirske, Deputy Chairman	30,000	5,000	78,750	113,750	30,000	5,000	175,000	210,000
Jacques Aigrain (since 3.7.2007)	20,000	–	45,000	65,000	10,000	–	50,000	60,000
John Allan (since 29.4.2008)	13,470	–	30,308	43,778	–	–	–	–
Dr Clemens Börsig (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
Dr Werner Brandt (since 29.4.2008)	13,470	3,368	37,884	54,722	–	–	–	–
Bernd Buresch (since 29.4.2008)	13,470	3,368	37,884	54,722	–	–	–	–
Manfred Calsow (until 29.4.2008)	6,530	1,632	18,366	26,528	20,000	5,000	125,000	150,000
Jörg Cebulla (since 29.4.2008)	13,470	–	30,308	43,778	–	–	–	–
Dr Gerhard Cromme (until 30.6.2007)	–	–	–	–	10,000	–	50,000	60,000
Michael Diekmann (until 29.4.2008)	6,530	1,632	18,366	26,528	20,000	5,000	125,000	150,000
Dipl.-Vwt. Jürgen Erwert	20,000	3,368	52,577	75,945	20,000	–	100,000	120,000
Robert Haller (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
Dr Jürgen Hambrecht (since 29.4.2008)	13,470	3,368	37,884	54,722	–	–	–	–
Ulrich Hartmann	20,000	10,000	67,500	97,500	–	10,000	150,000	180,000
Dominique Hiekel (since 29.4.2008)	13,470	–	30,308	43,778	20,000	–	–	–
Steffen Kühhirt (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
Dr Otto Graf Lambsdorff (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
Dr Nicola Leibinger-Kammüller (since 29.4.2008)	13,470	–	30,308	43,778	–	–	–	–
Eckhard Lieb (since 29.4.2008)	13,470	3,368	37,884	54,722	–	–	–	–
Wolf Liebetrau (since 29.4.2008)	13,470	–	30,308	43,778	–	–	–	–
Simon Reimann (since 29.4.2008)	13,470	–	30,308	43,778	–	–	–	–
Willi Rörig (until 29.4.2008)	6,530	1,632	18,366	26,528	20,000	1,425	107,125	128,550
Dr Klaus G. Schlede	20,000	15,000	78,750	113,750	20,000	15,000	175,000	210,000
Werner Schmidt (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
Thomas von Sturm (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
Mirco A. Vorwerk (until 31.7.2007)	–	–	–	–	11,667	2,917	72,916	87,500
Dr Herbert Walter (since 29.4.2008)	13,470	–	30,308	43,778	–	–	–	–
Patricia Windaus (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
Dr Hans-Dietrich Winkhaus (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
Matthias Wissmann (since 29.4.2008)	13,470	–	30,308	43,778	–	–	–	–
Sabine Wolbold (since 1.8.2007 until 29.4.2008)	6,530	–	14,693	21,223	8,333	–	41,667	50,000
Dr Michael Wollstadt	20,000	5,000	56,250	81,250	20,000	5,000	125,000	150,000
Stefan Ziegler (since 29.4.2008)	13,470	–	30,308	43,778	–	–	–	–
Dr Klaus Zumwinkel (until 29.4.2008)	6,530	–	14,693	21,223	20,000	–	100,000	120,000
<b>Total</b>	<b>450,000</b>	<b>71,736</b>	<b>1,173,904</b>	<b>1,695,640</b>	<b>450,000</b>	<b>64,342</b>	<b>2,571,708</b>	<b>3,086,050</b>

## 52) Declaration of compliance in accordance with Section 161 German Stock Corporation Act (AktG)

The declaration of compliance with the German Corporate Governance Code required by Sec. 161 of the German Stock Corporation Act (AktG) was issued by the Executive Board and Supervisory Board, and made available to shareholders on the Internet.

## 53) Auditors' fees

The fees paid to the auditors in the financial year and charged to expenses in accordance with Sec. 319 Para. 1 HGB is made up as follows:

in €m	2008	2007
Annual audit	3.0	2.9
Other assurance or valuation services	0.7	0.2
Tax advisory services	0.5	0.4
Other services	0.9	0.6
<b>Total</b>	<b>5.1</b>	<b>4.1</b>

The following fees paid to overseas companies in the global Price-waterhouseCoopers federation were also recognised as expenses:

in €m	2008	2007
Annual audit	1.8	1.6
Other assurance or valuation services	0.3	0.1
Tax advisory services	0.4	0.8
Other services	0.1	0.1
<b>Total</b>	<b>2.6</b>	<b>2.6</b>

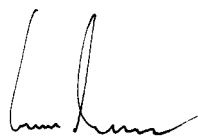
## Declaration by the legal representatives

We declare that to the best of our knowledge and according to the applicable accounting standards the consolidated financial statements give a true and fair view of the net assets, and the financial and earnings positions of the Group, and that the Group management report gives a true and fair view of the course of business, including the business result, and the situation of the Group, and suitably presents the opportunities and risks to its future development.

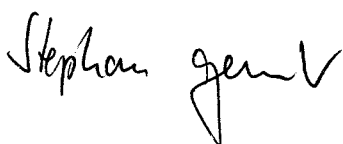
Cologne, 3 March 2009

### Deutsche Lufthansa Aktiengesellschaft


Executive Board



**Wolfgang Mayrhober**  
Chairman of the  
Executive Board,  
Chief Executive Officer



**Stephan Gemkow**  
Member of the  
Executive Board,  
Chief Financial Officer



**Stefan Lauer**  
Member of the  
Executive Board,  
Chief Officer for Aviation Services  
and Human Resources

# Auditors' report

We have audited the consolidated financial statements prepared by Deutsche Lufthansa Aktiengesellschaft, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge

of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Dusseldorf, 3 March 2009

**PricewaterhouseCoopers**  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

**Dr Norbert Vogelpoth**  
Wirtschaftsprüfer  
(German Public Auditor)

**Frank Hübner**  
Wirtschaftsprüfer  
(German Public Auditor)

# Supervisory Board and Executive Board

## Supervisory Board

### Dr Wolfgang Röllert

Honorary Chairman of the Supervisory Board  
Deutsche Lufthansa AG

## Voting members

### Dipl.-Ing. Dr.-Ing. E.h. Jürgen Weber

Former Chairman of the Executive Board  
Deutsche Lufthansa AG  
Chairman

### Frank Bsirske

Chairman ver.di  
Employee representative  
Deputy Chairman

### Jacques Aigrain

President of the Management Board  
Schweizerische Rückversicherungs-Gesellschaft  
until 12 February 2009

### John Allan

Member of the Executive Board  
Deutsche Post AG  
(Member from 29 April 2008)

### Dr Clemens Börsig

Chairman of the Supervisory Board  
Deutsche Bank AG  
(Member until 29 April 2008)

### Dr Werner Brandt

Member of the Executive Board SAP AG  
(Member from 29 April 2008)

### Bernd Buresch

Coordinator Enterprise Operation Center  
Employee representative  
(Member from 29 April 2008)

### Manfred Calsow

Business economist  
Employee representative  
(Member until 29 April 2008)

### Jörg Cebulla

Captain and Member of the Cockpit Union  
Employee representative  
(Member from 29 April 2008)

### Michael Diekmann

Chairman of the Executive Board Allianz SE  
(Member until 29 April 2008)

### Dipl.-Vwt. Jürgen Erwert

Administrative staff member  
Employee representative

### Robert Haller

Administrative staff member  
Employee representative  
(Member until 29 April 2008)

### Dr Jürgen Hambrecht

Chairman of the Executive Board  
BASF SE  
(Member from 29 April 2008)

### Ulrich Hartmann

Chairman of the Supervisory Board  
E.ON AG

### Dominique Hiekel

Purser  
Employee representative  
(Member from 29 April 2008)

### Dr Nicola Leibinger-Kammüller

Managing Partner and Chairwoman Managing Board  
TRUMPF GmbH + Co. KG  
(Member from 29 April 2008)

### Steffen Kühnert

Trade union secretary ver.di  
Employee representative  
(Member until 29 April 2008)

### Dr Otto Graf Lambsdorff

Lawyer and Honorary President  
Deutsche Schutzvereinigung für  
Wertpapierbesitz e.V.  
(Member until 29 April 2008)

### Eckhard Lieb

Engine maintenance mechanic  
Employee representative  
(Member from 29 April 2008)

### Wolf Liebetrau

Flight Manager  
Employee representative  
(Member from 29 April 2008  
until 31 December 2008)

### Simon Reimann

Flight attendant and member of the  
trade union UFO  
Employee representative  
(Member from 29 April 2008)

### Willi Rörig

Administrative staff member  
Employee representative  
(Member until 29 April 2008)

### Marlies Rose

Flight Manager  
Employee representative  
(Member from 1 January 2009)

### Dr Klaus G. Schlede

Former Deputy Chairman of the Executive Board  
Deutsche Lufthansa AG

### Werner Schmidt

Former Chairman of the Executive Board  
Bayerische Landesbank  
(Member until 29 April 2008)

### Thomas von Sturm

Captain  
Employee representative  
(Member until 29 April 2008)

### Dr Herbert Walter

Chairman of the Executive Board  
Dresdner Bank AG until 19 January 2009 and  
Member of the Executive Board Allianz SE until  
12 January 2009  
(Member from 29 April 2008)

### Patricia Windaus

Flight attendant  
Employee representative  
(Member until 29 April 2008)

### Dr Hans-Dietrich Winkhaus

Former Member of the Shareholder Committee  
Henkel KGaA  
(Member until 29 April 2008)

### Matthias Wissmann

President of the German Automotive Industry  
Federation (VDA)  
(Member from 29 April 2008)

### Sabine Wolbold

Purser and member of the  
trade union UFO  
Employee representative  
(Member until 29 April 2008)

### Dr Michael Wollstadt

Head IT Development Network Management  
Employee representative

### Stefan Ziegler

Captain  
Employee representative  
(Member from 29 April 2008)

### Dr Klaus Zumwinkel

Former Chairman of the Executive Board  
Deutsche Post AG  
(Member until 29 April 2008)

## Executive Board

### Wolfgang Mayrhuber

Chairman of the Executive Board  
Chief Executive Officer

### Stephan Gemkow

Member of the Executive Board  
Chief Financial Officer

### Stefan Lauer

Member of the Executive Board – Chief Officer for  
Aviation Services and Human Resources

## Supervisory Board Committees

### Steering Committee

**Dipl.-Ing. Dr Ing. E.h. Jürgen Weber** (Chairman)  
**Frank Bsirske** (Deputy Chairman)  
**Bernd Buresch** (from 29 April 2008)  
**Michael Diekmann** (until 29 April 2008)  
**Dr Jürgen Hambrecht** (from 29 April 2008)  
**Willi Rörig** (until 29 April 2008)

3 meetings in 2008

The Supervisory Board has, from its members and on the basis of parity, elected a Steering Committee. Members are the Chairman of the Supervisory Board, his deputy and two other members. The Steering Committee is responsible for defining, designing and concluding the employment contracts with the Executive Board members and for other HR matters involving Board members and authorised Company representatives (e.g. lending in accordance with Section 89 AktG). The Steering Committee represents the Company in dealings with the members of the Executive Board (Section 112 AktG). It is also responsible for contracts with members of the Supervisory Board (Section 114 AktG) and for lending to members of the Supervisory Board (Section 115 AktG). The Committee also rules on other HR matters which have to be submitted to the Supervisory Board for approval in accordance with the Rule of Procedure for the Executive Board. In the event of equal voting, the Chairman of the Supervisory Board shall have the casting vote.

### Audit Committee

**Dr Klaus G. Schlede** (Chairman)  
**Dr Werner Brandt** (from 29 April 2008)  
**Manfred Calsow** (until 29 April 2008)  
**Jürgen Ewert** (from 29 April 2008)  
**Ulrich Hartmann**  
**Eckhard Lieb** (from 29 April 2008)  
**Dr Michael Wollstadt**

2 meetings in 2008

The Supervisory Board has, from its members and on the basis of parity, elected an Audit Committee, whose membership was increased from four to six as of 29. April 2008. The Chairman is a member of the Supervisory Board elected to this post. The members of the Audit Committee should have special knowledge in the area of accounting, management and financial management. The task of the Audit Committee is to discuss, in particular and in accordance with instructions from the Chairman of the Supervisory Board, accounting, risk management matters and compliance, the necessary independence of the external auditor, awarding the audit order to the external auditor, the focus of audits and the remuneration agreement, and to make recommendations in this respect, in particular, to the Supervisory Board. The Audit Committee discusses the quarterly interim reports with the Executive Board prior to publication. The Audit Committee is also authorised to govern the internal organisation of the Committee's work in its own Rules of Procedure and to submit these to the Supervisory Board for its information.

### Nomination Committee

**Ulrich Hartmann**  
**Dr Klaus G. Schlede**  
**Dipl.-Ing. Dr Ing. E.h. Jürgen Weber**

2 meetings in 2008

The Supervisory Board has chosen, from among its shareholder representatives, a Nomination Committee consisting of three equal members. The Committee's task is to propose to the Supervisory Board suitable candidates to recommend for election to the Annual General Meeting.

### Arbitration Committee pursuant to Section 27 (3) of the Codetermination Act

**Dipl.-Ing. Dr Ing. E.h. Jürgen Weber** (Chairman)  
**Frank Bsirske** (Deputy Chairman)  
**Michael Diekmann** (until 29 April 2008)  
**Dr Jürgen Hambrecht** (from 29 April 2008)  
**Dominique Hickel** (from 29 April 2008)  
**Willi Rörig** (until 29 April 2008)

No meetings in 2008

The task of this Committee, appointed in accordance with Section 9 Paragraph 2 of the Company's Articles of Association, is to safeguard the rights according to Section 31 Paragraph 3 Sentence 1 of the Codetermination Act when appointing members to the Executive Board, and when revoking their appointment.

## Other mandates of the Supervisory Board members of Deutsche Lufthansa AG As of 31 December 2008

### Dipl.-Ing. Dr.-Ing. E. h. Jürgen Weber

- a) Allianz Lebensversicherungs-AG  
Bayer AG  
Deutsche Post AG  
(Chairman of the Supervisory Board)  
(until 31 December 2008)  
Voith AG  
Willy Bogner GmbH & Co. KGaA
- b) LP Holding GmbH (Chairman of the Supervisory Board)  
Tetra Laval Group

### Frank Bsirske

- a) IBM Central Holding GmbH  
RWE AG (Deputy Chairman of the Supervisory Board)

### Jacques Aigrain

- b) Swiss International Air Lines AG  
SWISS Re America Holding Corporation\*  
SWISS Re Life & Health America Holding Company\*  
SWISS Re Life & Health America Inc.\*  
SWISS Reinsurance America Corporation\*  
SWISS Re Financial Services Corporation\*  
SWISS Re Management (Luxemburg) S.A.\*

### John Allan

- a) Deutsche Postbank AG
- b) ISS Holding A/S  
ISS Equity A/S  
ISS A/S  
National Grid plc

### Dr Clemens Börsig

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)

- a) Bayer AG  
Daimler AG  
Deutsche Bank AG  
(Chairman of the Supervisory Board)  
Linde AG

### Dr Werner Brandt

- a) Heidelberger Druckmaschinen AG
- b) QIAGEN N.V.

### Bernd Buresch

- a) Lufthansa Systems AG

### Michael Diekmann

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)

- a) Allianz Deutschland AG\* (Chairman of the Supervisory Board)  
Allianz Global Investors AG\* (Chairman of the Supervisory Board)  
BASF AG  
Dresdner Bank AG\* (Chairman of the Supervisory Board)  
Linde AG (Deputy Chairman of the Supervisory Board)  
Siemens AG
- b) Assurances Générales de France\* (Vice President)  
Allianz S.p.A.\* (Vice President)

### Robert Haller

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)  
a) LSG Lufthansa Service Holding AG

### Dr Jürgen Hambrecht

- a) Daimler AG

### Ulrich Hartmann

- a) E.ON AG (Chairman of the Supervisory Board)  
Münchener Rückversicherungs-Gesellschaft AG
- b) Henkel AG & Co. KGaA (Proprietors' Committee)

### Steffen Kühnert

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)  
a) LSG Sky Chefs Deutschland GmbH  
(Deputy Chairman of the Supervisory Board)

### Dr Otto Graf Lambsdorff

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)  
a) HSBC Trinkaus & Burkhardt AG  
IVECO Magirus AG  
(Chairman of the Supervisory Board)

### Dr Nicola Leibinger-Kammüller

- a) Claas KGaA mbH  
Siemens AG  
Voith AG

### Willi Rörig

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)  
a) Lufthansa Cargo AG  
(Deputy Chairman of the Supervisory Board)

### Dr Klaus G. Schlede

- b) Swiss International Air Lines AG

### Werner Schmidt

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)  
a) Drees & Sommer AG  
(Deputy Chairman of the Supervisory Board)  
Herrenknecht AG  
(Deputy Chairman of the Supervisory Board)  
Wieland-Werke AG

### Dr Herbert Walter

- a) Deutsche Börse AG  
E.ON Ruhrgas AG
- b) Banco BPI S.A.  
Banco Popular Espaniol S.A.

### Dr Hans-Dietrich Winkhaus

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)  
a) ERGO-Versicherungsgruppe AG

### Matthias Wissmann

- a) Seeburger AG  
(Deputy Chairman)

### Dr Klaus Zumwinkel

(Status at time of retiring from Lufthansa Supervisory Board on 29 April 2008)  
a) Arcandor AG

## Mandates of the Executive Board members of Deutsche Lufthansa AG

### Wolfgang Mayrhofer

- a) BMW AG  
Eurowings Luftverkehrs AG\*  
(until 31 December 2008)  
Fraport AG  
Lufthansa Technik AG\*  
Münchener Rückversicherungs-Gesellschaft AG
- b) HEICO Corp., Florida  
Swiss International Air Lines AG\*

### Stephan Gemkow

- a) Delvag Luftfahrtversicherungs-AG\*  
(Chairman of the Supervisory Board)  
Evonik Industries AG  
LSG Lufthansa Service Holding AG\*  
Lufthansa AirPlus Servicekarten GmbH\*  
(Chairman of the Supervisory Board)  
Lufthansa Cargo AG\*  
Lufthansa Technik AG\*
- b) Amadeus Global IT Group S. A.  
JetBlue Airways  
WAM Acquisition S.A.

### Stefan Lauer

- a) LSG Lufthansa Service Holding AG\*  
(Chairman of the Supervisory Board)  
Lufthansa Cargo AG\*  
(Chairman of the Supervisory Board)  
Lufthansa Flight Training GmbH\*  
(Chairman of the Supervisory Board)  
Lufthansa Systems AG\*  
(Chairman of the Supervisory Board)  
Lufthansa Technik AG\*  
(Chairman of the Supervisory Board)  
Pensions-Sicherungs-Verein VVaG  
(Supervisory Board)
- b) AMECO Corp., Beijing  
(Deputy Chairman of the Board of Directors)  
ESMT European School of Management and Technology GmbH  
Sun Express Günes Ekspres Havacilik A.S., Antalya (Deputy Chairman of the Board of Directors)  
Landesbank Hessen-Thüringen Girozentrale

- a) Membership of supervisory boards required by law.
  - b) Membership of comparable supervisory bodies at companies in Germany and abroad.
- \* Group mandate.



## Major subsidiaries, joint ventures and associated companies

### Major subsidiaries as of 31.12.2008

Name, registered office	Equity stake in %	Voting shares in %	Different financial year
<b>Passenger Transportation segment</b>			
Air Dolomiti S.p.A. Linee Aeree Regionali Europee, Dossobuono di Villafranca (Verona), Italy	100.00	100.00	
AirTrust AG, Zug, Switzerland	100.00	100.00	
Eurowings Luftverkehrs AG, Nuremberg	100.00	100.00*	
Germanwings GmbH, Dortmund	100.00	100.00*	
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 5 KG, Grünwald	100.00	83.33	
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 7 oHG, Grünwald	100.00	66.67	
LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dortmund	100.00	100.00*	
LLG Nord GmbH & Co. Bravo KG, Grünwald	100.00	66.67	
Lufthansa CityLine GmbH, Cologne	100.00	100.00	
Lufthansa Leasing GmbH & Co. Fox-Alfa oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Bravo oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Charlie oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Delta oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Echo oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Golf oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Hotel oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Quebec oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Romeo oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Sierra oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Tango oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Uniform oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Victor oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Fox-Yankee oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Golf-Lima oHG, Grünwald	100.00	66.67	
Lufthansa Leasing GmbH & Co. Golf-Mike oHG, Grünwald	100.00	66.67	
Lufthansa Malta Aircraft-Leasing Ltd, St. Julians STJ 3012, Malta	100.00	100.00	
Lufthansa Malta Holding Ltd, St. Julians STJ 3012, Malta	100.00	100.00	
Lufthansa Process Management GmbH, Neu-Isenburg	100.00	100.00	
Lufthansa WorldShop GmbH, Frankfurt/M.	100.00	100.00	
Miles & More International GmbH, Neu-Isenburg	100.00	100.00	
Swiss Aviation Software AG, Basle, Switzerland	100.00	100.00	
Swiss Aviation Training Ltd., Basle, Switzerland	100.00	100.00	
Swiss European Air Lines AG, Basle, Switzerland	100.00	100.00	
Swiss International Air Lines AG, Basle, Switzerland	100.00	100.00	
<b>Logistics segment</b>			
cargo counts GmbH, Hattersheim	100.00	100.00	
Jettainer GmbH, Raunheim	67.00	67.00	
Lufthansa Cargo AG, Kelsterbach	100.00	100.00	
Lufthansa Cargo Charter Agency GmbH, Kelsterbach	100.00	100.00	
Lufthansa Leasing GmbH & Co. Echo-Zulu oHG, Grünwald	100.00	66.67	

Name, registered office	Equity stake in %	Voting shares in %	Different financial year
<b>MRO segment</b>			
AirLiance Materials LLC, Wilmington, USA	50.21	50.21	
BizJet International Sales & Support, Inc., Tulsa, USA	100.00	100.00	
Condor/Cargo Technik GmbH, Frankfurt/M.	100.00	100.00	
Hamburger Gesellschaft für Flughafenanlagen mbH, Hamburg	100.00	100.00	
Hawker Pacific Aerospace Inc., Sun Valley, USA	100.00	100.00	
Hawker Pacific Aerospace Ltd., Kestrel Way, Hayes, UK	100.00	100.00	
JASEN Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE
Lufthansa Technik AERO Alzey GmbH, Alzey	100.00	100.00	
Lufthansa Technik AG, Hamburg	100.00	100.00	
Lufthansa Technik Aircraft Services Ireland Limited, Shannon, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Holdings Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Leasing Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Logistik GmbH, Hamburg	100.00	100.00	
Lufthansa Technik North America Holding Corp., Wilmington, USA	100.00	100.00	
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Philippines, Inc., Manila, Philippines	51.00	51.00	
Lufthansa Technik Switzerland GmbH, Basel, Switzerland	100.00	100.00	
Shannon Aerospace Ltd., Co. Claire, Ireland	100.00	100.00	
<b>Catering segment</b>			
41/42 Bartlett (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Aerococina S.A. de C.V., Mexico City, Mexico	51.00	51.00	
AIRO Catering Services Eesti OÜ, Tallinn, Estonia	100.00	100.00	
Airo Catering Services Latvija SIA, Marupe, Latvia	100.00	100.00	
AIRO Catering Services Sweden AB, Stockholm-Arlanda, Sweden	100.00	100.00	
AIRO Catering Services - Ukraine, Boryspil, Ukraine	100.00	100.00	
Arlington Services, Inc., Wilmington, USA	100.00	100.00	
Arlington Services Mexico, S.A. de C.V., Mexico City, Mexico	100.00	100.00	
Arlington Services Panama S.A., Panama City, Panama	100.00	100.00	
AVIAPIT-SOCHI OOO, Sochi, Russia	100.00	100.00	
Bahia Catering Ltda., Sao Cristovao (Salvador), Brazil	95.00	95.00	
Capital Gain International (1986) Ltd., Hong Kong, Hong Kong	100.00	100.00	
Caterair Servicos de Bordo e Hotelaria S.A., Rio de Janeiro, Brazil	100.00	100.00	
Caterair Taiwan In-Flight Services, Inc., Taipei, Taiwan	100.00	100.00	
Cater Suprimento de Refeicoes, Ltda., Rio de Janeiro, Brazil	100.00	100.00	
CLS Catering Services Ltd., Richmond, Canada	70.00	70.00	
Comercializadora de Servicios Limitada, Santiago de Chile, Chile	100.00	100.00	
Comisariato de Baja California, S.A. de C.V., Tijuana, Mexico	51.00	51.00	
Comisariatos Gotre, S.A. de C.V., Turreon, Mexico	51.00	51.00	
Feenagh Investments (Proprietary) Ltd., Johannesburg, South Africa	100.00	100.00	
Inflight Catering (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Inflight Catering Services Limited, Dar es Salaam, Tanzania	61.99	61.99	
In-flight Management Solutions GmbH, Neu-Isenburg	100.00	100.00	
Inversiones Turísticas Aeropuerto Panama, S.A., Panama City, Panama	100.00	100.00	
LSG Asia GmbH, Neu-Isenburg	100.00	100.00	
LSG Catering China Ltd., Hong Kong, Hong Kong	100.00	100.00	

## Major subsidiaries as of 31.12.2008 (continued)

Name, registered office	Equity stake in %	Voting shares in %	Different financial year
LSG Catering Guam, Inc., Guam, USA	100.00	100.00	
LSG Catering Hong Kong Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Catering Saipan, Inc., Saipan, Micronesia	100.00	100.00	
LSG Catering (Thailand) Ltd., Bangkok, Thailand	100.00	100.00	
LSG-Food & Nonfood Handel GmbH, Frankfurt/M.	100.00	100.00	
LSG Holding Asia Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Lufthansa Service Asia Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Lufthansa Service Cape Town (Pty) Ltd., Cape Town, South Africa	100.00	100.00	
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Enterprises Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Lufthansa Service Europa/Afrika GmbH, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Guam, Inc., Guam, USA	100.00	100.00	
LSG Lufthansa Service Holding AG, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Saipan, Inc., Saipan, Micronesia	100.00	100.00	
LSG Lufthansa Service - Sky Chefs do Brasil Catering, Refeições Ltda., Sao Paulo, Brazil	100.00	100.00	
LSG Sky Chefs Australasia Pty Limited, Sydney, Australia	100.00	100.00	
LSG Sky Chefs Belgium N.V., Zaventem, Belgium	100.00	100.00	
LSG Sky Chefs Birmingham Ltd., Feltham, UK	100.00	100.00	
LSG Sky Chefs Building AB, Stockholm, Sweden	100.00	100.00	
LSG Sky Chefs Catering Logistics GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Danmark A/S, Kastrup, Denmark	100.00	100.00	
LSG Sky Chefs Deutschland GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs de Venezuela C.A., Caracas, Venezuela	99.99	99.93	
LSG/Sky Chefs Europe Holdings Ltd., Horley, UK	100.00	100.00	
LSG Sky Chefs/GCC Ltd., Feltham, UK	50.00	50.00	
LSG Sky Chefs Havacilik Hizmetleri A.S., Sefaköy-Istanbul, Turkey	100.00	100.00**	
LSG Sky Chefs (India) Private Ltd., Mumbai, India	100.00	100.00	
LSG Sky Chefs In-Flight Logistics Asia Pacific Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Sky Chefs Istanbul Catering Hizmetleri A.S., Istanbul, Turkey	100.00	100.00**	
LSG Sky Chefs Korea Co Ltd., Incheon, South Korea	80.00	80.00	
LSG Sky Chefs Lounge GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs New Zealand Limited, Auckland, New Zealand	100.00	100.00	March
LSG Sky Chefs Norge AS, Oslo, Norway	100.00	100.00	
LSG Sky Chefs North America Solutions, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Rus, Moscow, Russia	100.00	100.00	
LSG Sky Chefs Schweiz AG, Rümlang, Switzerland	100.00	100.00	
LSG Sky Chefs S.p.A., Case Nuove di Somma Lombardo, Italy	100.00	100.00	
LSG Sky Chefs Supply Chain Solutions, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Sverige AB, Stockholm, Sweden	100.00	100.00	
LSG Sky Chefs (Thailand) Ltd., Bangkok, Thailand	64.30	100.00	
LSG Sky Chefs UK Ltd., Feltham, UK	100.00	100.00	
LSG Sky Chefs USA, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG-Sky Food GmbH, Alzey	100.00	100.00	

Name, registered office	Equity stake in %	Voting shares in %	Different financial year
LSG South America GmbH, Neu-Isenburg	100.00	100.00	
Myanmar LSG Lufthansa Service Ltd., Yangon, Myanmar	100.00	100.00	
Orderich Company Ltd., Hong Kong, Hong Kong	100.00	100.00	
SC International Services, Inc., Wilmington, USA	100.00	100.00	
SCIS Air Security Corporation, Wilmington, USA	100.00	100.00	
ServCater Internacional Ltda., Guarulhos, Brazil	90.00	90.00	
Siam Flight Services Ltd., Bangkok, Thailand	49.00	66.67	
Sky Chefs Argentine, Inc., Wilmington, USA	100.00	100.00	
Sky Chefs Chile S.A., Santiago de Chile, Chile	100.00	100.00	
Sky Chefs De Mexico, S.A. de C.V., Mexico City, Mexico	51.00	51.00	
Sky Chefs de Panama, S.A., Panama City, Panama	100.00	100.00	
Sky Chefs, Inc., Wilmington, USA	100.00	100.00	
SkylogistiX GmbH, Neu-Isenburg	75.00	75.00	
Starfood S.r.l., Fiumicino, Italy	51.00	51.00	
UAB Airo Catering Services Lietuva, Vilnius, Latvia	100.00	100.00	
Western Aire Chef, Inc., Wilmington, USA	100.00	100.00	
ZAO AeroMEAL, Yemelyanovo, Russia	55.00	55.00	
<b>IT Services segment</b>			
Lufthansa Systems Aeronautics GmbH, Raunheim	100.00	100.00	
Lufthansa Systems Airline Services GmbH, Kelsterbach	100.00	100.00	
Lufthansa Systems Aktiengesellschaft, Kelsterbach	100.00	100.00	
Lufthansa Systems Americas, Inc., Miami, USA	100.00	100.00	
Lufthansa Systems AS GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Berlin GmbH, Berlin	100.00	100.00	
Lufthansa Systems Business Solutions GmbH, Raunheim	100.00	100.00	
Lufthansa Systems Infratec GmbH, Kelsterbach	100.00	100.00	
Lufthansa Systems Passenger Services GmbH, Kelsterbach	100.00	100.00	
<b>Service and Financial Companies</b>			
AirPlus International AG, Kloten, Switzerland	100.00	100.00	
AirPlus International, Inc., Springfield, USA	100.00	100.00	
AirPlus International Limited, London, UK	100.00	100.00	
AirPlus International S.r.l., Rome, Italy	100.00	100.00	
Lufthansa AirPlus Servicekarten GmbH, Neu-Isenburg	100.00	100.00	
Lufthansa Commercial Holding GmbH, Cologne	100.00	100.00	
Lufthansa Flight Training Berlin GmbH, Berlin	100.00	100.00	
Lufthansa Flight Training GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa Malta Finance Ltd., St. Julians STJ 3012, Malta	100.00	100.00	
MARDU Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE
MUSA Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE
Quinto Grundstücksgesellschaft mbH & Co. oHG, Grünwald	99.73	49.75	SPE
Société d'investissement à capital variable – Fond d'investissement spécialisé, Luxembourg, Luxembourg	100.00	100.00	
TGV LH Strategy, Düsseldorf	100.00	100.00	SPE

SPE: special-purpose entity.

\* 50.91 per cent of equity stakes and voting rights are attributed from a call option.

\*\* 51.99 per cent of the voting rights are attributed from a call option.

## Major joint ventures as of 31.12.2008\*

Name, registered office	Equity stake in %	Voting shares in %	Different financial year
<b>Passenger Transportation segment</b>			
CityLine Avro Simulator und Training GmbH Berlin, Berlin	50.00	50.00	
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Antalya, Turkey	50.00	50.00	
<b>Logistics segment</b>			
Global Logistics System Europe Company for Cargo Information Services GmbH, Frankfurt/M.	46.85	42.86	
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., Shanghai, China	29.00	22.22	
<b>MRO segment</b>			
Aircraft Maintenance and Engineering Corp., Beijing, China	40.00	42.86	
Alitalia Maintenance Systems S.p.A., Rome, Italy	40.00	40.00	
<b>Catering segment</b>			
Gansu HNA LSG Sky Chefs Co., Ltd., Lanzhou, China	49.00	40.00	
<b>Service and Financial Companies</b>			
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	33.33	33.33	
Diners Club Spain S.A., Madrid, Spain	25.00	25.00	

\* Accounted for using the equity method.

## Major associated companies as of 31.12.2008\*

Name, registered office	Equity stake in %	Voting shares in %	Different financial year
<b>Passenger Transportation segment</b>			
Alpar Flug- und Flugplatz-Gesellschaft AG, Belp, Switzerland	17.00	17.00	
British Midland plc, Donington Hall, UK	30.00	30.00	
<b>Logistics segment</b>			
Jade Cargo International Company Limited, Shenzhen, China	25.00	28.57	
time:matters Holding GmbH, Düsseldorf	49.00	49.00	
<b>MRO segment</b>			
BELAC LLC, Florida 34677, USA	21.05	21.05	
HEICO Aerospace Holdings Corp., Florida 33021, USA	20.00	20.00	
<b>Catering segment</b>			
CateringPor – Catering de Portugal, S.A., Lisbon, Portugal	49.00	49.00	
Hongkong Beijing Air Catering Ltd., Hong Kong, Hong Kong	45.00	45.00	
Hongkong Shanghai Air Catering Ltd., Hong Kong, Hong Kong	45.00	45.00	
Inflight Service Production Sweden AB, Sigtuna, Sweden	25.00	25.00	
Inflite Holdings (Cayman) Ltd., Grand Cayman, Cayman Islands	49.00	49.00	
Inflite Holdings (St. Lucia) Ltd., Castries, St. Lucia	49.00	49.00	September
LSG Lufthansa Service Hong Kong Ltd., Hong Kong, Hong Kong	38.12	38.12	September
Nanjing Lukou International Airport LSG Catering Co Ltd., Nanjing, China	40.00	40.00	
Xian Eastern Air Catering Co. Ltd, Xian, China	30.00	28.57	
Yunnan Eastern Air Catering Co. Ltd., Kunming, China	24.90	28.57	
ZAO Aeromar, Moscow, Russia	49.00	49.00	

\* Accounted for using the equity method.

## Ten-year statistics

		2008	2007	2006
<b>Consolidated income statement Lufthansa Group</b>				
Revenue	€m	24,870	22,420	19,849
<b>Result</b>				
Operating result	€m	1,354	1,378	845
Profit/loss from operating activities <sup>1)</sup>	€m	1,383	1,586	1,078
Profit/loss before income taxes <sup>1) 9)</sup>	€m	804	2,125	1,129
Income taxes <sup>9)</sup>	€m	195	365	232
Result attributable to shareholders of Deutsche Lufthansa AG	€m	599	1,655	803
<b>Main cost items</b>				
Staff costs	€m	5,692	5,498	5,029
Fees and charges	€m	3,499	3,174	2,824
Fuel for aircraft	€m	5,377	3,860	3,355
Depreciation, amortisation and impairment	€m	1,289	1,204	1,051
Net interest	€m	-172	-194	-254
<b>Consolidated balance sheet</b>				
<b>Asset structure</b>				
Non-current assets <sup>4)</sup>	€m	14,975	14,076	12,969
Current assets <sup>4)</sup>	€m	7,433	8,244	6,492
- of which liquid assets	€m	3,278	3,607	2,538
<b>Capital structure</b>				
Shareholders' equity <sup>2)</sup>	€m	6,919	6,900	4,903
- of which issued capital <sup>3)</sup>	€m	1,172	1,172	1,172
- of which reserves	€m	5,085	4,018	2,648
- of which profit/loss for the period	€m	599	1,655	803
- of which minority interest	€m	63	55	280
Debt	€m	15,489	15,420	14,558
- of which retirement benefit obligations	€m	2,400	2,461	3,814
- of which financial liabilities	€m	3,581	3,345	2,956
Total assets	€m	22,408	22,320	19,461
<b>Other financial data Lufthansa Group</b>				
Capital expenditure	€m	2,152	1,737	1,929
- of which on tangible and intangible assets	€m	1,798	1,621	1,380
- of which on financial assets	€m	354	116	549
Cash flow from operating activities	€m	2,473	2,862	2,105
Free cash flow	€m	612	2,688	584
Indebtedness				
- Gross	€m	3,639	3,369	2,971
- Net <sup>9)</sup>	€m	-125	-768	-101
<b>Deutsche Lufthansa AG</b>				
Net profit/loss for the year	€m	276	1,123	523
Accumulated losses	€m	-	-	-
Transfer to/withdrawals from reserves	€m	44	-551	-202
Dividends proposed/paid	€m	320	572	321
Dividends per share proposed/paid	€	0,70	1.25	0.70



2005	2004	2003	2002	2001	2000	1999*
18,065	16,965	15,957	16,971	16,690	15,200	12,795
577	383	36	718	28	1,042	723
719	954	- 176	1,544	- 378	1,456	983
875	541	- 814	904	- 807	1,189	974
263	133	164	182	- 202	503	334
453	404	- 984	717	- 633	689	630
4,853	4,813	4,612	4,660	4,481	3,625	3,232
2,543	2,542	2,290	2,239	2,311	2,250	2,095
2,662	1,819	1,352	1,347	1,621	1,499	908
1,398	1,112	1,930	1,243	1,714	1,022	933
- 248	- 331	- 341	- 415	- 398	- 256	- 219
12,318	11,543	10,885	12,103	13,244	11,082	9,672
6,954	6,527	5,847	7,034	4,962	3,728	3,215
3,598	3,788	2,721	3,638	1,182	970	778
4,522	4,014	2,696	4,172	3,528	4,165	3,733
1,172	1,172	977	977	977	977	977
2,707	2,398	2,660	2,431	3,154	2,448	2,084
453	404	- 984	717	- 633	689	630
190	40	43	47	30	51	42
14,750	14,056	14,036	14,965	14,678	10,645	9,154
4,022	4,132	4,327	4,020	3,701	3,354	2,993
3,563	3,306	3,240	4,713	4,446	2,408	2,300
19,272	18,070	16,732	19,137	18,206	14,810	12,887
1,829	1,783	1,155	880	2,979	2,446	1,938
1,221	1,647	992	646	2,549	1,769	1,338
608	136	163	234	430	677	600
1,956	1,881	1,581	2,312	1,736	2,140	809
815	1,061	1,024	2,813	- 796	444	- 433
3,605	3,370	3,312	4,771	4,995	2,444	2,320
- 143	- 418	591	1,133	3,812	1,475	1,542
455	265	- 1,223	1,111	- 797	445	402
-	-	-	- 797	-	-	-
- 226	- 128	1,223	- 85	-	- 216	- 188
229	137	-	229	-	229	215
0.50	0.30	-	0.60	-	0.60	0.56

## Ten-year statistics (continued)

		2008	2007	2006
<b>Operational ratios Lufthansa Group</b>				
Profit/loss-revenue ratio (profit/loss before taxes <sup>1) 9)</sup> /revenue)	%	3.2	9.5	5.7
Return on total capital (profit/loss before taxes <sup>1) 9)</sup> plus interest on debt/total assets)	%	5.3	11.2	8.2
Return on equity (profit after income taxes/shareholders' equity <sup>2)</sup> )	%	8.8	25.5	18.3
Return on equity (profit/loss before taxes <sup>1) 9)</sup> /shareholders' equity <sup>2)</sup> )	%	11.6	30.8	23.0
Equity ratio (shareholders' equity <sup>2)</sup> /total assets)	%	30.9	30.9	25.2
Gearing <sup>7)</sup> (net indebtedness plus retirement benefit obligations/shareholders' equity <sup>2)</sup> )	%	32.9	24.5	75.7
Leverage (net indebtedness/total assets)	%	-0.6	-3.4	-0.5
Internal financing ratio (cash flow/revenue)	%	114.9	164.8	109.1
Dynamic gearing (net indebtedness/cash flow)	%	-5.1	-26.8	-4.8
Revenue efficiency (cash flow/revenue)	%	9.9	12.8	10.6
Net working capital (current assets less short-term debt) <sup>4)</sup>	€bn	-1.2	0.0	-0.2
<b>Personnel ratios</b>				
Annualised average employee total		108,123	100,779	93,541
Revenue/employee	€	230,016	222,467	212,196
Staff costs/revenue	%	22.9	24.5	25.3
<b>Traffic data Lufthansa Group <sup>9)</sup></b>				
Total available tonne-kilometres	million	34,960.2	30,339.3	26,666.8
Total revenue tonne-kilometres	million	24,992.2	22,612.8 <sup>10)</sup>	19,215.7
Overall load factor	%	71.5	74.5 <sup>10)</sup>	72.1
Available seat-kilometres	million	195,430.8	169,108.4	146,719.6
Revenue passenger-kilometres	million	154,155.5	135,011.3 <sup>10)</sup>	110,329.5
Passenger load factor	%	78.9	79.8 <sup>10)</sup>	75.2
Passengers carried	million	70.5	62.9	53.4
Paid passenger tonne-kilometres	million	15,462.1	13,569.4	11,112.3
Freight/mail	tonnes	1,918,500	1,910,846	1,758,968
Freight/mail tonne-kilometres	million	9530.0	9,043.4	8,103.4
Number of flights <sup>6)</sup>		830,819	749,431	664,382
Flight kilometres	million	1,124.6	979.3	794.6
Aircraft utilisation (block hours)		1,855,842	1,629,416	1,341,810
Aircraft in service		524	513	430

The figures differ slightly from those published earlier, since they have been rounded off to the nearest million in euros.

\* Figures are converted into EUR.

<sup>1)</sup> From 2005 profit/loss from operating activities before income taxes (up to 2004 profit/loss before taxes) including other taxes. Previous years adjusted.

<sup>2)</sup> From 2005 shareholders' equity including minority interest. Previous years adjusted.

<sup>3)</sup> Capital increase by EUR 195,379,200 (76,320,000 shares) in 2004.

<sup>4)</sup> Financial statements from 2004 according to new IAS 1 balance sheet standards. Figures for previous years roughly comparable.

<sup>5)</sup> From 2003 including Air Dolomiti, from 2006 including Eurowings.

<sup>6)</sup> From 2000, number of flights includes only "real flights". The omitting of ground transports, by Lufthansa Cargo has led to a marked drop in the number of flights.

<sup>7)</sup> Since 2004, net indebtedness plus retirement benefit obligations; previous years adjusted.

<sup>8)</sup> From 2005 including non-current securities realisable at short notice.

<sup>9)</sup> Incl. discontinued operations of the Leisure Travel segment.

<sup>10)</sup> Since 1 January 2008 revenue passenger figures have been calculated in the Lufthansa Group on the basis of the ICAO standard. The figures from the previous year have been adjusted accordingly.

2005	2004	2003	2002	2001	2000	1999*
4.8	3.2	- 5.1	5.3	- 4.8	7.8	7.6
7.0	5.8	- 1.7	7.6	- 1.7	10.5	10.0
13.5	10.2	-36.3	17.3	-17.1	16.5	17.1
19.3	13.5	- 30.2	21.7	- 22.9	28.5	26.1
23.5	22.2	16.1	21.8	19.4	28.1	29.0
85.8	92.5	182.4	123.5	213.0	115.9	121.5
- 0.7	- 2.3	3.5	5.9	20.9	10.0	12.0
106.9	105.5	136.9	262.7	58.3	87.5	41.8
- 7.3	- 22.2	37.4	49.0	219.6	68.9	190.6
10.8	11.1	9.9	13.6	10.4	14.1	6.3
0.0	0.9	- 0.3	- 0.4	- 1.5	- 1.0	- 1.1
90,811	92,743	94,798	94,135	87,975	69,523	66,207
198,930	182,925	168,326	180,284	189,713	218,633	193,258
26.9	28.4	28.9	27.5	26.8	23.8	25.3
26,485.6	25,950.3	23,237.3	22,755.6	23,941.3	23,562.8	21,838.8
18,726.6	18,445.0	16,226.5	16,080.8	16,186.9	16,918.0	15,529.1
70.7	71.1	69.8	70.7	67.6	71.8	71.1
144,181.9	140,647.7	124,026.6	119,876.9	126,400.4	123,800.8	116,383.3
108,184.5	104,063.7	90,708.2	88,570.0	90,388.5	92,160.4	84,443.1
75.0	74.0	73.1	73.9	71.5	74.4	72.6
51.3	50.9	45.4	43.9	45.7	47.0	43.8
10,897.5	10,484.0	9,137.9	8,922.8	9,105.4	9,251.9	8,458.3
1,735,771	1,752,900	1,580,430	1,624,983	1,655,870	1,801,817	1,745,306
7,829.1	7,961.0	7,088.6	7,158.0	7,081.5	7,666.1	7,070.7
653,980	647,785	543,549	517,922	540,674	550,998	655,589
794.1	798.7	703.6	668.1	687.9	678.0	668.7
1,340,948	1,351,932	1,172,034	1,112,062	1,157,982	1,154,442	1,092,893
432	377	382	344	345	331	306

## Glossary

### Aviation terminology

**Average yields** Average revenue earned per unit of output; normally based on total passenger-kilometres or tonne-kilometres sold, but they can also be calculated per unit of traffic volume, e.g. per passenger carried or per kilometre flown.

**Block hours** The time from the moment an aircraft leaves its parking position ("off-blocks time") to taxi to the runway for take-off, until it comes to a complete standstill at its final parking position at the destination airport ("on blocks").

**Budget/no-frills carriers** "Budget/no-frills" carriers are airlines which offer largely low fares but no service whatsoever, either on board or on the ground. They fly mainly from small airports in rural locations, for example, Hahn airport.

**Hub airlines** use an airport as a central connecting point – a hub. Passengers and goods are transported from the original starting point to the hub. From there, passengers and goods are carried to their final destination by a second flight.

**Load factor** Measure of capacity utilisation in per cent. Ratio of capacity sold (revenue tonne-kilometres) to capacity offered (available tonne-kilometres). The passenger load factor is the proportion of seats sold, the cargo load factor is the proportion of freight capacity sold and the overall load factor is the degree of utilisation of total available capacity (i.e. in both passenger and cargo business).

**Passenger Transportation segment** The Passenger Transportation business segment comprises the passenger airlines consolidated in the annual financial statements/interim financial statements: Lufthansa, Lufthansa CityLine, Air Dolomiti, as of 31 December 2005, the Eurowings Group (incl. Germanwings) and as of 1 July 2007 the SWISS Group. The published traffic figures comprise the performance data of Lufthansa Passenger Airlines – that is, Lufthansa German Airlines plus its regional partner airlines Air Dolomiti, Augsburg Airways, CityLine, Contact Air, Eurowings and SWISS.

**Seat-/passenger-kilometre/tonne-kilometre** Standard output unit for air transportation. A revenue seat-/passenger-kilometre (RPK) denotes one fare-paying passenger transported one kilometre. A revenue tonne-kilometre (RTK) denotes one tonne of load (passengers and/or cargo) transported one kilometre.

### Financial Terminology

**Call option** The right to purchase a specified amount of the underlying security within a specified period of time at an agreed price.

**Cash flow** Measure of a company's financial and earnings potential. It is calculated as the difference between the inflow and outflow of cash and cash equivalents generated from ongoing business activities during the financial year. (See Cash flow statement, page 133).

**Compliance** Institutionalised arrangements for ensuring that a company's management and staff duly comply with all statutory provisions and prohibitions.

**CVA** (Cash Value Added) is the decisive parameter for measuring performance of value creation. If the cash flow generated (EBITDA<sup>plus</sup>) in a reporting period is higher than the minimum cash flow required to cover the cost of capital employed, the CVA is positive and value is generated (see also "Value-based management", page 41 et seq.).

**Deferred taxes** Tax charges and accruals allocated for payment in a later financial year. Deferred taxes reflect the temporary differences between assets and liabilities recognised for financial reporting purposes and such amounts recognised for income tax purposes.

**Directors' dealings** Transactions by members of a company's executive or supervisory board, or their family members, involving "their" company's securities. Under German law, any such dealings must be disclosed if they exceed EUR 5,000 within a calendar year.

**Dividend yield** Indicator for assessing the profitability of an investment in equities. It is determined by dividing the dividend by the share price at the close of the reporting year and then multiplying it by 100.

**EBIT** Financial indicator denoting earnings before interest and taxes.

**EBITDA** Financial indicator denoting earnings before interest, taxes, depreciation and amortisation. Depreciation and amortisation includes write-downs of tangible and intangible assets and of current and non-current financial assets, as well as impairments of investments accounted for using the equity method and of assets held for sale.

**Equity ratio** Financial indicator expressing the ratio of shareholders' equity to total assets.

**Equity method** Accounting method for measuring income derived from a company's investment in associated companies or joint ventures. Under the equity method, investment income equals a share of net income proportional to the size of the equity investment.

**Free cash flow** Financial indicator expressing the cash flow from operating activities remaining in the reporting period after deducting the net cash funds used for investing activities.

**Gearing** Financial indicator expressing the ratio of net debt plus retirement benefit obligations to shareholders' equity.

**Group of consolidated companies** Group of subsidiaries included in the consolidated financial statements.

**Impairment** Unscheduled write-down of an asset if the recoverable amount falls below the carrying amount. The recoverable amount is the higher of an asset's net selling price and its value in use. By contrast, a scheduled write-down of an asset (depreciation or amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

**Internal financing ratio** Financial indicator expressing the degree to which capital expenditure was financed from the cash flow generated.

**Lufthansa Pension Trust** Company pension commitments which exist for employees in Germany and staff seconded to other countries which are financed largely via provisions for retirement benefit obligations. In 2004, Lufthansa set up a dedicated fund of plan assets with a view to financing future pension payments. The goal is to fully counter-finance the retirement pension obligations within ten to 15 years. The pension provisions previously reported in the balance sheet were reduced by the value of the Trust's assets as of the cut-off date. Lufthansa intends to transfer an average of EUR 565m each year to the Trust.

**Net indebtedness** Financial indicator expressing long-term financial debt less liquid funds and securities held as current assets.

**Operating result** Measure of profitability denoting the result from operating activities less book profits (and losses), write-backs of provisions, currency gains and losses on valuation at the balance sheet date of long-term financial liabilities, and other periodic expenses and income. See also page 55.

**Profit-revenue ratio** Financial indicator denoting the ratio of the net result to revenue.

**Put option** Sales option or the associated contract giving the option buyer the right to sell a specified amount of the underlying security within a specified period of time at an agreed price (strike price).

**Retained earnings** Transfer of profit to shareholders' equity with a view to strengthening a company's financial base.

**Return on equity** Financial indicator expressing the ratio of net profit to shareholders' equity.

**Total shareholder return** Financial indicator expressing the overall return that the investor earns from the increase in stock market value or share price plus the dividend payment. The total shareholder return is calculated from the share price at the close of the reporting year plus the dividend paid in respect of the previous year, multiplied by 100 and divided by the share price at the close of the previous year.

**Traffic revenue** Revenue generated from flight operations. It comprises revenue from transporting passengers and cargo as well as related ancillary services.

**Working capital** Financial indicator for assessing a company's liquidity, measured as the difference between a company's current assets and its current liabilities.

## Credits

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Information published in the Annual Report 2008, with regard to the future development of the Lufthansa Group and its subsidiaries consists purely of forecasts and assessments and not of definitive historical facts. Its purpose is exclusively informational identified by the use of such cautionary terms as "believe", "expect", "forecast", "intend", "project", "plan", "estimate" or "intend". These forward-looking statements are based on all discernible information, facts and expectations available at the time. They can, therefore, only claim validity up to the date of their publication.

Since forward-looking statements are by their nature subject to uncertainties and imponderable risk factors – such as changes in underlying economic conditions – and rest on assumptions that may not or divergently occur, it is possible that the Group's actual results and development may differ materially from those implied by the forecasts. Lufthansa makes a point of checking and updating the information it publishes. It cannot, however, assume any obligation to adapt forward-looking statements to accommodate events or developments that may occur at some later date. Accordingly, it neither expressly nor conclusively accepts liability, nor gives any guarantee, for the actuality, accuracy and completeness of this data and information.

## Financial calendar 2009/2010

### 2009

- 11 March** Press Conference and Analysts' Conference on 2008
- 24 April** Annual General Meeting Cologne
- 30 April** Release of Interim Report January – March 2009
- 30 July** Release of Interim Report January – June 2009
- 29 Oct.** Press Conference and Analysts' Conference on interim result January – September 2009

### 2010

- 11 March** Press Conference and Analysts' Conference on 2009 result
- 27 April** Release of Interim Report January – March 2010
- 29 April** Annual General Meeting Berlin
- 29 July** Release of Interim Report January – June 2010
- 28 Oct.** Press Conference and Analysts' Conference on interim result January – September 2010



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