Lufthansa Group

Destination

Time

SHAPING THE FUTURE TOGETHER

ANNUAL REPORT 2012

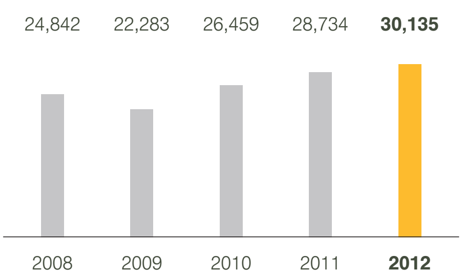
Key figures Lufthansa Group

		2012	2011	Change in %
Revenue and result				
Total revenue	€m	30,135	28,734	4.9
of which traffic revenue	€m	24,793	23,779	4.3
Operating result	€m	524	820	–36.1
EBIT	€m	1,357	734	84.9
EBITDA	€m	3,270	2,546	28.4
Net profit/loss	€m	990	–13	
Key balance sheet and cash flow statement figures				
Total assets	€m	28,419	28,081	1.2
Equity ratio	%	29.2	28.6	0.6 pts
Net indebtedness	€m	1,953	2,328	–16.1
Cash flow from operating activities	€m	2,842	2,356	20.6
Capital expenditure (gross)	€m	2,359	2,566	–8.1
Key profitability and value creation figures				
Adjusted operating margin[1]	%	2.3	3.4	–1.1 pts
EBITDA margin	%	10.9	8.9	2.0 pts
CVA	€m	375	99	278.8
CFROI	%	9.2	8.0	1.2 pts
Lufthansa share				
Share price at year-end	€	14.24	9.19	55.0
Earnings per share	€	2.16	–0.03	
Suggested dividend per share	€	–	0.25	–100.0
Traffic figures				
Passengers	thousands	103,051	100,605	2.4
Freight and mail	thousand tonnes	1,972	2,120	–7.0
Passenger load factor	%	78.8	77.6	1.2 pts
Cargo load factor	%	66.9	66.8	0.1 pts
Flights	number	1,033,588	1,050,728	–1.6
Employees[2]				
Average number of employees	number	117,443	115,335	1.8
Employees as of 31.12.	number	116,957	116,365	0.5

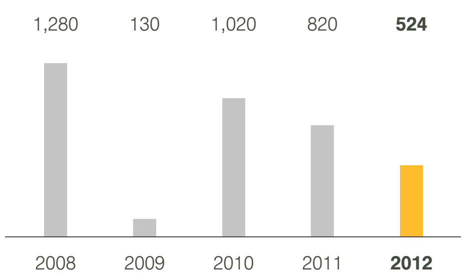
[1] Performance indicator to enable comparison with other airlines: (operating result + write-backs of provisions) / revenue.
[2] Excluding bmi.

Date of publication: 14 March 2013.

Revenue in €m



Operating result in €m



Lufthansa Group overview

Key figures business segments

Passenger Airline Group		2012	Change in %
Revenue	€m	23,559	5.7
of which external revenue	€m	22,855	6.1
Operating result	€m	258	−26.1
Adjusted operating margin	%	1.6	−0.5 pts
Segment result	€m	262	−26.2
EBITDA*	€m	1,851	11.0
CVA	€m	−340	−178.7
Segment capital expenditure	€m	1,868	−10.4
Employees as of 31.12.	number	55,236	−0.2

Passenger Airline Group The airlines in the Passenger Airline Group again increased the number of passengers compared with the previous year's record figure. Revenue increased, while the operating profit fell. High fuel costs and unfavourable exchange rates depressed the result. The transfer of flight operations from Austrian Airlines to Tyrolean Airways had a positive effect on earnings.

Logistics		2012	Change in %
Revenue	€m	2,688	−8.7
of which external revenue	€m	2,662	−8.7
Operating result	€m	104	−58.2
Adjusted operating margin	%	4.2	−4.9 pts
Segment result	€m	127	−47.7
EBITDA*	€m	196	−40.2
CVA	€m	65	−67.8
Segment capital expenditure	€m	198	160.5
Employees as of 31.12.	number	4,606	−0.4

Logistics Lufthansa Cargo was able to close its financial year with a profit, despite weaker demand and lower revenue. Consistent capacity management was the key to the company's success. Confirmation of the night-flight ban at Frankfurt Airport hit Lufthansa Cargo's business hard. The operating profit was therefore down on the previous year.

MRO		2012	Change in %
Revenue	€m	4,013	−2.0
of which external revenue	€m	2,429	5.4
Operating result	€m	318	23.7
Adjusted operating margin	%	8.6	1.7 pts
Segment result	€m	367	19.9
EBITDA*	€m	491	30.2
CVA	€m	241	58.6
Segment capital expenditure	€m	129	−7.2
Employees as of 31.12.	number	20,282	1.5

MRO Although revenue was flat, Lufthansa Technik notably improved its operating result compared with the previous year. A large number of new contracts with external customers were signed over the course of the year. Its comprehensive, innovative product portfolio and expansion into key growth markets form the basis for the company's leading position among independent MRO providers.

Catering		2012	Change in %
Revenue	€m	2,503	8.9
of which external revenue	€m	1,933	11.2
Operating result	€m	97	14.1
Adjusted operating margin	%	3.9	0.2 pts
Segment result	€m	127	30.9
EBITDA*	€m	214	45.6
CVA	€m	39	
Segment capital expenditure	€m	46	−37.8
Employees as of 31.12.	number	30,088	1.7

Catering LSG Sky Chefs again increased revenue and operating profit despite difficult market conditions, and remains the global market leader for airline catering. The company consolidated its position in particular through expansion into adjacent markets, by adding products and services and by developing new, high-potential markets around the world. Tight cost management remains paramount.

IT Services		2012	Change in %
Revenue	€m	609	1.7
of which external revenue	€m	256	11.3
Operating result	€m	21	10.5
Adjusted operating margin	%	3.6	−0.4 pts
Segment result	€m	20	−4.8
EBITDA*	€m	76	31.0
CVA	€m	7	−69.6
Segment capital expenditure	€m	24	−56.4
Employees as of 31.12.	number	2,766	−1.9

* Without Group-internal profit and loss transfer/investment income.

IT Services Lufthansa Systems again improved its revenue and operating result. High-volume contracts were signed with customers last year, which form the basis for future growth. By developing innovative inflight entertainment products, Lufthansa Systems is preparing for the changes in the airline IT market and for expansion into adjacent markets.

2012 figures

30.1
Revenue in EUR bn

524
Operating result in EUR m

1,397
Free cash flow in EUR m

375
Cash value added in EUR m

57.7
Total Shareholder Return in per cent

Contents

TOGETHER

more efficient

more cost-effective

more profitable

Simone Menne
Chief Officer Finances and Aviation Services

Christoph Franz
Chairman of the Executive Board and CEO

Stefan Lauer
Chief Officer Group Airlines and Corporate Human Resources

Carsten Spohr
CEO Lufthansa German Airlines

Ladies and Gentlemen,

An exciting year is behind us. European aviation is in a structural crisis with far-reaching consequences. Consolidation is continuing apace. Smaller, weaker airlines are leaving the market. Overcapacities are being eliminated. Every European network carrier is going through a tough restructuring process. Average yields are rising for both low-cost airlines and the classic network carriers.

We at Lufthansa Group are playing an influential role in shaping this process. We are restructuring. We are investing. We are changing. And we are doing all of this from a position of strength: Our base is at the heart of the strongest European economies. We have the strongest balance sheet and are the only European airline with an investment grade rating. We are profitable, and are one of the few European airlines able to report positive earnings. We are investing more than ever before in order to offer our customers the best Lufthansa there has ever been. And we not only have first-class products, but also first-class employees.

In 2011, we analysed the state of the Company together and began systematically to sell, close or restructure the biggest loss-makers within Lufthansa Group. Some of these processes were brought to a conclusion in 2012: bmi was successfully sold to International Airlines Group, Jade Cargo entered insolvency and Austrian Airlines emerged strengthened from an intense restructuring process.

In 2012, we went a step further with the launch of SCORE, an earnings improvement programme that will fundamentally change the organisation, the structure and the way people work together in the Lufthansa Group. It aims to build on our leading role in European and global air transport and to finance the necessary investment in our customers, our fleet and our product by substantially increasing the profitability of our core business segment. This will create an attractive company for our shareholders and secure long-term employment.

SCORE activities have been defined and initiated everywhere – in all business segments and between them, in Group functions and across the Group. They include a diverse range of projects, such as strengthening joint purchasing, improving fuel efficiency, pooling and streamlining administrative functions or outsourcing them to more cost-effective sites, creating a more efficient IT structure, harmonising the fleet or reviving loss-making European traffic with the new Germanwings. No exceptions are being made. All the activities are picking up speed. An intense, all-encompassing process of change is underway.

Looking back on 2012, it is clear that once again we performed better than most of our competitors. Revenue increased at nearly all our companies. Those cost items that we can influence, we have under control. They are either falling or are rising more slowly than revenue. At the same time, our products again meet the highest standards of quality – Lufthansa Passenger Airlines, for instance, is the only European airline whose First Class has been awarded five stars for outstanding service from the renowned Skytrax institute for testing airline quality.

Destination future: It's all about a successful and secure future for our Company in a fascinating, but highly competitive industry. And achieving this together is something we all have to put our hearts and minds into.

However, one look at the results of the 2012 financial year also shows how necessary SCORE is. The Lufthansa Group's operating result of EUR 524m is 36.1 per cent lower than the previous year. This is not something we can be satisfied with. The reasons for the fall in earnings are two cost items largely beyond our control: the fuel costs as well as the fees, charges and taxes that impose such a burden on our core business. Fuel expenses alone went up by 17.8 per cent in 2012, costing the Lufthansa Group an additional EUR 1.1bn. Taxes, fees and charges accounted for another EUR 167m – despite a reduction in the number of flights.

On a positive note, the broad formation of the Lufthansa Group again had a stabilising effect on overall earnings for 2012: all the service companies are profitable and increased their operating result against the previous year. The earnings situation in our core business segment, the airlines, is rather different. SWISS and Lufthansa Cargo reported positive, albeit lower, results for the reasons mentioned above. Austrian Airlines generated a profit – for the first time since its acquisition in 2009 and earlier than planned – although this was mainly due to positive non-recurring effects of the restructuring. Lufthansa Passenger Airlines, our largest single company, incurred a loss in 2012.

This means that we did not reach our targets for 2012. Although SCORE is already having a significant effect, its benefits were undermined by the negative factors. Without SCORE our results would look a great deal worse. So this year, we will further intensify our process of change. We are aiming for a much higher earnings contribution, even though we already know that the full extent of this improvement will not be immediately visible due to restructuring costs.

The stock market is watching our process of change very closely. And the market believes in us. Last year, our share put in the fourth best performance of all the companies in the DAX, with an increase of 55 per cent. Including the dividend, the shareholders of Deutsche Lufthansa AG had a total shareholder return of nearly 58 per cent.

Our aim is and remains to boost profitability to a much higher level: by 2015 we want to increase our operating result by EUR 1.5bn. To do so, it is vitally important to keep investing in our core business segment at the current pace. We will therefore table a proposal at the Annual General Meeting not to distribute a dividend this year. In order to ensure that the Lufthansa Group is able to pay dividends in the future, it is essential to invest all available funds in our Company today and so to contribute to making our future programme a success.

Massive efforts are needed to reach our targets. Everyone involved will have to make a contribution to maintaining our future viability. We nevertheless will assume our social responsibility going forward, too, with advice and support for those personally affected by the changes and restructuring.

We are on the right path. "Shaping the future together" is the mission statement we have chosen for our annual report – for you, our shareholders, for our customers and for our staff.

Stay with us as we forge ahead on this exciting journey. We thank you for your trust.

Frankfurt, March 2013

Christoph Franz

Christoph Franz
Chairman of the Executive Board of Deutsche Lufthansa AG

HOW WE ARE USING SCORE TO SHAPE THE FUTURE TOGETHER

SCORE
Change for Success

- **S**ynergies
- **C**osts
- **O**rganisation
- **R**evenue
- **E**xecution

SCORE makes us fit for the future.

We are the market leader in Europe. We are a co-founder of the Star Alliance and the initiator of innovative commercial joint ventures to North America and Japan. We are shaping the industry with our innovations, from inflight internet access through to comprehensive service concepts on the ground. Our business segments occupy leading positions in their respective sectors.

Synergies, Costs, Organisation, Revenue, Execution. The initial letters of these five focus areas form the name of our programme for the future: SCORE.

However, the industry has never been subjected to such pressure as it is under today. Competition in European traffic and on long-haul routes is intense. Additional costs from European CO_2 emissions trading, the air traffic tax in Germany and Austria, night-flight bans and extremely high kerosene prices. Confronting these external challenges with well-thought-out internal responses is what we at Lufthansa understand by responsible corporate behaviour. SCORE combines more than 2,500 projects in one package.

The programme forms the basis for an ambitious ascent, which includes all the airlines and service companies in the Lufthansa Group.

The goal has been clearly defined: SCORE is to sustainably boost earnings by EUR 1.5bn by 2015. Only by reaching this goal will we be able to keep our fleet up-to-date and fuel-efficient, to develop innovate products for our customers and to create prospects for our staff.

A strong financial position has traditionally been one of the fundamental principles of the Lufthansa Group. We are building on this strength. And that is another reason why we need SCORE. From the Executive Board to each individual employee, everyone in the Group can make a contribution. Staff have already made more than 1,200 suggestions for improvement via the mySCORE ideas management platform.

SCORE should be seen as an investment – in the future of our business segments and in the cooperation between employees and managers across all the companies in the Lufthansa Group.

The following pages offer a number of illustrations of how we are using SCORE **to shape the future together.**

WE ARE PULLING TOGETHER TO ENSURE A SECURE FUTURE FOR OUR COMPANY

Overall programme management

Josef Bogdanski and Dr Jörg Beißel,
SCORE programme management for the Lufthansa Group

"With our SCORE programme we are setting a course for the future, so that we will continue to have the leeway to invest in products and services for our customers. We took off quickly and smoothly last year and have now reached our cruising altitude. Now, the aim is to put the changes into practice resolutely and effectively."

Lufthansa Passenger Airlines

Jörg Eberhart, SCORE programme director, Lufthansa Passenger Airlines

"Thanks to SCORE, we are giving the Passenger Airlines segment an additional push: alongside a whole host of individual measures with a provisional potential of well over EUR 1bn, the cultural change we have initiated has to guarantee a permanent improvement in our profitability."

SWISS

Marcel Klaus, CFO and SCORE programme director, Swiss International Air Lines

"SWISS is a fairly compact company, so we not only have the flexibility but also the reaction times to forge ahead and implement SCORE projects as precursor in certain areas."

Austrian Airlines

Dr Wolfgang Henle, Director Controlling and SCORE programme director, Austrian Airlines

"It's a long and difficult road to competitive costs – and there is no shortcut. We will do everything to reach our SCORE targets, because Austrian Airlines has the aspiration and the obligation to contribute to value creation at the Lufthansa Group."

Lufthansa Cargo

Dr Anselm Eggert, SCORE programme director, Lufthansa Cargo

“Global airfreight will remain a growth industry. So we at Lufthansa Cargo are preparing ourselves for the future: modern aircraft, new products for urgent deliveries and lean, electronically enabled processes all play an important role in this.”

Lufthansa Technik

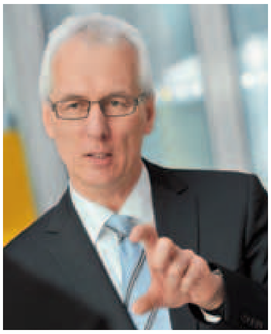
Esther Drobil, SCORE programme director, Lufthansa Technik

“With our projects and measures in all areas of the Lufthansa Technik group, we are working to expand our position as global market leader. Not only have we started questioning existing structures, but are already well on the way to implementing changes.”

LSG Sky Chefs

Peter Eisele, SCORE programme director, LSG Sky Chefs

“LSG Sky Chefs is challenging conventional processes around the world to make sustainable changes that reduce structural and factor costs. We consistently apply an all-encompassing approach with the aim of becoming ‘best in class’ and thereby ensuring the long-term profitability of our company.”



Lufthansa Systems

Lutz Hecker, Director Strategy and SCORE programme director, Lufthansa Systems

“The IT market will continue to grow in future and will increasingly be characterised by rapid technological change and high pricing pressure. SCORE helps Lufthansa Systems to meet these challenges by adapting structures to changing market conditions and increasing overall productivity.”

MORE EFFICIENT: MORE ECOLOGY FOR GREATER ECONOMY

The Group's fuel purchases now account for considerably more than 20 per cent of operating expenses, and totalled around EUR 7.4bn in 2012. To achieve savings in this area, the companies in the airline group are pooling their best practices.

For years now, fuel costs – already the Lufthansa Group's largest operating cost pool – have been rising ever faster. The price spiral just keeps on pushing upwards. In 2012 alone, the cost of kerosene went up by around EUR 1.1bn compared with the previous year. That is why the subject of fuel efficiency takes top priority on our agenda. Steps to save fuel have been taken successfully in the past. Now, the SCORE programme is once again underlining the importance of these efforts across the Group. There is further dormant potential here which needs to be awoken. A reduction of just 1 per cent in fuel consumption would improve the result by around EUR 74m.

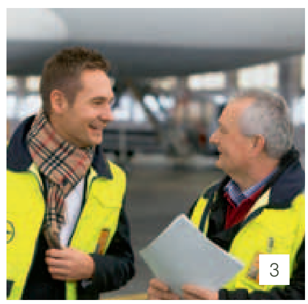
To put it another way: by reducing the average weight of one aircraft by 100 kg we would save EUR 2.6m a year in fuel costs at Lufthansa Passenger Airlines alone. And the benefits would be felt by the environment, too.

Our path to greater efficiency leads via transparency and teamwork: representatives of all the airlines in the Lufthansa Group meet to discuss fuel-saving measures that have worked for them, with the aim being to find a Group-wide approach. After just a few meetings, the team had collected several hundred concrete ideas. Around 200 of them can be adopted by all the airlines in the Lufthansa Group in the short or medium term. They include technical improvements, adjustments to flight patterns and reductions in weight.

As well as working on joint projects, the team also ensures that standards and structures are embedded in the Lufthansa Group over the long term. We will introduce standardised indicators and establish a permanent, centralised organisational structure to monitor fuel efficiency and keep on improving it.


1


2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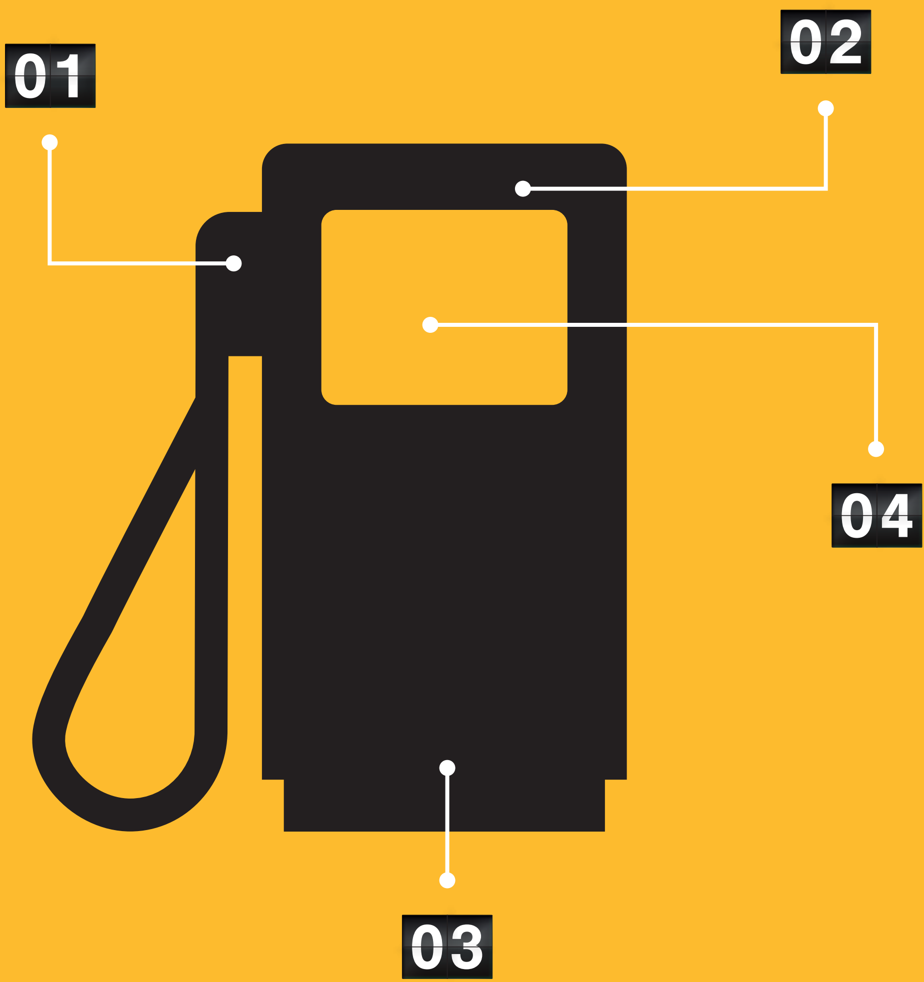
4


5

1./3. An A340-300 is completely cleared out following a flight in December 2012 as part of the "A slimmer Airbus" campaign. Everything that is not screwed down is recorded. 2. Refuelling. 4. Members of the Fuel Efficiency project team in a meeting. 5. TaxiBot trial run: With the help of the newly designed TaxiBot aircraft tractor, the pilot can taxi the aircraft to the runway without using its engines, significantly reducing costs and emissions.

Fuel efficiency

- Value for our shareholders:
  Earnings improvement of EUR 100m
- Benefit for our customers:
  More ecological travel
- Advantage for our Company:
  Uniform indicators and standardised activities



01 The new aircraft in the Airbus A320 family are equipped with sharklets. They reduce air resistance and by this cut fuel consumption.

02 Shortly after landing, the pilots shut down the engines they no longer need and then roll to their parking position at the airport terminal using less fuel and producing lower pollutant and noise emissions.

03 As a test, a long-haul aircraft was completely unloaded after landing. Even the loose objects that would normally remain on board were removed. The aim was to check whether everything was really needed, as a lower weight reduces fuel consumption.

04 The airspeed is calculated for each flight on the basis of information which is updated daily. Every flight is operated at its individual optimum total cost (known as the strategic cost index).

MORE COST-EFFECTIVE: JOINING FORCES TO IMPROVE THE RESULT

Cheaper purchasing is one of the central objectives of the Lufthansa Procurement Power (LPP) programme, which is an important component of SCORE. We are primarily using synergy effects within a joint purchasing network in order to sustainably strengthen our position on the procurement market.

One airport, one service, one Group – but two airlines and two different contracts. That is the way things used to work when purchasing catering services at Narita Airport in Tokyo, for example. As part of the procurement project, Lufthansa Passenger Airlines and SWISS have now examined the possibility of purchasing food and drink together. They ran a joint tender for their catering, and the result is a new contract with substantial cost benefits for both airlines. As this simple example shows, pooling purchasing intelligently can be a recipe for success. The options are always evaluated on a case-by-case basis.

Nine "industry councils" started work for the first time in 2012, with the aim of identifying and implementing cost-savings throughout the Group. In these industry councils, the Lufthansa Group focuses on groups of goods, thereby pooling its purchasing power systematically. The Logistics, MRO, IT and Catering segments offer particularly high potential for synergies. The "industry councils" scrutinise all products and services purchased by the procurement and operating departments in the Group. Working together with the operating departments, they then initiate improvements for specific purchasing projects and coordinate a joint approach for future activities.

In the first year alone, this has delivered savings of more than EUR 240m. Over the next three years, the Group's cost position is to be improved sustainably by EUR 500m. This will ensure that the purchasing department of the Lufthansa Group makes a major contribution to the success of SCORE.

1. One example of cooperation: staff draw up a joint specification for aircraft seats. 2. The Chief Procurement Officers (CPO) of the Lufthansa Group before a meeting. 3. Lufthansa Passenger Airlines, Brussels Airlines, SWISS and Austrian Airlines establish joint synergies in the project to harmonise cabin designs.

Value for our shareholders:
Earnings improvement of EUR 500m

Benefit for our customers:
Consistently high standards

Advantage for our Company:
Clear division of responsibilities

Purchasing

01 The Group purchasing network allows for cross-company potential from procurement measures to be identified systematically and exploited consistently in order to strengthen the Group's competitive position in the long term.

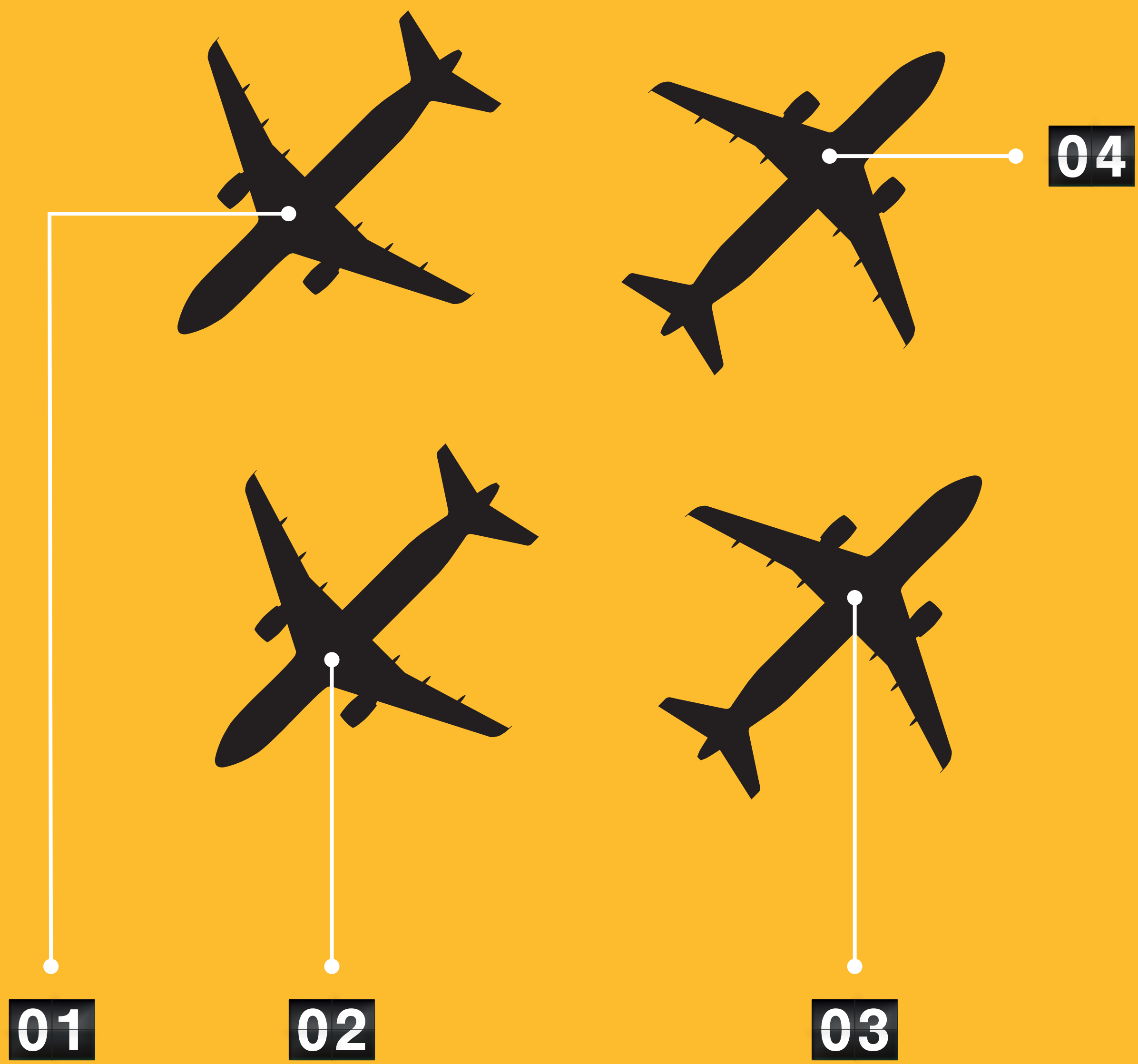
02 Lufthansa Cargo and SWISS World Cargo achieved significant savings by means of joint tenders for freight handling services in Hong Kong, Tokyo and elsewhere.

03 The Future Air Navigation System FANS-B+ was acquired to ensure that our fleets continue to receive priority airspace treatment. Joint negotiations for the volume required by the entire Lufthansa Group enabled significant savings to be made.

04 By pooling volumes with business travel hotels at Lufthansa Group hubs, it was possible to achieve a sharp reduction in average room rates.

Decentralised traffic

- Value for our shareholders:
  Earnings improvement of EUR 200m
- Benefit for our customers:
  Standardised, low-cost and comprehensive range of flights
- Advantage for our Company:
  Better management by reducing complexity



01 The best of both worlds: the cost benefits of Germanwings are combined with the sales and network strength of Lufthansa.

02 Our promise of high quality is demonstrated by consistently good service in the cabin, safe travel, fine catering and modern, low-emission aircraft.

03 The growth plan for the new Germanwings assumes an increase in passenger numbers of 7.7 million to a maximum of 20 million by 2015.

04 The new Germanwings can be booked and experienced from 1 July 2013.

MORE PROFITABLE: BETTER COORDINATION FOR HIGHER EARNINGS

Strategic course for decentralised traffic: Lufthansa Passenger Airlines is pooling its domestic and European traffic outside the hubs in Frankfurt and Munich with that of Germanwings in the new Germanwings, a dynamic, low-cost airline. This has decisive advantages for us and for our customers.

Germanwings is positioning itself as an airline that combines cost-effective flight operations with the highest quality and attractive prices. Passengers can still expect an extensive, closely meshed route network with a total of more than 110 destinations in Europe. Three different Economy fares will enable every passenger to choose the travel experience they desire – from a price-conscious basic rate to a version that offers additional comfort and services. This includes plenty of things that our customers could previously only enjoy in Business Class, such as an empty middle seat, lounge access and refreshment options on board.

The new Germanwings is being launched with the aim of running profitable flight operations by means of greater efficiency. The previously separate units Lufthansa Direct Services and Germanwings now act as one, single unit for all direct flights outside the hubs in Frankfurt and Munich.

The organisational and commercial merger under the Germanwings brand is an important step towards maintaining market leadership in the German and European point-to-point traffic segment with a competitive cost structure. When it is up and running, Germanwings will have up to 90 aircraft and 16 million passengers a year, making it the third largest airline in Germany. The objective is to improve earnings by around EUR 200m by 2015.

With Germanwings we are shaping our future together. Customers can look forward to an attractive range of flights and our investors to profits in direct traffic.

1. The spokesman of the Germanwings board, Thomas Winkelmann, Lufthansa CEO, Christoph Franz, and CEO of Lufthansa German Airlines, Carsten Spohr, present the new Germanwings on 6 December 2012. 2. Over the clouds: Germanwings flies from all decentralised airports in Germany to Europe. 3. A modern cabin completion and highly motivated, well-trained staff are a vital element of the strategy for direct traffic.

Destination

SHAPING THE FUTURE TOGETHER

The pillars of our corporate strategy

- **To increase company value** by means of profitability and value creation as the basis for investment in our business segments and customers, staff and shareholders. To establish value-based management in all decision-making processes. To develop the portfolio consistently, also by restructuring and shedding loss-making and non-strategic investments.

- **To expand and strengthen the leading market position** by growing profitably with and actively shaping the industry. Organic growth, reviews of sensible acquisitions and the development of partnerships. Development and promotion of strategic innovations.

- **To improve customer satisfaction** by investing in products and processes. Products aligned with customer requirements. To develop new technologies and markets to boost competitiveness in the service companies.

- **Sustainable business,** in an economic and ecological sense, is the ultimate goal of all segments and decision-making processes. To reduce the average age of the fleet and thereby improve the ecological footprint.

Annual review

Q1/2012

The "SCORE – Change for Success" programme is launched

At the beginning of 2012, the "SCORE – Change for Success" programme is launched throughout the Group. It aims to sustainably increase the Lufthansa Group's operating result by EUR 1.5bn as of 2015.

Wage settlement reached for ground staff

On 26 January 2012, the Employers' Federation for Air Transport Companies (AGVL) and the trade union ver.di sign a new wage agreement. It includes a pay rise of 3.2 per cent per year, back-dated to 1 January 2012, for ground staff employed in Germany. The wage agreement is to run for 13 months.

Numerous strikes disrupt flight operations

In February, the apron controllers in Frankfurt go on strike for several days in the course of a collective bargaining dispute between Fraport and the Gewerkschaft der Flugsicherung (GdF) trade union. On 27 March 2012, the trade union ver.di organises warning strikes at several German sites. The unusually large number of strikes disrupts flight operations, in some cases severely.

Airlines respond to changes in operating environment

Faced with a persistently tough market environment, all airlines within the Lufthansa Group react swiftly with flexible capacity management and strict yield management. The increased load factors and yields this achieves are only partly able to make up for the oil price, however, which on average remains high throughout the year.

Q2/2012

Sale of bmi successfully concluded

On 19 April 2012, the contract signed on 22 December 2011 for the sale of British Midland (bmi) to the International Airlines Group (IAG) comes into effect. The transaction is preceded by the approval of the EU competition authorities on 30 March 2012. The disposal enables the Lufthansa Group to rid itself of a persistently loss-making company.

Opening of the capital city's Berlin Brandenburg airport postponed

The inauguration of the capital's new Berlin Brandenburg International Airport, planned for 3 May 2012, is initially postponed until 27 October 2013. In 2013, it is postponed again, this time indefinitely. The Lufthansa Group emphasises the importance of reliable deadlines for planning and carrying out its own trials. It is vital that the airport infrastructure functions smoothly when it is opened. The flight programme planned for the new airport will be operated from Berlin-Tegel until the airport is opened.

Night-flight ban at Frankfurt Airport confirmed

The state of Hesse's Ministry of the Economy, Transport and Development implements the ruling of the Federal Administrative Court on the night-flight ban at Frankfurt Airport in an amended order dated 29 May 2012. This means that the ban on scheduled night flights in the period from 11 p.m. to 5 a.m. has now been confirmed. The effects are felt mainly by Lufthansa Cargo and Lufthansa Passenger Airlines. Altogether, the night-flight ban will depress the Group's earnings by a mid two-digit million euro amount every year from now on.

The "Queen of the Skies" takes off

On 1 June 2012, the very first Boeing 747-8i goes into scheduled service at Lufthansa Passenger Airlines, with a maiden flight on the Frankfurt to Washington D.C. route. The new flagship of the Boeing family is characterised by its improved fuel efficiency and 30 per cent lower noise emissions than its predecessor, the B747-400. Lufthansa Passenger Airlines is to receive 19 of these aircraft in total, four of them in 2012.

Q3/2012

Austrian Airlines transfers flight operations to Tyrolean Airways

Austrian Airlines completes the transfer of its flight operations to its subsidiary Tyrolean Airways with effect from 1 July 2012. Prior discussions with the collective bargaining partners had not produced a mutually acceptable solution for restructuring flight operations. The transfer is a crucial part of a comprehensive restructuring programme that began in early 2012 and is intended to bring the company back to lasting profitability.

New CFO starts work

Simone Menne assumes responsibility for Finances and Aviation Services at Deutsche Lufthansa AG on 1 July 2012. The Supervisory Board appointed her to the Executive Board on 7 May 2012. Simone Menne succeeds Stephan Gemkow, who resigned with the consent of the Executive Board and Supervisory Board as of 30 June 2012 to become CEO of the Haniel Group. Simone Menne's initial term of office on the Executive Board is to run until 30 June 2015.

Flight attendants' strike depresses earnings

On 7 September 2012, Lufthansa Passenger Airlines and the flight attendants' union (UFO) agree to arbitration, appointing Prof. Dr Dr h.c. Bert Rürup as arbitrator. Beforehand, the cabin crew at Lufthansa Passenger Airlines had held strikes on three days between 31 August and 7 September 2012 at various sites in Germany. The financial damage done by the strike comes to EUR 33m.

Preparations for new Supervisory Board member

On 19 September 2012, the Nomination Committee of the Deutsche Lufthansa AG Supervisory Board gives its recommendation for successors to those Supervisory Board members who will not be standing for re-election at the close of the 2013 Annual General Meeting due to their age. Wolfgang Mayrhuber, Chairman of the Executive Board and CEO of Deutsche Lufthansa AG until December 2010, is to succeed the current Chairman of the Supervisory Board Dipl.-Ing. Dr-Ing. E.h. Jürgen Weber. Dr Karl-Ludwig Kley, Chairman of the Executive Board of Merck KGaA and former CFO of Deutsche Lufthansa AG, is recommended to succeed Dr Klaus G. Schlede.

Q4/2012

Wage settlement signed with UFO following arbitration

On 13 November 2012, Lufthansa Passenger Airlines and the flight attendants' union, Unabhängige Flugbegleiter Organisation (UFO), reach an agreement in their collective bargaining dispute on the basis of the arbitrator's recommendation. It includes rules for payscales and a profit-share payment for employees as well as grandfathering arrangements and structural adjustments to the wage agreement, which enable greater flexibility in staff rostering.

Shenzhen Airlines accepted as new member of the Star Alliance

Shenzhen Airlines is welcomed as a new member of the Star Alliance airline grouping on 29 November 2012. The inclusion of the fifth largest airline in China marks an important step towards improving connections to existing and future growth markets. AviancaTaca and Copa Airlines from South America joined the alliance in the summer.

Decision taken to introduce Premium Economy Class at Lufthansa Passenger Airlines

On 5 December 2012, the Supervisory Board approves the introduction of a new Premium Economy Class in all long-haul aircraft operated by Lufthansa Passenger Airlines. A project team is working on the specific details and the timeframe for implementation.

Germanwings takes over decentralised traffic from Lufthansa Passenger Airlines

On 6 December 2012, the Executive Board presents the concept for the new Germanwings. In future, all decentralised traffic for Lufthansa Passenger Airlines will be operated by Germanwings. With effect from 1 January 2013, the new Germanwings is pooling the commercial and organisational management of all traffic outside the hubs in Frankfurt and Munich in a new brand and product concept that will be launched on the market from 1 July 2013.

Lufthansa share

↗ In 2012, the price of the Lufthansa share rose by 55.0 per cent. ↗ Total shareholder return amounted to 57.7 per cent. ↗ No dividend is planned for 2012. ↗ The overwhelming majority of analysts' recommendations is positive. ↗ Two major new shareholders have invested in the Lufthansa Group. ↗ Intensive dialogue with investors is being continued. ↗ The Lufthansa share is included in major share indices.

Lufthansa share up by 55.0 per cent in 2012
The Lufthansa share saw its value appreciate substantially in 2012. With a price increase of 55.0 per cent to EUR 14.24 at year-end, it rose nearly twice as fast as the DAX index (+29.1 per cent). This represents the fourth most positive development among all DAX-listed companies in 2012. Including the dividend payment of EUR 0.25, this gave shareholders a total return of 57.7 per cent.

In the first half of the year, the performance of the Lufthansa share was mixed. After gaining 14.3 per cent in the first quarter, the share fell back again in the second quarter because of the rising oil price and the cyclical risks caused by the ongoing euro crisis (–13.2 per cent).

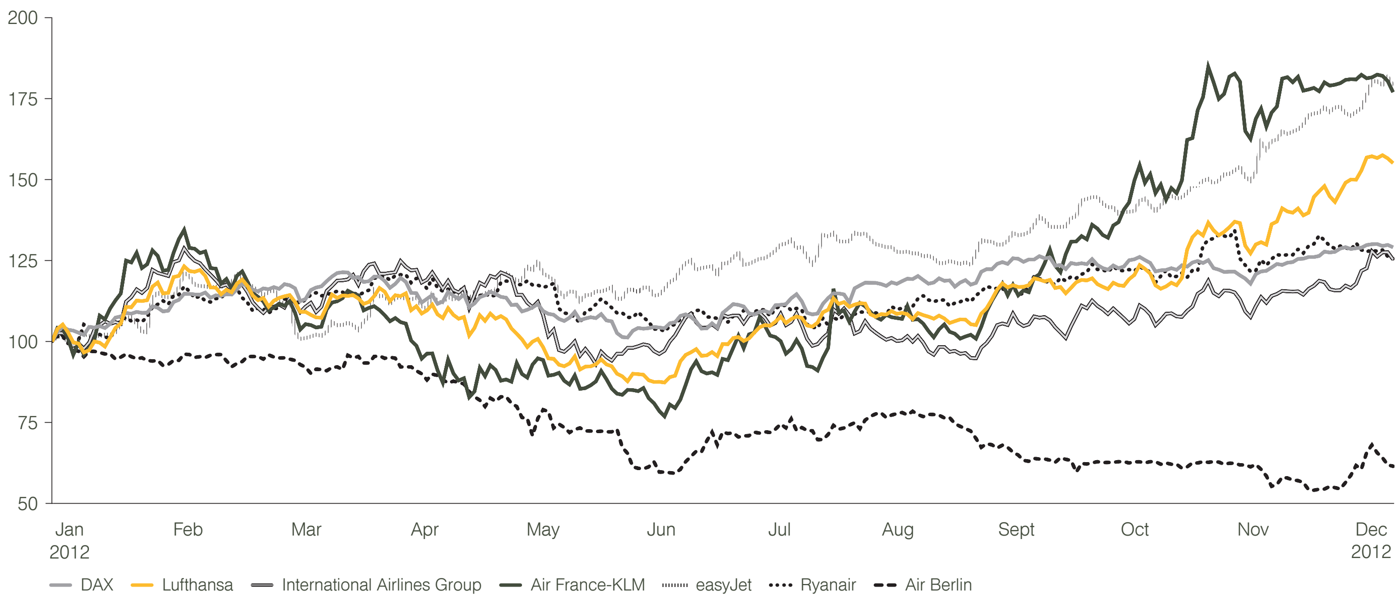
In the second half of the year, consistently good operating performance indicators and strong third-quarter earnings allayed fears that the economic risks would materialise. Driven by progress in the SCORE programme and a generally positive sector performance, the share price went up by 15.8 per cent in the third quarter and by 35.0 per cent in the fourth.

Executive Board and Supervisory Board propose suspension of the dividend
For many years, Lufthansa has enabled its shareholders to participate continually and directly in the Company's positive performance. A detailed explanation of the dividend policy can be found in the chapter "Financial strategy" on p. 36.

The Lufthansa share: key figures

		2012	2011	2010	2009	2008
Year-end share price	€	14.24	9.19	16.36	11.75	11.19
Highest share price	€	14.47	17.39	17.77	12.31	18.32
Lowest share price	€	8.02	8.35	10.34	7.86	8.99
Number of shares	millions	459.9	457.9	457.9	457.9	457.9
Market capitalisation (at year-end)	€bn	6.5	4.2	7.5	5.4	5.1
Earnings per share	€	2.16	−0.03	2.47	−0.07	1.18
Cash flow from operating activities per share	€	6.20	5.14	6.71	4.35	5.40
Dividend per share	€	–	0.25	0.60	–	0.70
Dividend yield (gross)	%	–	2.7	3.7	–	6.3
Dividend	€m	–	114.5	274.8	–	320.5
Total shareholder return	%	57.7	−40.2	39.2	11.3	−31.7

Performance of the Lufthansa share, indexed as of 31.12.2011, compared with the DAX and competitors, in %



In order to keep investing continuously in the core business segment of the Lufthansa Group in times of intense competition, the Executive Board and Supervisory Board will propose a suspension of the dividend at the Annual General Meeting on 7 May 2013. Net profit should rather be retained in full, in order to support the restructuring of the Company and the ongoing investment programme.

Lufthansa share rated positively by the majority of analysts

Analysts remain positive about the Lufthansa share. Particular attention is being paid to the steps to improve earnings, especially those taking place as part of the SCORE programme, as well as to continuing sector consolidation in Europe, which is leading to greater capacity discipline and rising average yields.

Analysts' recommendations* as of 31.12.2012

Buy 21	**Hold 8**	**Sell 5**

* Target price: EUR 13.53, average of 34 analysts.
Range: EUR 6.40 to EUR 19.00.

At year-end, some 85 per cent of the 34 analysts covering the share therefore recommended it as a buy or hold, and about 15 per cent saw it as a sell.

New major shareholders won, foreign ownership ratio stable

In order to protect international air traffic rights and its operating licence, the German Aviation Compliance Documentation Act (LuftNaSiG) requires Lufthansa to provide evidence that a majority of its shares are held by German shareholders. For this reason, all Lufthansa shares are registered shares with transfer restrictions.

At the end of 2012, German investors held 66.0 per cent of the shares (previous year: 68.6 per cent). The second largest group with 12.9 per cent was shareholders from the USA (previous year: 9.2 per cent). Investors from Luxembourg accounted for 5.3 per cent, followed by the United Kingdom and Canada with 3.9 and 3.5 per cent respectively.

This ensures full compliance with the provisions of the German Aviation Compliance Documentation Act (LuftNaSiG).

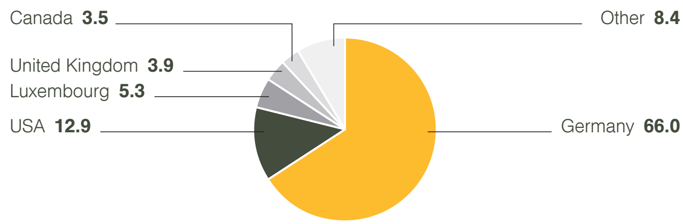
The free float for Lufthansa shares is 100 per cent, as per the definition of Deutsche Börse. As of the reporting date, 59.9 per cent (previous year: 61.5 per cent) of the shares were held by institutional investors and 40.1 per cent (previous year: 38.5 per cent) by private individuals.

Over the course of the year, the Lufthansa Group was able to win more institutional investors whose holdings exceeded the statutory disclosure thresholds of 3 and 5 per cent of issued capital respectively. BlackRock, Inc. holds a 5.43 per cent stake and remains the largest shareholder in the Lufthansa Group.

The Capital Group Companies is a new major shareholder with 5.12 per cent. Templeton Global Investors increased its interest to 5.00 per cent over the course of the year (previous year: 3.19 per cent). MacKenzie Financial Corporation from Canada became a new major investor, taking a stake of 3.01 per cent.

All the transactions requiring disclosure and published during the financial year 2012 can be seen in the Notes to the consolidated financial statements, "Note 35" from p. 170. They are also published on our website i www.lufthansagroup.com/investor-relations together with the shareholder structure, which is updated every quarter.

Shareholder structure by nationality as of 31.12.2012 in %



Free float: 100%

↗ Our balanced shareholder structure provides an important base for the Lufthansa Group. We continue to work transparently and credibly to increase company value.

Lufthansa Group pursues intensive dialogue with investors
In the financial year 2012, the philosophy of informing all investors in a timely, thorough and professional manner was again put into practice. This a vital prerequisite for gaining and retaining the trust of shareholders. In 2012 and in addition to the quarterly meetings, the Executive Board and Investor Relations team held 18 roadshows and 9 investor conferences to inform institutional investors about current developments at the Group. This involved more than 200 one-on-one and group meetings. One focus of attention was on German private investors. Our investor relations representatives were regularly available to answer questions at three forums organised especially for private investors. The service for private shareholders also includes the shareholder information letter, which was published twice in 2012 and can be viewed on the Investor Relations website. There you will also find the financial calendar as well as all the dates of conferences and shareholder events that the Lufthansa Group will be attending.

Alongside the annual report and the interim reports, the capital markets are informed of the latest traffic figures for the airborne companies and of other news from the Group by means of the monthly Investor Info. On request, creditors and bondholders are also sent our Creditor Info several times a year, which contains information of relevance to them.

All publications, our financial reports, presentations, background information and speeches as well as the latest news are also available at i www.lufthansagroup.com/investor-relations. Our website also provides instruments for individual analysis of the accounts and the financial and traffic data. The site is barrier-free, which means it can be accessed and used by anyone, irrespective of their physical restrictions.

Our efforts to communicate a continually up-to-date and transparent view of the Lufthansa Group and its prospects to all capital market participants were again recognised in 2012. At the IR Magazine Awards Europe 2012, the Lufthansa Group came in first place out of all the companies in the Travel & Leisure sector.

Lufthansa Group is member of major share and sustainability indices

As a member of the DAX, the Lufthansa Group is one of the 30 largest publicly listed companies in Germany. At year-end the share had an index weighting of 0.99 per cent. With a market capitalisation of EUR 6.5bn at year-end, the Lufthansa Group came in at number 26 in the ranking of DAX companies by market capitalisation. This is three places higher than the previous year. In terms of stock market turnover, the Lufthansa share also came in 26th place (previous year: 23rd). Trading volume in the share amounted to 979 million shares in 2012; this represents a transaction volume of EUR 10.0bn (previous year: EUR 14.1bn).

The Lufthansa share is also present in several international share indices, including the Dow Jones STOXX Europe 600 and FTSE Eurofirst 300 as well as in the FTSE4Good, Ethibel and ECPI sustainability indices.

In addition to its stock market listings in Germany, investors tied to assets denominated in US dollars can also gain exposure to the Lufthansa Group via the Sponsored American Depository Receipt Program (ADR). Since late 2011, the Lufthansa ADRs have also been registered on the standardised trading and information platform OTCQX, which makes trading in ADRs even easier and more liquid.

The Lufthansa share: data

ISIN International Security Identification Number	DE0008232125
Security identification number	823212
German stock exchange code	LHA
Stock exchanges	Frankfurt, Stuttgart, Munich, Hannover, Dusseldorf, Berlin, Hamburg, Xetra
Prime sector	Transport & Logistics
Industry	Airlines
Indices (Selection)	DAX, DivDAX Price, DivDAX Total Return, Dow Jones STOXX Europe 600, S&P Europe 350, S&P Global 1200, Bloomberg World Airlines Index, Bloomberg European Travel, FTSE4Good, FTSE Eurofirst 300

Ladies and Gentlemen,

The Supervisory Board and Executive Board worked well and effectively together in the financial year 2012. The Supervisory Board carried out the duties conferred on it by statute, the Company's Articles of Association and its internal regulations: to appoint the members of the Executive Board, to supervise their work and to advise them.

The Executive Board provided us with full and timely information on the competitive environment, planned Company policy and all significant strategic and operating decisions. Larger items of projected capital expenditure and equity investments as well as planned Group financing activities were coordinated with us. The Executive Board's reporting obligations and the list of transactions requiring authorisation have been laid down in internal regulations.

As Chairman of the Supervisory Board I read the minutes of the Executive Board meetings and discussed the current course of business with Mr Franz, the Chief Executive Officer, on an ongoing basis.

In 2012, the Supervisory Board held four ordinary meetings, on 14 March, 7 May, 19 September and 5 December. No member of the Supervisory Board was present at fewer than half the meetings of the Supervisory Board or the Supervisory Board Committees.

In December we carried out the regular review of the efficiency of our working practices and together with the Executive Board issued an updated declaration of compliance with the German Corporate Governance Code. There were no conflicts of interest requiring disclosure in 2012.

The Supervisory Board of Deutsche Lufthansa AG should be composed in such a way that, in aggregate, its members have the necessary knowledge, skills and professional experience as well as the time required for the proper performance of their duties. In this context, the Supervisory Board has always emphasised how fundamentally important the diversity of its composition is for the Company and at the same time would like to see more women represented. On 19 September, we decided that at least five shareholder representatives should be independent and at least two shareholder representatives should be women. Taking this into account, a reasonable number of members should also have several years of professional experience gained outside Germany. The Nomination Committee is responsible for preparing the relevant proposals for the election of shareholder representatives at the Annual General Meeting 2013, and met twice in autumn 2012 to discuss this.

Until the end of the financial year 2012, the members of the Supervisory Board still received variable remuneration in addition to their fixed remuneration. However, on 8 May 2012, the Company's Annual General Meeting passed an amendment to the Articles of Association stating that from the financial year 2013, the Supervisory Board members will receive no variable but only fixed remuneration of EUR 80,000. This is intended to increase the independence of the Supervisory Board in line with the amendments to the German Corporate Governance Code.

The Supervisory Board meetings focused on economic developments at the Lufthansa Group and its associated companies. Particular attention was paid to the expenses caused by ever higher fuel prices and fees and charges, as well as by the strikes held by air traffic controllers and Lufthansa Passenger Airlines cabin crews. Progress with the SCORE programme and the end of the Sino-German freight joint venture Jade Cargo also featured prominently. Furthermore, the Supervisory Board heard detailed reports on the successful completion of the sale of bmi, the merger of decentralised traffic from Lufthansa Passenger Airlines and Germanwings and the status of retirement benefit commitments in the Lufthansa Group.

We approved the increase in shareholders' equity at Austrian Airlines AG on condition that effective restructuring measures be implemented, that its flight operations be transferred to Tyrolean Airways Tiroler Luftfahrt GmbH and that seven aircraft from the Airbus A320 family be leased by Tyrolean Airways.

Other important items on the agenda in the reporting year concerned the authorisation to contribute equity and liabilities to the parent company of Brussels Airlines, the approval to issue a convertible bond for the shares in JetBlue Airways Corp. held by Deutsche Lufthansa AG, the introduction of a Premium Economy Class in Lufthansa Passenger Airlines' long-haul fleet and the construction of an airfreight terminal for Lufthansa Cargo AG at CargoCity Nord in Frankfurt.

The Executive Board informed us regularly of changes in the shareholder structure, transactions with derivative instruments, and 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 Paragraph 4 and 315 Paragraph 4 German Commercial Code require no further comment.

Information on the Supervisory Board Committees' work was provided at the beginning of the Supervisory Board meetings.

The Steering Committee met four times in the financial year 2012. At its meeting held on 7 May and on the recommendation of the Steering Committee, the Supervisory Board appointed Ms Simone Menne to the Executive Board of Deutsche Lufthansa AG as the member responsible for Finances and Aviation Services for the period 1 July 2012 to 30 June 2015. Ms Menne succeeds Mr Stephan Gemkow, who left the Company at his own request. In his six-year term of office, Mr Gemkow secured the financial backing for the Lufthansa Group's rapid growth with great expertise and commitment, thereby making a crucial contribution to the development of our Company.

The Arbitration Committee required under Section 27 Paragraph 3 German Co-determination Act did not need to be convened during the reporting period. The Audit Committee, which met four times in 2012, three of which in the presence of the auditors, discussed the interim reports with the CFO before publication. The committee also dealt with supervision of accounting processes and the effectiveness of the internal control system, risk management and internal auditing systems. The members received regular reports on risk management, compliance and the work of the Group's internal audit department. The committee also received detailed information from the Board members of Austrian Airlines and Brussels Airlines on the economic situation at their respective companies.

We appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf, who were elected as auditors for the parent company and the Group at the Annual General Meeting 2012, to audit the financial statements and the consolidated financial statements, the management reports and the risk management system. The Audit Committee acknowledged the declaration of independence provided by Pricewaterhouse-Coopers and discussed the main topics of the audit. No potential grounds for disqualifying the auditors or doubting their impartiality came to light during the course of the audit.

The consolidated financial statements 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). The auditors audited the annual financial statements and consolidated financial statements of Deutsche Lufthansa AG and the corresponding management reports as of 31 December 2012 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. During their audit the auditors did not come across any facts in contradiction with the declaration of compliance.

In early March 2013 the Audit Committee discussed the audit reports in detail with the CFO in the presence of the two auditors who had signed the financial statements. At the Supervisory Board accounts meeting the auditors reported on their audit findings and answered questions. 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 2012 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 like to express our thanks to the Executive Board and to all the employees of the Lufthansa Group and its associated companies for their personal contribution under difficult circumstances to the success in the financial year 2012.

Cologne, 13 March 2013

J. Weber

For the Supervisory Board
Jürgen Weber, Chairman

Corporate governance

↗ The recommendations of the German Corporate Governance Code have largely been followed. ↗ The common goal of the Executive Board and the Supervisory Board is to increase Company value sustainably. ↗ Transparent accounting and financial communications conform to international standards. ↗ The Lufthansa Compliance Programme is in use throughout the Group.

Declaration of compliance with the German Corporate Governance Code

At their meeting on 5 December 2012, 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 (AktG), the Executive Board and Supervisory Board of Deutsche Lufthansa AG declare that since the last declaration of compliance, the recommendations of the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the Federal Gazette on 15 June 2012 (the Code), have been complied with with the following exceptions, and in future will continue to be complied with unreservedly:

The Supervisory Board has always promoted the diversity of its composition as fundamentally important for the Company and at the same time would like to see more women represented. Notwithstanding 5.4.1 and 5.4.2 of the Code, it did not, however, initially define any concrete targets in the form of quotas or absolute numbers for the number of independent members or for a reasonable proportion of women. On 19 September 2012, the Supervisory Board nonetheless decided that at least five shareholder representatives should be independent and at least two shareholder representatives should be women. The recommendations made in 5.4.1 and 5.4.2 of the Code have therefore been followed since 19 September 2012.

Notwithstanding 5.4.6 of the Code, the members of the Supervisory Board will continue to receive variable remuneration that is not aligned with the sustainable development of the Company in addition to their fixed remuneration until the end of the financial year 2012. However, on 8 May 2012, the Company's Annual General Meeting passed an amendment to the Articles of Association stating that from the financial year 2013, the Supervisory Board members will receive no variable but only fixed remuneration. As of 1 January 2013, the Company will therefore be in compliance with recommendation 5.4.6 of the Code as well."

You can read about compliance with these and other voluntary suggestions of the Code on our website i www.lufthansagroup.com/investor-relations.

Shareholders and Annual General Meeting are involved in all fundamental Company decisions

Lufthansa shares are registered shares with transfer restrictions. Every share has identical voting rights. This means that our 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. This entails the disclosure of nationality for people and of domicile for companies and for entities with disclosure obligations under the German Securities Trading Act (WpHG) of any majority stake or controlling interest held by a non-German owner. All shareholders listed in the shareholders' register can exercise their voting rights at the Annual General Meeting. The electronic service for the registration process required under stock corporation law includes the option of appointing proxies, banks and shareholder associations to exercise these voting rights via internet and by postal vote. Shareholders can also follow the speeches made at the Annual General Meeting by the Chairmen of the Supervisory and Executive Boards online. Further information is also available from our website.

The Executive Board and Supervisory Board have a close working relationship in the interests of the Company

The Executive Board and Supervisory Board have a close and trusting working relationship in the interests of the Company. Their common aim is to increase Company value sustainably.

The Supervisory Board has adopted internal regulations governing the work of the Executive Board and the Supervisory Board as well as the cooperation between them. The four 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 Executive Board reports regularly to the Supervisory Board, which is made up of equal numbers of shareholder and employee representatives. At the Supervisory Board meetings, the Executive Board informs the Supervisory Board four times a year on business developments at the Group and its affiliated companies, as well as once a year on operational planning and financial planning for the Group. The Executive Board presents the Company's quarterly reports to the Supervisory Board. Furthermore, the Chairman of the Executive Board informs the Chairman of the Supervisory Board and 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 include in particular capital expenditure, especially for aircraft and other non-current assets above a certain value threshold, long-term leasing of aircraft, establishing companies, acquisitions or disposals of shares, entering new businesses or discontinuing any existing businesses within the scope of the Articles of Association, signing or suspending control agreements and strategically important cooperation agreements, and borrowing.

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 contents, 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, the internal control system and compliance. It also discusses the quarterly reports with the Executive Board before they are published. Other important aspects are the necessary independence of the auditors, their appointment, defining the focus of audits and the fee arrangements. The Committee also makes a recommendation to the Supervisory Board on the auditors, to be put forward for confirmation at the Annual General Meeting, and on adopting the individual and consolidated financial statements.

The Nomination Committee consists of three members elected from among the shareholder representatives. It proposes suitable candidates to the Supervisory Board, which can in turn put them forward for the election of new Supervisory Board members at the Annual General Meeting.

The obligatory Arbitration Committee required under Section 27 Paragraph 3 of the Co-determination 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 corresponding proposal to the Supervisory Board.

The Supervisory Board member Dr Robert Kimmitt is Senior International Counsel at the law firm WilmerHale. The Supervisory Board member Matthias Wissmann is a partner at the law firm WilmerHale. The Supervisory Board member Martin Koehler is a Senior Advisor at the consultancy firm The Boston Consulting Group (BCG). The Lufthansa Group has had in the past and will probably in the future also have advisory contracts with both WilmerHale and BCG. Neither Mr Wissmann nor Dr Kimmitt nor Mr Koehler advise the Lufthansa Group as part of these contracts. Both WilmerHale and BCG have also confirmed in writing that they have taken organisational steps to ensure that fees from advisory work for the Lufthansa Group are not taken into account either directly or indirectly in determining the remuneration that the aforementioned gentlemen receive from the law firm and the consultancy company respectively. The aforementioned Supervisory Board members therefore have no potential conflict of interests and there is no question of their independence, and the Supervisory Board's approval of these advisory contracts is not required.

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. Lufthansa has taken out a D&O (directors' and officers' liability insurance) policy for both Boards, with an excess in line with the requirements of the Stock Corporation Act and the German Corporate Governance Code. 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 from p. 200.

Transparent accounting and financial communications conform to international standards

The Lufthansa Group prepares its consolidated financial statements and interim reports 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). 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). Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in Dusseldorf has been appointed to audit the financial statements for 2012. The auditors' fees for the 2012 financial year are summarised in the Notes to the consolidated financial statements, "Note 52" on p. 197.

Trading in Lufthansa shares, or in financial instruments based on them, in particular options or derivatives, by members of the Executive Board, Supervisory Board and members of the Lufthansa German Airlines Board – known as directors' dealings – are announced immediately as soon as a threshold of EUR 5,000 is exceeded in the calendar year. 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.

The Lufthansa Group informs shareholders, analysts and the general public in a timely and equitable manner. More information on these activities can be found in the chapter "Lufthansa share" on p. 20 and on our website i www.lufthansagroup.com/investor-relations.

Supervisory Board remuneration adjusted from 2013

In accordance with Section 13 Paragraph 1 of the Articles of Association, the members of the Supervisory Board receive a fixed salary of EUR 50,000 for the year 2012 and a variable bonus depending on net profit per share. Total remuneration for an ordinary member may not exceed EUR 100,000 per year. Remuneration for the Chairman is three times and for the Deputy Chairman one and a half times the total remuneration of ordinary members. Committee members receive an additional 25 per cent and committee chairmen an additional 50 per cent of total remuneration. Remuneration for committee work is subject to the proviso that the committee met at least once in the financial year. From the financial year 2013 onwards, the members of the Supervisory Board will receive annual remuneration of EUR 80,000 on the basis of the amendment to Section 13 Paragraph 1 of the Articles of Association. The Chairman will receive EUR 240,000 and the Deputy Chairman EUR 120,000. The Chairman of the Audit Committee will receive an additional EUR 60,000; other members of the Audit Committee will receive an additional EUR 30,000. Chairs of other committees will receive an additional EUR 40,000 and members of other committees an additional EUR 20,000. Remuneration for committee work remains subject to the proviso that the committee met at least once in the financial year.

Executive Board remuneration aligned with sustainable Company performance

The current remuneration structure for the Executive Board has been in effect since 2011. The provisions of the Act on Appropriate Executive Board Remuneration (VorstAG) and the German Corporate Governance Code concerning the remuneration of the Executive Board have been implemented in full. These require publicly listed companies to align their remuneration structures more closely with the sustainable development of the company. In the current system of remuneration for Executive Board members of Deutsche Lufthansa AG, the variable remuneration is partly linked to the operating margin. 75 per cent of this bonus is paid the following year, and therefore on an annual basis. The remaining 25 per cent is carried forward for another two years. At the end of the assessment period, which runs for three years in total, the amount carried forward is to be multiplied by a factor of between 0 and 2. How high the factor is depends to 70 per cent on the cash value added (CVA) achieved over the three-year period and to 30 per cent on sustainability parameters such as environmental protection, customer satisfaction and staff commitment.

As the Executive Board is also obliged to take part in the LH-Performance programme, the great majority of variable remuneration components are therefore based on performance over several years see also the chapter "Performance-related remuneration for managers" from p. 29.

At the Annual General Meeting held on 3 May 2011, the current system of Executive Board remuneration was approved by 98.41 per cent of votes validly cast. If any changes are to be made to the current system, the modified system of remuneration will again be put forward for approval at the Annual General Meeting.

The Act on Appropriate Executive Board Remuneration (VorstAG) defines a vesting period of at least four years for stock option programmes; this period is also given as a general orientation and recommendation for long-term incentive models. The duration of the LH-Performance programme begun in 2011 has therefore been increased from three to four years, even though it is not a stock option programme within the meaning of the Act. Extending the duration to four years initially meant that there was no longer any opportunity of receiving a payment under an option package in 2014, as the LH-Performance programme for 2010 ends in 2013 and the programme for 2011 ends in 2015. To close this gap, the Supervisory Board voted to introduce an additional one-off option that can be exercised after three years as part of the LH-Performance programme for 2011.

Details of remuneration and retirement benefit commitments for members of the Executive Board and of remuneration for members of the Supervisory Board can be found in the remuneration report, which is part of the management report. The amounts paid to the individual Executive Board and Supervisory Board members are published in the Notes to the consolidated financial statements, "Note 50" from p. 193.

Sophisticated programme helps to ensure 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 at the same time to help them to apply statutory regulations correctly. The Lufthansa Compliance Programme is made up of the following elements: Competition, Capital Markets, Integrity, Embargo and Corporate Compliance. An ombudsmen system gives staff the opportunity to report any suspicion of criminal activity or breaches of the compliance regulations. The central Compliance Office, which reports to the CEO, and the Compliance Officers in Group companies, ensure that the Lufthansa compliance programme is enforced throughout the Group by means of regular internet-based training courses and information published on the intranet. The Audit Committee of the Supervisory Board is informed regularly by means of Compliance Reports. Additional information incorporating the latest amendments is available from i www.lufthansagroup.com/responsibility.

Combined management report

To the extent that the combined management report refers to sources other than the combined management report or the consolidated financial statements (e.g. internet sites), the contents of these sources are not part of the combined management report and are solely for informational purposes.

Company and organisation

↗ The Lufthansa Group has five business segments which hold outstanding positions in their markets. ↗ The airline group defended its leading position in Europe. ↗ The Lufthansa Group creates sustainable value across economic cycles. ↗ Despite a number of adverse effects, the financial targets were met in 2012.

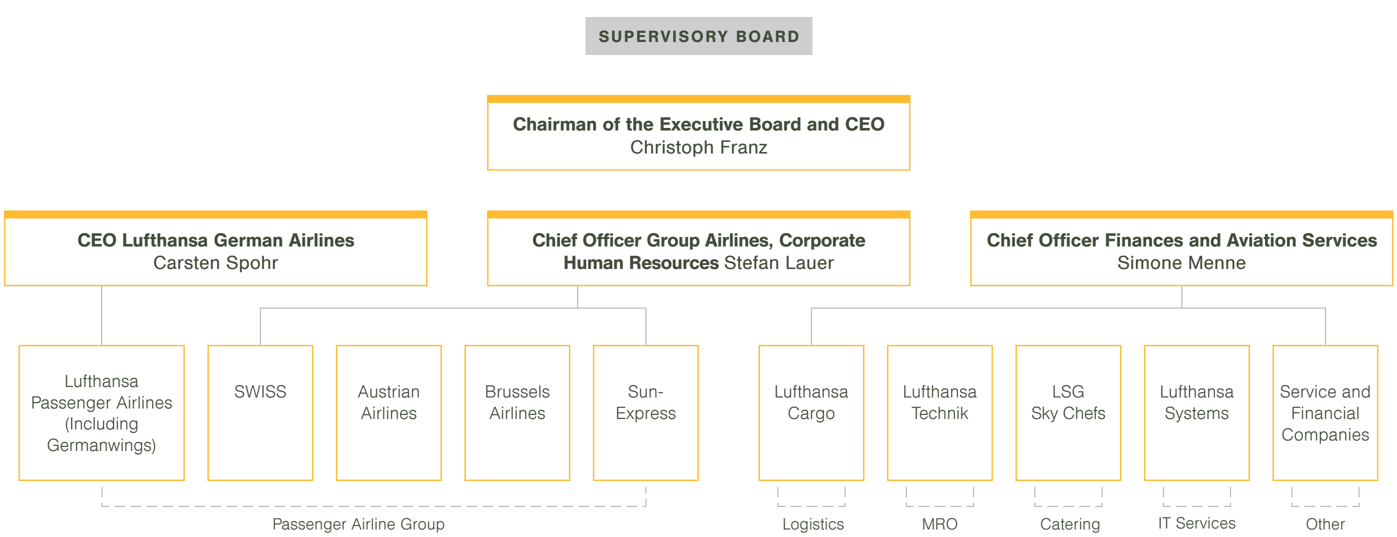
Business activities and Group structure

Diversified segment portfolio balances out economic fluctuations
The Lufthansa Group is an aviation group with global operations and a total of more than 400 subsidiaries and associated companies. It is divided into five business segments, which cover the areas of passenger transportation, airfreight and airline services: Passenger Airline Group, Logistics, MRO, Catering and IT Services. All of the business segments occupy a leading position in their sectors and in some cases are the global market leaders. In 2012, the Lufthansa Group generated revenue of EUR 30.1bn and employed an average of 117,443 staff.

The airlines constitute the core business segment of the Lufthansa Group. Lufthansa Passenger Airlines, SWISS and Austrian Airlines enjoy an outstanding reputation in the market as quality airlines. The equity investments in Brussels Airlines and SunExpress round off the airline portfolio. In the reporting period, the airline group defended its leading role in Europe, again recording the greatest number of passengers and the highest revenue of any European airline. The Logistics segment is also a market leader in international airfreight. As well as standard freight, its product portfolio covers express freight and special cargo.

The MRO, Catering and IT Services segments complete the Lufthansa Group's product portfolio, offering the full spectrum of services for the airlines within the Group as well as for external

Group structure



clients. Lufthansa Technik is the global market leader in the maintenance, repair and overhaul of commercial aircraft. Its range of products covers the whole spectrum from single jobs to the servicing of entire fleets. The Catering segment is the global market leader in airline catering and supplies regional, national and international carriers. Increasingly, LSG Sky Chefs also offers its catering products in adjacent markets as well as providing other services related to the development, procurement and logistics of inflight articles for airlines. The IT Services segment is one of the leading global IT services providers to the airline industry. Its product and service portfolio ranges from customised IT solutions to complete infrastructure operations. Detailed information on each business segment can be found in the respective comments on p. 60–92. The main equity holdings are listed in the Notes to the consolidated financial statements from p. 203.

The Lufthansa Group's strategic formation, with a diversified portfolio of business segments that offset economic fluctuations, stabilises Group earnings. Further details on the structure of the Lufthansa Group can be found in the chapter "Group strategy" from p. 33.

Management and supervision

Management and supervisory structure conforms to German standard

As is common in Germany, Deutsche Lufthansa AG has separate management and supervisory structures. The Executive Board is responsible for managing the Company; it defines its strategic direction and strives for sustainable increases in its value. The Supervisory Board appoints, advises and supervises the Executive Board.

Division of Executive Board responsibilities remains unchanged

Deutsche Lufthansa AG is managed by four Board members. Christoph Franz remains Chairman of the Executive Board and CEO. As in previous years, Stefan Lauer is Chief Officer Group Airlines and Corporate Human Resources and Carsten Spohr is responsible for Lufthansa Passenger Airlines. Since 1 July 2012, Simone Menne has been Chief Officer Finances and Aviation Services, having succeeded Stephan Gemkow, who left the Company at his own request. Simone Menne was previously Chief Financial Officer at bmi.

Deutsche Lufthansa AG is the parent company and the largest single operating company in the Group. The individual business segments are run as separate Group companies, with the exception of Lufthansa Passenger Airlines. They have their own profit and operating responsibility and are monitored by their respective supervisory boards, in which members of Deutsche Lufthansa AG's Executive Board are also represented. Further information can be found in the Notes to the consolidated financial statements, "Note 50" from p. 193.

Performance-related pay for managers is linked to the Company's performance

The Lufthansa Group's system of remuneration for the Executive Board, managers and staff attaches great importance to incentive programmes which are linked to the Company's performance. Managers receive a performance-related bonus made up of two components in addition to their basic salary.

The first component of this performance-related remuneration system is the LH-Bonus programme. It includes a variable bonus related to the reporting period and is a core element of the Lufthansa Group's management and leadership system. LH-Bonus covers targets at Group, segment and individual levels. For the Executive Board and managers, Group performance is measured equally by reference to the operating margin and the cumulative cash value added for the Group (CVA, see chapter on "Value-based management and targets" from p. 30) over three years. The three-year reference period reflects the aim of creating sustainable value. The segment's economic performance is captured primarily by the CVA for each business segment. In addition, each segment can define its own specific key performance indicators (KPI).

The second, long-term component of the performance-related remuneration system for managers is the LH-Performance share programme. This annual programme ties one component of remuneration to the performance of the Lufthansa share.

LH-Performance combines a personal investment by the participants in Lufthansa shares with the granting of appreciation rights. Participation is obligatory for members of the Executive Board and voluntary for managers and non-payscale staff without managerial responsibility. The Lufthansa Group offers a discount on the personal investment. In return the shares are subject to a lock-up period until the end of the programme. The appreciation rights are made up of a performance and an outperformance option. A payment is made on the performance option if the performance of the Lufthansa share at the end of the programme has exceeded a predetermined threshold, which is based on the Lufthansa Group's cost of equity. The outperformance option generates a payment at the end of the programme if the Lufthansa Group share has performed better over the course of the programme than a portfolio made up of the shares of the main European competitors.

Since 2011, the renewed LH-Performance programmes have run for four years. More information on the share programmes is available at i www.lufthansagroup.com/investor-relations.

Results "LH-Performance"

	End of programme	Outperformance as of 31.12.2012 in %	Performance as of 31.12.2012 in %
LH-Performance 2012	2016	2	18
LH-Performance 2011	2015	4	26
LH-Performance 2010	2013	19	–2
LH-Performance 2009	2012	18	–3

No changes to the structure and volume of Executive and Supervisory Board remuneration in the reporting year (Remuneration report in accordance with Section 315 Paragraph 2 No. 4 HGB)

The structure of Executive Board remuneration introduced in 2011 is intended to achieve a roughly equal balance between the two components "fixed annual salary" and "variable annual bonus and remuneration with a long-term incentive effect and risk characteristics". It has been ensured that the variable remuneration components are overwhelmingly based on a period of several years. They are subject to a satisfactory operating result and a significant minimum performance or outperformance of the Lufthansa share.

For the financial year 2012, the members of the Supervisory Board were paid a fixed sum of EUR 50,000 for an ordinary member, plus a variable bonus dependent on net profit for the period, whereby the total remuneration of an ordinary member of the Supervisory Board was capped at EUR 100,000. In accordance with the resolution adopted at the Annual General Meeting on 8 May 2012, the remuneration of Supervisory Board members is to be switched to an exclusively fixed sum of EUR 80,000 for an ordinary member with effect from the financial year 2013. The detailed remuneration report and amounts paid to the individual members of the Executive and Supervisory Boards can be found in the Notes to the consolidated financial statements, "Note 50" from p. 193.

Value-based management and targets

Sustainable increase in Company value is the ultimate objective

Since 1999, the Lufthansa Group has applied a value-based management system to lead and manage the Group. This approach is an integral part of all planning, management and controlling processes. The demands made of the Company by investors and lenders in terms of sustainable capital appreciation are firmly embedded in the whole system of corporate management. The objective is to create sustainable value across economic cycles. The achievement of value creation targets is reviewed on a regular basis and the results are incorporated into our internal and external reporting. The value-based management system is also linked to performance-related pay. Details can be found in the section "Performance-related pay for managers is linked to the Company's performance" from p. 29.

Value contribution is measured by CVA

The Lufthansa Group uses CVA as its main performance indicator. CVA is based on the return expectations of all investors and lenders and measures the value contribution generated in the reporting period by each individual business segment and by the Group as a whole.

The CVA is an absolute residual amount, which is calculated as the difference between the cash flow generated in a given year and the minimum cash flow required to increase the value of the Company. If the cash flow generated is higher than the minimum required cash flow, the value creation is expressed by a positive CVA. The individual parameters are calculated as follows:

The minimum required cash flow is the sum of the required return on capital employed, the capital recovery rate and the flat tax rate. The capital base is defined as the total of non-current and current assets less interest-free liabilities. It is measured at historic cost. This makes value calculation and generation independent of the depreciation and amortisation applied. The required return on capital is calculated using the weighted average costs of debt and equity for the Lufthansa Group and for the individual operating segments (weighted average cost of capital – WACC).

The WACC for the 2012 financial year is determined by the parameters shown in the following table:

Return on capital 2012

in %	
Risk-free market interest rate	3.2
Market risk premium	5.1
Beta factor	1.1
Proportion of equity	50.0
Proportion of debt	50.0
Cost of equity	**8.8**
Cost of debt	**3.6**

These parameters are reviewed every year and updated as required for the following year's corporate planning and performance measurement. Short-term fluctuations are smoothed in order to ensure the long-term character of the concept. In the course of the regular review of the individual parameters of CVA, it became apparent that, given consistently low interest rates and further falls in the risk premium for shareholders' equity, it was necessary to adjust the WACC. In the following financial year 2013, a WACC of 6.2 per cent is used for the Lufthansa Group.

On the basis of the financial strategy, a target capital structure of 50 per cent equity at market value and 50 per cent debt is used to calculate the WACC for both the Group and the business segments. The different segment risks are factored in by means of individual costs of equity, and therefore total costs of capital. In this way, the Lufthansa Group ensures that the allocation of capital to projects in the business segments is adjusted for risk. The following table illustrates the required return on capital for the Lufthansa Group and its individual business segments:

Cost of capital (WACC) for the Group and the business segments

in %	**2012**	2011	2010	2009	2008
Group	7.0	7.0	7.9	7.9	7.9
Passenger Airline Group	7.0	7.0	7.9	7.9	7.9
Logistics	7.2	7.2	8.2	8.2	8.2
MRO	6.7	6.7	7.6	7.6	7.6
Catering	7.0	7.0	7.9	7.9	7.9
IT Services	6.7	6.7	7.6	7.6	7.6

The minimum required cash flow includes what is known as capital recovery, in order to reflect the depletion of the Company's non-current assets in the production process. This is derived from total depreciable non-current assets and represents the amount that needs to be put by every year and invested at a rate equivalent to the WACC in order to recoup the amount of the purchase costs by the end of the asset's useful life. Finally, the expected tax payment is added by applying a surcharge of currently 0.6 per cent of the capital base. The resulting minimum required cash flow for the year 2012 came to EUR 3.0bn (previous year: EUR 3.0bn).

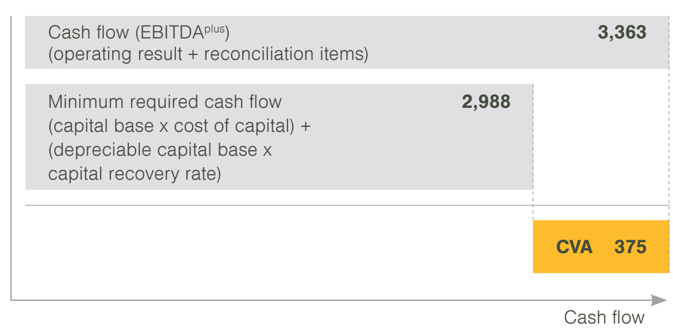
Reconciliation EBITDA^{plus}

in €m	**2012**	2011
Operating result	**524**	**820**
Depreciation and amortisation	1,722	1,663
Result from disposal of property, plant and equipment	53	29
Income from reversal of provisions	162	163
Impairment losses on intangible assets and property, plant and equipment	–137	–76
Change in pension provisions before interests	132	138
Operating EBITDA^{plus}	**2,456**	**2,737**
Pro rata pre-tax results of non-consolidated equity investments	124	168
Interest income	141	177
Result from disposal of financial assets	642	–30
Financial EBITDA^{plus}	**907**	**315**
EBITDA^{plus}	**3,363**	**3,052**

In the Lufthansa Group, the cash flow effectively generated is represented by EBITDA^{plus}, which is made up of an operating and a financial component. The operating component of EBITDA^{plus} is derived from the operating result by adjusting it for non-cash items. These are principally depreciation and amortisation, income from the write-back of provisions and net changes in pension provisions. Then the financial component of EBITDA^{plus} is added, comprising pro rata pre-tax earnings of non-consolidated equity investments, net interest income and earnings contributions from the disposal of financial investments. This ensures that EBITDA^{plus} includes all significant cash-relevant items. In the reporting year, the Lufthansa Group's EBITDA^{plus} came to EUR 3.4bn (previous year: EUR 3.1bn).

In order to obtain the CVA the minimum required cash flow is then deducted from EBITDA^{plus}.

Calculation of cash value added (CVA) 2012 in €m



The Lufthansa Group generated a value contribution of EUR 375m in 2012

In the financial year 2012, the Lufthansa Group generated a positive CVA of EUR 375m. The reason for the substantial increase compared with the previous year was a significantly positive earnings effect from the disposal of financial investments, which resulted from the transfer and sale of shares in Amadeus IT Holding S.A. Further information can be found in the chapter "Earnings position" on p. 47.

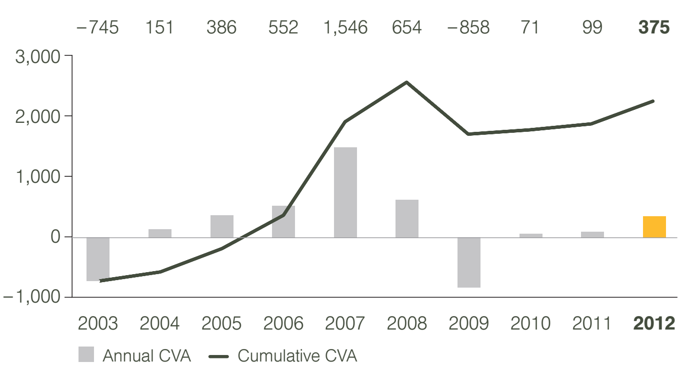
Value creation (CVA) of the Lufthansa Group and the business segments

in €m	**2012**	2011	2010	2009	2008
Group	375	99	71	–858	654
Passenger Airline Group	–340	–122	–198	–691	346
Logistics	65	202	233	–264	71
MRO	241	152	172	164	188
Catering	39	–25	–28	–68	–17
IT Services	7	23	–23	3	29

Experience shows that it is difficult to give a forecast for future value creation. The current macroeconomic outlook makes achieving a positive CVA in 2013 look ambitious. The Lufthansa Group nevertheless stands by its intention of generating sustainable value across economic cycles. In the last ten years, for example, the Lufthansa Group has generated a positive aggregate value of EUR 2.2bn.

We have a number of additional financial targets in addition to value creation that are described more closely in the following section and in the section "Financial strategy" from p. 35.

Performance of Lufthansa Group of the last ten years
Cash value added in €m



Active management enables positive result despite difficult circumstances

As expected, the financial year 2012 saw revenue growth at all companies and steep price rises for fuel, fees and charges. However, the positive revenue trend could not fully make up for the massive increase in fuel costs in particular. On the other hand, the financial targets in the first year of the SCORE programme were more than met, which boosted earnings. Important progress was made with restructuring the Lufthansa Group by means of active management of the Group portfolio, airline capacities and the individual companies themselves. The service companies made a particular contribution to overall earnings for last year.

As the operating margin was so low, numerous extraordinary events had a disproportionate effect on earnings in the year under review. They include the substantial amount of strike activity at the beginning of the year and in the summer, the introduction and subsequent suspension of emissions trading by the European Commission and not least, the successful restructuring of Austrian Airlines with positive one-off effects on the result for the Lufthansa Group.

Despite all these influences, the financial targets for 2012 were met in full. The following table gives an overview of the individual targets that have been achieved. The respective chapters of this annual report deal with individual aspects in more detail.

Target	Target achievement 2012
Further revenue growth	EUR 30.1bn in revenue (+4.9 per cent)
Operating result in the mid three-digit million euro range	EUR 524m in operating profit (–36.1 per cent)
Maintain minimum liquidity of EUR 2.3bn	Liquidity of EUR 5.0bn
Maintain a high proportion of unencumbered aircraft	71.3 per cent of the Group fleet is unencumbered (–1.4 percentage points)
Move closer to an equity ratio of 30 per cent	29.2 per cent equity ratio (+0.6 percentage points)
Keep gearing in the target corridor of 40 to 60 per cent	Gearing: 48.6 per cent (–7.3 percentage points)
Move closer to a debt repayment ratio of 60 per cent	Debt repayment ratio of 58.9 per cent (+9.2 percentage points)
Meet the conditions for distributing a dividend	Conditions were met; suspension of the dividend proposed
Maintain credit rating	Ratings confirmed: BBB-, outlook stable (S&P's); Ba1, outlook stable (Moody's)
Sustainable value creation (positive CVA) over the cycle	EUR 2.2bn CVA since 2003 including EUR 375m CVA in 2012

In 2012, the Lufthansa Group was again able to close the financial year in a much better position than most of its competitors. To this extent, the net profit for the year is relatively satisfactory, even though it cannot disguise the insufficient absolute amount of the operating result. In this particularly challenging environment, the managers and staff of the Lufthansa Group again put in very good work over the past year. The Executive Board would like to thank them for their dedication and their unceasing commitment at a time of structural and operational change.

Group strategy

↗ Focus on increasing future viability and company value. ↗ Market leadership to be extended. ↗ Greater customer satisfaction a priority. ↗ Focus on sustainable economic development. ↗ The Lufthansa Group sets its sights on profitability.

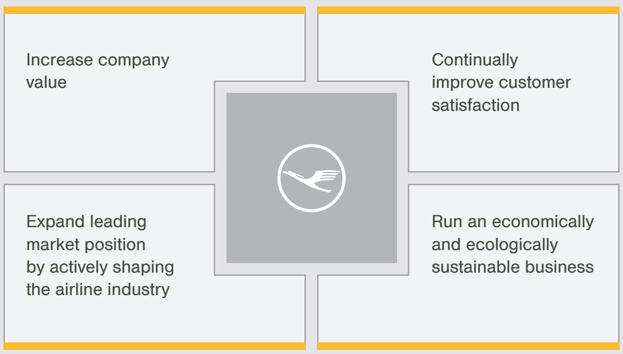
↗ Group strategy rests on four pillars

We at the Lufthansa Group have set ourselves four key strategic goals towards which we orientate our conduct and our business performance. These goals are

- to increase company value,
- to expand the leading market position of our airlines and service companies by actively shaping the aviation industry,
- to continually improve customer satisfaction with product and service quality, technology and safety, and
- to run an economically and ecologically sustainable business.

Other targets for return on capital and innovation are derived from these four main strategic pillars and are subordinated to them. They are supplemented by measures relating to synergies, the renewal and improvement of our products and fleets, the careful handling of emissions and materials and responsibility for our staff.

The pillars of Group strategy



↗ Increasing company value is necessary for the Group's future viability, and therefore its successful development

Our focus on sustainable value creation is a fundamental prerequisite for continuing to invest successfully in group segments, customers, fleets, products and employees, for meeting our return obligations to our shareholders and for keeping our product and service promise to our customers. Financial strength and solidity allow us to make funding on attractive terms possible and ensure that the Lufthansa Group is one of the few airlines in the world to have an investment grade rating.

By establishing cash value added (CVA) as a performance indicator for value-based management, we ensure that this strategic objective is incorporated into all decision-making and investment processes. We have continued to refine the Lufthansa Group's portfolio on this basis. As a consequence in the passenger business, we disposed of the British airline bmi and restructured Austrian Airlines last year. Germanwings will serve European traffic outside the German hubs in Frankfurt and Munich with a high-quality, low-cost product in the future. In the Logistics segment, we abandoned the loss-making equity investment in Jade Cargo. In the MRO and Catering segments we sold off loss-making and non-strategic equity interests.

↗ Expand leading market position to play an active role in shaping the growing air traffic sector

As one of the world's largest aviation groups and recognised market leader in most of our business segments, we mean to play an active role in shaping the development of the industry and to profitably take benefit in the global growth of the airline sector. We maintain our leadership by means of several approaches, which range from organic growth to the continuous review of acquisitions that could represent a sensible strategic addition to the Group.

We consider the ongoing global trend towards consolidation and the faster development of new international partnerships and will exploit these selectively wherever they boost the competitiveness of the Lufthansa Group and support a course of sustainable, profitable growth.

We also want to continue expanding existing partnerships and to initiate new ones. Examples in the passenger business include the expansion of the North Atlantic joint venture with United Airlines and Air Canada (A++) and the joint venture on Japanese routes with ANA (J+) and, among others, the creation of the UK joint venture with Alpha Flight Group in the Catering segment.

Our leading position in the development and promotion of strategic innovations also contributes to actively shaping the sector. In the recent past, the Lufthansa Group has played a key role in innovation in this area. This will continue to be an important goal for us in the future.

↗ We invest in the quality of our products and in a young fleet for the benefit of our customers

In the years ahead, we will improve quality for customers in all business segments even further by means of record levels of capital expenditure on new products and processes. Until 2016, Lufthansa Passenger Airlines will among other things be investing a total of over EUR 3bn, more than ever before, in its inflight and ground product. The Group fleet will have a modern product, optimally suited to customers' needs, in all classes, which will form the basis for successfully addressing the market in the years ahead and will strengthen Lufthansa Passenger Airlines' position as an innovative company with the highest levels of quality. By outsourcing decentralised traffic to Germanwings, we are also offering our customers a competitive and individual product of the highest quality outside our German hubs in Frankfurt and Munich. At SWISS, we have adapted the product on offer in Geneva to local market conditions. And following the successful restructuring of Austrian Airlines, our customers there can also experience a considerably enhanced ground and inflight product.

For Lufthansa Cargo, we will establish one of the most modern and efficient airfreight terminals in the world at its main hub in Frankfurt. In doing so, we will not only deliver major increases in efficiency but also create the potential for further growth in the freight business. At Lufthansa Technik, we are developing new technologies for our customers in order to cut their maintenance costs, and are boosting our competitiveness, in part through agreements with selected OEMs to open up new markets.

At LSG Sky Chefs, we intend to keep growing internationally – as we did last year – in order to ensure that we have a presence today where our global customers will be tomorrow. And finally, at Lufthansa Systems we will continue to shape the market for airline IT solutions around the world with IT innovations, of which BoardConnect is just the latest example.

↗ Sustainable business creates prospects for Company and employees

Our investment policy aims to support sustainable business in every respect. We ensure that our economic success is sustainable by integrating CVA in all decision-making processes. Ecological sustainability is also at the heart of how we act, and generally goes hand in hand with an economically sound business. Our investment in new aircraft types rejuvenates the fleet for all airlines, for example, and at the same time delivers considerable efficiency gains by reducing kerosene consumption and noise emissions, which makes an important contribution to improving the ecological footprint of our Company.

Numerous other projects demonstrate how complementary economy and ecology can be in our business; from paperless eFreight and lighter freight containers at Lufthansa Cargo through to the recycling of components from decommissioned aircraft by Lufthansa Technik and the use of lightweight trolleys at LSG Sky Chefs.

↗ With the SCORE programme we are working equally towards all these objectives

With the Group-wide SCORE earnings improvement programme, we are preparing the ground for a substantial increase in profitability and efficiency by 2015 and for making the Lufthansa Group even more flexible at the same time. SCORE is intended to modernise the administrative structures of the Lufthansa Group, improve the efficiency of its operating business and, based on that of 2011, increase its operating result by EUR 1.5bn by 2015.

We have completed the reorganisation of the IT and purchasing structures in the Lufthansa Group. We are pushing forward with the transfer of processes in administrative areas throughout the Group to a global Shared Services organisation.

In the passenger business, we are shaping the profile of the different hubs within the airline group. This lets us realise synergies in local and European traffic. Eliminating overcapacities and tightening the route network by means of clear return targets means we can improve the management of the companies in the airline group and boost organisational efficiency. We have established a competitive production platform for decentralised traffic in Germany and Europe with the new Germanwings and have continued the harmonisation of fleets and cabin equipment across all airline group members.

We are working to make cost structures more flexible so that capacities can be managed in a more precise and more profitable way. Examples include the restructuring of the German catering business, the decision taken at Lufthansa Passenger Airlines to introduce "dual-class" sub-fleets for selected routes and, in particular, the wage settlement with cabin staff, which allows for targeted capacity management in response to changes in demand structures.

↗ Outlook: clear focus on profitability in the interest of our strategic goals

The structural formation of the Lufthansa Group will continue to focus on operating segments that complement one another and offset economic fluctuations. The focus of our portfolio development will be to realise additional synergies between the individual segments in the Group. We will systematically restructure, dispose of or discontinue persistently loss-making and non-strategic segments. New business segments may be added, in particular from the growth of existing activities.

In a difficult market environment, we will focus on further sustainable increases in profitability and on structuring and managing the Group even more efficiently. We will also always take new structures and business models in consideration. As far as the airlines are concerned, we are committed to market-focused capacity and yield management, which is necessary in order to avoid excess capacities and therefore optimise income. This makes the Lufthansa Group even more competitive and strengthens our financial profile.

In the airline industry, nothing is more certain than change. The courage and the will to change, as well as a desire to innovate and to shine for our customers, originate in the minds of our staff and our managers. We intend to keep fostering these qualities, in order to continue shaping our industry in the future. Value creation, market leadership, customer satisfaction and sustainability: these are the pillars that we build upon.

Financial strategy

↗ Our financial strength creates sustainable competitive advantages and trust

Our financial strategy is consistently aimed at ensuring the Company's strategic and operational freedom of action at all times. Thanks to our existing financial stability, we have created room for manoeuvre which represents a significant advantage in competition with other airlines.

This financial profile makes the Lufthansa Group a trusted and valued partner for customers and business partners around the world.

↗ Systematic implementation of financial strategy

The core aspects of the financial strategy are incorporated into all the Lufthansa Group's key planning and decision-making processes:

- **Maintaining a good credit rating from the point of view of lending investors and institutions.** Our aim is to safeguard an investment grade rating.

- **Ensuring adequate liquidity.** This reduces liquidity and refinancing risks. Our aim is to hold a minimum liquidity of EUR 2.3bn at all times.

- **Maintaining a stable capital structure.** We aim for a solid balance sheet equity ratio. The target was adjusted following the changes to the accounting standards for recognising pension provisions from 2013 onwards; see comments on IAS 19 on p. 36. The previous target for the equity ratio was 30 per cent. In future, we are aiming for a figure of 25 per cent. The equity ratio is an objective that is to be aimed for and upheld over the medium term. We plan to keep achieving this target by retaining sufficient profits and continuing the steady outfinancing of pension obligations.

– **Managing net debt.** The Group's borrowing capacity is managed via the debt repayment ratio. This is an adjusted cash flow from operating activities in relation to net indebtedness, including pension provisions. We have also adjusted our target for the debt repayment ratio to reflect the accounting changes for pension obligations; see following comments on IAS 19. The minimum figure was reduced from 50 per cent to 35 per cent going forward and the sustainable target figure from 60 per cent to 45 per cent going forward. The target is derived from the demands of the rating agencies and meets the requirements of a solid investment grade rating.

– **Maintaining an unencumbered fleet.** The majority of our aircraft fleet is unencumbered and wholly owned by the Group. New aircraft are depreciated rapidly over 12 years to a residual value of 15 per cent. The combination of both aspects gives the Lufthansa Group a large, free and stable asset base, which can largely be disposed of at any time. The great flexibility this creates is not only financial, but above all operational.

– **Hedging against external financial risks.** Our integrated risk management enables us among other things to manage the financial risks to which the Group is exposed. These are principally fuel price, interest rate and exchange rate risks. Rule-based hedging processes aim to smooth price fluctuations.

↗ Change in accounting standard IAS 19 will lead to higher pension provisions

The Group runs defined benefit pension plans for staff in Germany and abroad, which are funded by external plan assets and by pension provisions for obligations in excess of these assets.

In the context of these defined benefit pension plans, the amendments to the accounting standard IAS 19, Employee Benefits, applicable as of 1 January 2013, mean that actuarial gains and losses from the revaluation of pension obligations and the corresponding plan assets are recognised immediately and in full in equity, without effect on profit and loss.

One important effect of this retroactive application of the standard will be that the balance of actuarial losses previously carried off-balance-sheet will be offset against equity at one stroke as of 1 January 2013. After accounting for taxes, this will reduce Group equity by EUR 3.5bn. The change in the accounting standard does not result in higher pension payments, however, nor does it establish an obligation to make additional contributions to fund assets. More information can be found in the Notes to the consolidated financial statements from p. 137.

Our shareholders participate in the Group's performance

The dividend policy of the Lufthansa Group provides for a distribution of 30 to 40 per cent of the operating profit, as long as a dividend can be paid from the net profit for the year recognised in the individual financial statements of Deutsche Lufthansa AG prepared according with the German Commercial Code (HGB); see on p. 124–128. All the conditions for the payment of a dividend were met in 2012. Nevertheless, the Executive Board and Supervisory Board have decided to propose a suspension of the dividend at the Annual General Meeting – also in view of the changes in pension plan accounting described above and the ongoing investment programme. Further details can be found in the section "Profit distribution" on p. 51.

Development of earnings and dividends

		2012	2011	2010	2009	2008
Operating result	in €m	524	820	1,020	130	1,280
Net profit/loss (Group)	in €m	990	–13	1,131	–34	542
Net profit/loss (HGB)	in €m	592	–116	483	–148	276
Dividend per share	in €	–[1]	0.25	0.60	–	0.70
Dividend ratio (based on operating result)	in %	–	14.0	26.9[2]	–	25.0
Dividend yield (gross)	in %	–	2.7	3.7	–	6.3

[1] Suggested dividend per share.
[2] 31,4 % based on the operating result of EUR 876m reported for 2010.

Economic environment and course of business

↗ Global economic growth slowed in 2012, but air traffic was able to increase. ↗ The oil price remains high. ↗ Consolidation in the airline sector continues. ↗ Various regulatory effects weighed on the Lufthansa Group. ↗ The earnings of the service companies had a stabilising effect on the net profit in 2012. ↗ The overall performance of the Lufthansa Group in 2012 was satisfactory. ↗ Structural improvements in profitability are necessary.

Macroeconomic situation

Euro debt crisis depresses global economy

The pace of worldwide economic development slowed considerably in 2012. One important factor weighing on the global economy is the continued indebtedness and crisis of confidence in the euro area. Set against this backdrop, some countries took severe steps to cut their budget spending, which dampened global economic performance even further. The protracted uncertainty over the economic development of the euro area also caused the euro to fall against other currencies.

GDP development

in %	**2012***	2011	2010	2009	2008
World	2.6	3.0	4.2	–1.9	1.6
Europe	0.0	1.9	2.3	–4.2	0.4
Germany	1.0	3.1	4.0	–5.1	0.8
North America	2.2	1.9	2.5	–3.0	–0.2
South America	2.6	4.0	5.9	–1.6	4.0
Asia/Pacific	4.8	4.6	7.3	1.7	3.6
China	7.7	9.3	10.5	9.2	9.6
Middle East	3.3	5.0	5.9	1.3	4.9
Africa	5.0	1.1	4.7	2.7	4.5

Source: Global Insight World Overview as of 15.1.2013.
* Forecast.

In the middle of the year, to prevent the debt crisis spreading, the European Central Bank (ECB) announced a policy of unlimited intervention in sovereign bond markets under certain conditions. Thereby the ECB and other central banks initially contributed to restoring calm to the markets.

After growing by 3.0 per cent in 2011, the global economy only managed to grow at 2.6 per cent in 2012, however.

Emerging markets also see growth restricted

After a dynamic performance at year-end 2011, the economy in the USA lost its momentum again in early 2012. Over the course of the year it recovered somewhat, buoyed by growth in consumer spending and investments. In the reporting year, the US economy grew by 2.3 per cent (2011: +1.8 per cent).

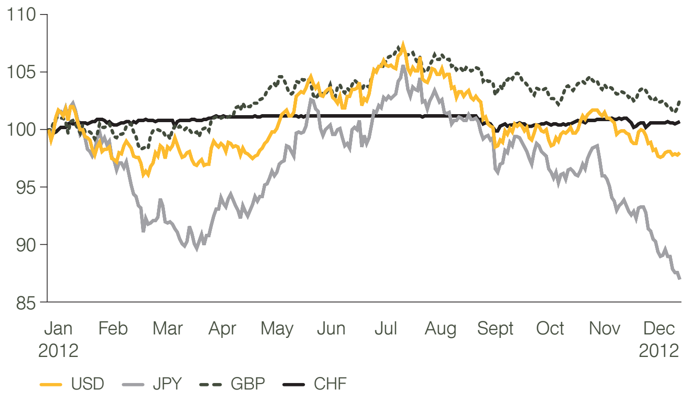
The Japanese economy slowed down considerably during 2012. A downturn in external trade was the main reason, primarily due to lower demand from China as well as weak domestic demand. Economic growth in the country was boosted by an expansive monetary and fiscal policy. The growth rate in 2012 was +2.0 per cent, compared with –0.5 per cent in 2011.

In the emerging Asian economies, the pace of expansion slowed sharply over the course of the year, partly due to the crisis in the euro area. The Asia/Pacific region grew by 4.8 per cent. The downturn in economic growth was most pronounced in China and India, as a result of dwindling rates in the global economy. The economic output of both countries rose year on year by just 7.7 per cent and 5.1 per cent respectively. There are nonetheless indications that expansion in China has picked up again in recent months.

In Europe, the economic malaise persisted throughout 2012 against a backdrop of uncertainty about which direction the crisis would take next and efforts to balance budgets. In view of this development, there were wide regional disparities in performance across Europe. Growth in gross domestic product was flat in 2012 (2011: +1.9 per cent).

The German economy grew more slowly, but remained robust. External trade in a difficult market for exports was a major contributor to growth. Gross domestic product went up by 1.0 per cent (2011: +3.1 per cent).

Currency development 2012
EUR 1 in foreign currency, indexed to 100%



Foreign exchange markets affected by weak euro

On currency markets, the euro mostly traded lower in 2012 than in the previous year. The US dollar traded on an average 7.6 per cent more than in the previous year, which resulted in significant additional expenses for the Lufthansa Group. These extra costs were only partly offset by the appreciation of the pound sterling, Japanese yen and Swiss franc, which traded 6.5 per cent, 7.4 per cent and 2.0 per cent higher respectively, boosting revenue from these countries accordingly.

The Lufthansa Group tries to reduce the effect of exchange rate movements on business performance by means of its proven rule-based hedging policy. More on this topic can be found in the “Risk and opportunities report” on p. 112. Including these hedges, currency movements had an overall negative effect of EUR 130m on the Group’s operating result for 2012.

Short and long-term interest rates continue to fall

Short-term interest rates in the euro area continued to decline in the reporting period, reaching new lows. The average for 6-month Euribor was 0.83 per cent (previous year: 1.64 per cent). Long-term interest rates also fell: the 10-year swap rate was 1.96 per cent, down from 3.09 per cent in 2011.

Currency development EUR 1 in foreign currency

	2012	2011	2010	2009	2008
USD	1.2851	1.3910	1.3239	1.3945	1.4743
JPY	102.49	110.74	115.94	130.39	153.59
GBP	0.8109	0.8676	0.8574	0.8907	0.7901
CHF	1.2052	1.2303	1.3780	1.5095	1.5896

Source: Reuters, annual average daily price.

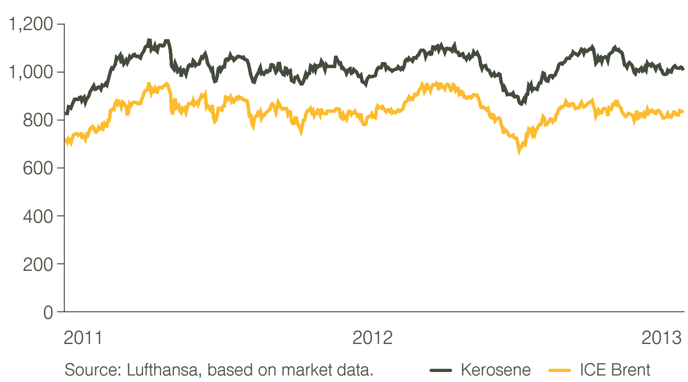
The Lufthansa Group uses the positive correlation between the operating result, which is dependent on the strength of the economy, and short-term interest movements as an inherent hedging mechanism and therefore holds most of its financial liabilities at floating rates. Details can be found in the “Risk and opportunities report” on p. 113.

Oil price remains high

After a brief drop at the end of the second quarter 2012, with prices below USD 100/barrel, the market rate for a barrel of Brent Crude went up again sharply in July and has remained high ever since. On 31 December 2012 a barrel of Brent Crude cost USD 111.12. In 2012 the average price of USD 111.68/barrel was 0.7 per cent higher than in the previous year.

The jet fuel crack, the price difference between crude oil and kerosene, moved between USD 15/barrel and USD 18/barrel in 2012. Between August and November it broke out of this trading range, peaking at USD 26.69/barrel in October. In November, the jet fuel crack returned towards its basic range. On average over the year it traded at USD 18.68/barrel and thus 7.8 per cent higher than in the previous year. The price at year-end was USD 16.75/barrel.

Price development of crude oil and kerosene in USD/t

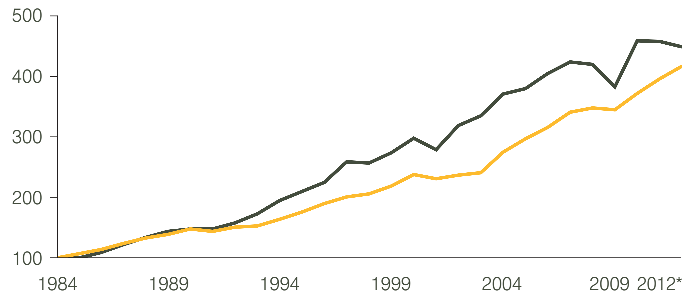


Source: Lufthansa, based on market data.

This took the average price for kerosene to a total of USD 1,026.48 per tonne, which represents an increase in the Lufthansa Group's fuel costs of around 17.8 per cent or EUR 1.1bn compared with the previous year, despite a lower number of flights operated.

The fuel price is a central factor behind developments in the Lufthansa Group's expenses. To limit the ensuing risks, the Company also has systematic risk management for fuel with a rule-based hedging policy. In 2012 this improved the operating result by EUR 128m. The principle of rolling hedges means, however, that there were also months in which fuel hedging did not deliver a positive earnings contribution. Detailed information on the Lufthansa Group's hedging policy can be found in the "Risk and opportunities report" on p. 114.

Demand development in air travel in revenue passenger-kilometres (RPK) and cargo tonne-kilometres (FTK), indexed 1984 = 100



Source: ICAO / IATA.
* Forecast for 2012 (IATA Fact Sheet 12/12).

Sector developments

The aviation industry affects the entire Lufthansa Group, both via its direct impact on the Company and indirectly via its influence on the relevant customer groups for the service companies. For this reason, it is analysed here for the Lufthansa Group as a whole.

Sales performance 2012

in % compared with previous year	Revenue passenger-kilometres	Cargo tonne-kilometres
Europe	5.1	–2.9
North America	1.1	–0.5
Central and South America	9.5	–1.2
Asia / Pacific	6.0	–5.5
Middle East	15.2	14.7
Africa	7.2	7.1
Industry	**5.3**	**–1.5**

Source: IATA Carrier Tracker 12 / 12.

Regional developments in aviation vary considerably

As with macroeconomic developments, trends in air traffic also differed significantly between regions. Sales growth for European airlines outperformed the general economy, rising steeply by 5.1 per cent. Airlines from the Asia/Pacific region saw an increase in sales of 6.0 per cent and North American carriers of 1.1 per cent. Air traffic in Africa saw strong growth of 7.2 per cent. Latin American airlines increased their passenger numbers even more sharply by 9.5 per cent. The carriers from the Middle East also recorded rapid growth of 15.2 per cent.

Passenger traffic continues to rise despite difficult environment

Total revenue passenger-kilometres picked up by an average of 5.3 per cent worldwide. Contrary to expectations, the premium segment in particular put in a robust performance. According to information from the International Air Transport Association (IATA), premium traffic went up year on year by 4.8 per cent in 2012.

Airfreight traffic experiences a sharp drop

In contrast to passenger traffic, global airfreight volumes saw a sharp contraction in 2012, falling by 1.5 per cent. Sales by airlines from the Middle East climbed by 14.7 per cent, whereas the African carriers reported year-on-year sales growth of 7.1 per cent. The steepest fall was felt by airlines from the Asia/Pacific region at –5.5 per cent, mainly as a result of depressed economic growth. European airline sales were down by 2.9 per cent, followed by carriers from Latin America (–1.2 per cent) and North America (–0.5 per cent).

European airline industry expects to break even in 2012

As a result of global economic developments, European airlines redoubled their cost-cutting efforts and improved their capacity discipline. The IATA raised its industry forecast for 2012 and is now forecasting a net profit for the global airline industry of USD 6.7bn. Compared with the previous year (USD 8.8bn), this still represents a substantial fall, however. The earnings position of airlines in Europe in particular was severely hit by the weak economic performance. Altogether, the airlines here are therefore only expected to break even.

Consolidation of the airline sector continues

Over the course of the year, the consolidation of the airline industry continued around the world in the form of partnerships and mergers. High fuel prices and tough competition prompted structural changes. Spanair, from Spain, and Malev, from Hungary, both declared insolvency at the beginning of 2012.

The Star Alliance announced the acceptance of AviancaTaca Airlines and Copa Airlines as new members. In November 2012, Shenzhen Airlines from China joined the airline alliance. Eva Air, from Taiwan, is also planned as a future member. In the second quarter, LAN and TAM joined forces in Latin America to become LATAM Airlines. The new airline group is currently reviewing its membership options in terms of airline alliances, as LAN is part of oneworld, whereas TAM is a member of Star Alliance.

The other large airline alliances oneworld and Skyteam were also expanded. In addition, Etihad Airways acquired a stake of 29 per cent in Air Berlin immediately after the latter had joined the oneworld alliance. Both airlines announced programmes of wide-ranging cooperation with Air France-KLM in the third quarter 2012. Qatar Airways announced that it was joining oneworld and so will be working closely with IAG in future. Qantas and Emirates announced a strategic partnership on flights between Asia, Australia and Europe. These are due to begin in the second quarter of 2013. Delta Airlines, a member of Skyteam, bought a 49 per cent equity interest in Virgin Atlantic previously held by Singapore Airlines. Virgin Atlantic's membership of Skyteam and the creation of a joint venture with Delta for North Atlantic traffic are currently under review. In February 2013, American Airlines and US Airways officially announced their plans for a merger.

Regulatory and other factors

The Lufthansa Group and its business segments are subject to numerous legal and regulatory influences. In many cases there is still a need for political clarification and correction, in order to avoid conditions and situations that distort competition.

Varying security standards around the world require a holistic approach

Much higher security standards have applied in the aviation sector since the terrorist attacks of 11 September 2001. Between the competing interests of security, cost-effectiveness and customer satisfaction, the customer experience is being diminished by ever stricter, but sometimes inefficient and repeated security checks. The security concept practised today has reached its limits in terms of customer acceptance, but also in terms of costs and time spent. An exchange of views is therefore increasingly taking place between airlines, airports and political institutions in order to adapt future checks to new security requirements and to growing passenger numbers. The Lufthansa Group is taking part in this to devise an all-encompassing approach to passenger and cargo security, which is intended to establish passenger satisfaction and efficiency as central concerns, alongside an undiminished level of security. Important components of this future security concept are uniform global security specifications, government-sponsored "Trusted Traveller" programmes and the implementation of new technologies. Single-handed attempts by countries and special procedures – like today's transfer freight check in Germany, special aircraft inspections in the UK and identity checks upon boarding in some EU countries – should then be a thing of the past.

EU emissions trading – one-sided competitive discrimination remains

The subject of climate protection remains a high priority for the airline industry. Building on the four-pillar climate protection strategy co-developed by the Lufthansa Group – technical progress, more efficient infrastructure, operating measures and economic instruments – the airline industry has become the first sector to set its own clear goals for reducing CO_2 emissions. This IATA Global Approach represents a global attempt to solve the problem.

The EU Emissions Trading Scheme for air transport, in operation since 1 January 2012, also aims to protect the climate. It offers, at most, a strictly limited regulatory approach, however, since it only covers flights to and from EU airports. This dilutes its impact and reduces the efficiency of air traffic at the same time by distorting competition.

The European Commission's current rules on emissions trading provoked great resistance from many non-EU states who railed against the EU's unilateral action. Several countries, including India, China and the USA, had threatened to refuse or restrict aviation rights and increase fees for European airlines and/or prohibit their own airlines from taking part in the EU emissions trading scheme. In November 2012, the European Commission then proposed an exceptional, one-year suspension of emissions trading for flights to or from non-EU states. This period is to be used to find a global solution for emissions trading at the International Civil Aviation Organisation, a UN agency. The existing EU rules on emissions trading still apply to flights within the EU, however. If the ICAO does not reach a solution in 2013, the conflict will flare up again.

The proposal made in November 2012 to restrict the scope of the regulation to inner-EU flights did defuse the international conflict, but it still discriminates against EU airlines by imposing higher site-specific costs on them compared with non-European airlines. For airlines with EU shuttle services for international long-haul routes it also results in direct disadvantages compared with competing international direct flights to/from the EU and with transfer connections via non-EU hubs, which are exempt from the levy. This weakens the European airline industry. Like all other actions which are limited to a specific region, it is ecologically counterproductive to the extent that it indirectly promotes circuitous routes via non-EU hubs that are often not ideally located and therefore results in additional CO_2 emissions.

Since 2010, ICAO has examined a global approach for the airline industry very closely. It has voted in favour of adopting a CO_2 standard for new aircraft, for example, and developed the technical foundations for the new standard.

However, one key element of the ICAO's work is developing concepts for market-based mechanisms – such as global emissions trading – for international aviation by October 2013. Above all, market-based mechanisms have to apply equally to all participants in a global market, as otherwise they would only result in dysfunctional competitive developments.

Agreeing on global rules for a global market like that for air traffic remains a political challenge. This has been confirmed by both the EU and the German federal government, in the current coalition agreement for example. A working emissions trading scheme is inseparably linked with competitive neutrality.

Independently of the discussions taking place at the political level, the airline industry has already set itself ambitious targets to reduce CO_2 emissions as part of the aforementioned IATA Global Approach: by 2020, the fuel and CO_2 efficiency of global air traffic are to be improved by 1.5 per cent a year. From 2020, emissions are to remain constant despite traffic growth and by 2050 are even to be reduced by 50 per cent compared with 2005. The further development and implementation of this concept nevertheless requires intensive cooperation between industry and politics, particularly regarding the urgently needed reform of air traffic control and the development and realisation of appropriate technology.

Single European Sky still a pipe dream

Cross-border organisation of airspace management by air traffic controllers is a vital pillar of this comprehensive climate and sustainability policy. In 2004, the EU adopted the Single European Sky (SES) initiative for this very purpose. Its implementation is still very slow, however, because the EU member states and air traffic control organisations are reluctant to give up national airspace management structures. In 2009, the EU passed a regulation revising SES (SES II), which is intended to expand the scope of SES and speed up its realisation. Since the beginning of 2012, binding performance targets for punctuality, flight efficiency and cost-effectiveness in route services have applied to national air traffic control authorities throughout the EU.

Despite this, the EU states with the heaviest traffic have not yet managed to draw up national performance plans to match the EU-wide targets. Expectations of the Functional Airspace Block Europe Central (FABEC) developed by Germany, Belgium, France, Luxembourg, the Netherlands and Switzerland are particularly high. Like all eight other Functional Airspace Blocks (FAB) in EU airspace, it should have been implemented in December 2012.

These steps are intended to make European airspace management considerably more efficient. If this succeeds, it would mean more airspace capacity, fewer delays, more stable flight plans, lower air traffic control fees and considerable savings in fuel and emissions for the airlines in the Lufthansa Group as well as for other European airlines. Rigid structures, complexity and the disparate objectives of the interest groups involved have so far prevented the project from meeting its implementation targets, however.

In the area of environmental policy there are also other risks. The night-flight ban at Frankfurt Airport, for example, causes considerable additional expense and restricts the growth prospects at Europe's busiest (cargo) hub. Operator and airlines, together with the relevant regulatory authority, are still striving to find a practicable and cost-effective solution that meets demand and enables flight operations to be continued profitably at this airport.

Lufthansa Group's flight operations in Frankfurt restricted by night-flight ban

The extension of Frankfurt Airport was and is very important for Germany in terms of air transport. The night-flight ban also hampers growth and operations outside the hours of its direct application. On 4 April 2012, the Federal Administrative Court ruled that approval of the extension to Frankfurt Airport remained valid. However, in the period from 11 p.m. to 5 a.m. it is forbidden to use the airport because of a night-flight ban. During the peripheral hours of the night (10 p.m. to 11 p.m. and 5 a.m. to 6 a.m.) only 133 scheduled flights are permitted on average over the year. The restrictions affect freight and passenger operations equally.

Exemptions for departures between 11 p.m. and midnight will only be granted if the delay is due to factors beyond the control of the airline involved, for example if weather conditions restrict operations. For delays due to technical reasons that push departure back until past 11 p.m., this had repeatedly resulted in aircraft which were taxiing to the runway being called back to the gate and several hundred passengers having to disembark and spend the night in Frankfurt. This causes considerable costs not only for the aircraft – which is not where it is supposed to be the next morning – and the crew, but also results in additional costs because passengers are entitled to assistance at the expense of the airline (Regulation (EC) 261/2004). In order to minimise the expense of unavoidable cancellations for the Lufthansa Group, the flight timetable has been heavily revised and numerous flights, especially in the evening, have been brought forward or cancelled. In the current timetable, the last flight of the day takes place at 10.15 p.m., in order to have sufficient time reserve to avoid costly flight cancellations.

For the Lufthansa Group, this policy represents a considerable restriction on flight operations and causes financial losses in the mid two-digit million euro range every year. Operator and airlines, together with the relevant regulatory authority, are still striving to find a practicable and cost-effective solution that meets demand and enables flight operations to be continued at this hub.

Decisions are still to be taken at European level on the allocation of slots, ground handling services and noise-induced airport operating restrictions

At the end of 2011, the European Commission presented proposals for the revision of the current regulation on the allocation of landing and take-off slots and the current directives on ground handling services and noise-induced operating restrictions at airports ("airport package"). The European Parliament and the Council of Ministers have confirmed the current form of grandfathering rights, which is important for Lufthansa, and formalised the sale of slots between airlines, which has been tolerated for some time. Other points are still disputed, such as the definition of slots, the introduction of a fee for reserving slots as well as other sanctions. The European Parliament is calling for health aspects to be taken into consideration when operating restrictions are imposed for noise abatement reasons. The controversy over liberalising the market for ground handling services is still exercising the European Parliament; the Council of Ministers has already confirmed the main points of a corresponding proposal by the Commission. It is still unclear whether the European legislature will adopt the airport package in 2013 or not.

Developments in consumer protection increase customers' entitlement to compensation from airlines

In December 2008, the European Court of Justice (ECJ) ruled that only in exceptional cases can technical problems exonerate an airline for cancelling a flight. If the airline cannot exonerate itself, it must pay denied boarding compensation (DBC) of EUR 250 to EUR 600 per passenger.

On 23 November 2012, the ECJ confirmed that airlines are also obliged to pay compensation to their passengers for delays of more than three hours. Furthermore, Regulation (EC) 261/2004 also obliges airlines to provide assistance for an unlimited period, including meals, refreshments and hotel accommodation if necessary, in cases where they do not have to pay compensation because of exceptional circumstances.

The result is that considerable expenses can add up for assistance in classic cases of force majeure, such as the restriction or suspension of flight operations because of bad weather or airspace closures due to volcanic ash. As part of the planned review of the Regulation in 2013, the airlines and their trade associations are campaigning for balanced rules to be adopted, which will take the interests of both passengers and airlines into account.

This is a pressing need, because increasing public pressure has led the German Federal Aviation Authority to treat every breach of the regulation as an administrative offence for which the airlines face fines of up to EUR 25,000. Contrary to general legal understanding, the regulation gives the German Federal Aviation Authority the opportunity of using the laws on administrative offences to enforce civil law claims. Following the principle of “no penalty without a law”, no administrative proceedings have yet been started on this charge of non-payment of denied boarding compensation in the event of delays (ECJ ruling). Particularly given the ECJ ruling, it is not possible to say how the number of cases will develop and to what extent the Lufthansa Group will be able to defend itself successfully against the German Federal Aviation Authority, if necessary by seeking judicial review from the courts.

Regulation of financial transactions also impacts operating business

In both Europe and America, different efforts are still being made to regulate over-the-counter (OTC) derivatives. The Lufthansa Group uses this type of non-exchange-traded derivatives for risk management, in order to minimise fluctuations in oil prices, exchange rates and interest rates. The derivatives are therefore only used to hedge price movements in cost items beyond the Company’s control and which cannot or can only partially be passed on to customers.

The proposed European Market Infrastructure Regulation (EMIR) now exempts industrial companies from the clearing obligation (duty to securely settle financial derivatives) as long as the derivatives – as is the case for the Lufthansa Group – only relate to transactions concerning hedged items. This exemption is very welcome and takes the interests of all industrial companies into account, irrespective of the sector in which they operate.

Overview of the course of business

Business performance considerably depressed by financial crisis, exchange rates and fuel price

In 2012, the course of business at the Lufthansa Group was severely affected by the consequences of the financial crisis in Europe and by persistently high fuel prices. This particularly affected the passenger and cargo businesses. In addition, the year 2012 was hit by a large number of strikes. The first quarter saw massive industrial action by German air traffic controllers, which had a direct impact on the Passenger Airline Group. In the third quarter, it was the cabin crew at Lufthansa Passenger Airlines who went on strike.

The profits from the service companies had a stabilising effect on the Group’s business and earnings performance over the year as a whole.

The first quarter is traditionally weak for air transportation and was followed by a much better second and third quarter. The fourth quarter was weaker again. Strict capacity management had a positive effect, but the income generated through it could only partly offset the rise in costs, mainly due to fuel prices. Lufthansa Passenger Airlines (including Germanwings) closed the financial year with an operating loss. For the first time since becoming part of the Lufthansa Group, Austrian Airlines, along with SWISS, cruised back to operational profitability thanks to the restructuring of its flight operations.

Business at Lufthansa Cargo was also massively affected by the economic environment. Due to the night-flight ban imposed at Frankfurt Airport the Logistics segment has to cope with hampering surrounding conditions. This brought the operating profit down compared with the strong figure for the previous year. Lufthansa Cargo is nevertheless committed to its site in Frankfurt and will invest in a new logistics centre from 2014.

The MRO segment had a successful year, reporting an operating profit well above the previous year’s. The Catering segment benefited from high passenger volumes and exchange rate movements. Furthermore, the newly launched restructuring and efficiency programmes began to have an effect. They enabled the Catering segment to increase its result yet again. IT Services was also able to bring the year to a successful close thanks to its continued restructuring.

Cost pressure continues to rise in the industry, with repercussions for the whole Lufthansa Group. Numerous steps to improve earnings were, and are still being, devised and implemented following the launch of the Group-wide SCORE programme. The efforts to cut costs and boost sustainable growth are indispensable for the Lufthansa Group to survive in a market environment which remains uncertain. The current earnings level of the Group, particularly of the Passenger Airline Group, is not sufficient. Management will therefore focus on the activities to improve earnings that make up the SCORE programme and which already had such an impact in the 2012 financial year.

Significant events

Lufthansa Group successfully closes sale of bmi

The sale of bmi to IAG was completed on 19 April 2012, as agreed in December 2011. The closing was subject to approval by the EU competition authorities, which was given on 30 March 2012. With this portfolio adjustment, the Lufthansa Group has disassociated itself of a sustainably loss-making company.

Night-flight ban at Frankfurt Airport confirmed

The state of Hesse's Ministry of the Economy, Transport and Development implements the ruling of the Federal Administrative Court on the night-flight ban at Frankfurt Airport in an amended order dated 29 May 2012. The night-flight ban extends from 11 p.m. to 5 a.m. and is considerably affecting to the flight operations of both Lufthansa Cargo and Lufthansa Passenger Airlines. The annual financial loss for the Lufthansa Group is in the mid two-digit million euro range. More information can be found in the chapter "Regulatory and other factors" on p. 42.

Austrian Airlines transfers flight operations to Tyrolean Airways

Austrian Airlines completed the transfer of its flight operations to its subsidiary Tyrolean Airways with effect from 1 July 2012. Prior discussions with the collective bargaining partners did not result in a mutually acceptable solution for restructuring flight operations. The transfer is a crucial part of a comprehensive restructuring programme that began in early 2012 and is intended to bring the company back to lasting profitability.

Flight operations at the Lufthansa Group hampered by many strikes

The year 2012 saw a large amount of strike activity in Germany, which had a massively adverse effect on the Lufthansa Group's flight operations. In the first quarter 2012, this included strikes by the air traffic controllers' union at Frankfurt Airport and the industrial action taken by the services union ver.di at various sites on 27 March 2012. In the third quarter 2012, the cabin crew at Lufthansa Passenger Airlines also went on strike on several days at various sites.

Opening of Berlin Brandenburg International Airport postponed indefinitely

The opening of Berlin Brandenburg International Airport was rescheduled several times over the course of 2012 and has now been postponed indefinitely. Until the new airport is opened, the Passenger Airline Group will offer the planned range of flights from Berlin-Tegel.

Germanwings takes over decentralised traffic from Lufthansa Passenger Airlines

In October 2012, the Executive Board decided to merge decentralised traffic at Lufthansa Passenger Airlines with Germanwings as of 1 January 2013. The new Germanwings will pool all traffic outside the Frankfurt and Munich hubs in a new brand and product concept.

SCORE – change for success

At the beginning of 2012, the Group-wide earnings improvement programme "SCORE – Change for Success" was launched. It aims to sustainably increase the Group's operating result by EUR 1.5bn. All airlines, service segments and Group functions are making a contribution. More information is available on p. 1 – 14 of this annual report.

Initial projects dealt with the optimisation of purchasing, staff costs and local traffic across the Group. In May 2012, this final topic was the first SCORE project to be completed successfully. Subsequently, the second package was adopted, with a focus on harmonising the fleets and cabin designs across the Group, as well as on increasing fuel efficiency and optimising international stations.

At the same time, preliminary studies were launched in a third package covering Flight Training and the Call Center Service, which have been in project status since the end of 2012. All in all and after about a year, SCORE has now been firmly established in the Lufthansa Group. All the business segments have set up projects to increase income, optimise their organisational structures, exploit synergies within the Group and cut costs.

Overall assessment of business performance

In the opinion of the Executive Board, the Lufthansa Group put in a satisfactory performance overall in 2012. Once again, all the business segments contributed to the overall success through positive earnings. The operating results of the airborne segments Passenger Airline Group and Logistics were at an unsatisfactory level and were down on the previous year, however, largely due to the high average oil price over the course of the year. In the years ahead, the required restructuring work will concentrate on increasing the profitability of the airborne companies. However, earnings developed well at the service segments: Lufthansa Technik, LSG Sky Chefs and Lufthansa Systems were all able to improve their positive operating results.

Overall, the Lufthansa Group generated an operating profit, thereby outperforming its main European competitors once again. Flexible cost and capacity management as well as the SCORE programme started in 2012 will continue to secure the Group's earnings in future. The Lufthansa Group continues to rely on its solid financial profile, which brings stability and opens up opportunities at the same time. The redefined financial targets will help to secure this financial profile. The rating agencies again confirmed their credit ratings for the Company.

In the financial year 2012, the Lufthansa Group was able to earn its costs of capital in a challenging environment and also to generate added value of EUR 375m in the form of a positive CVA. The Executive Board will continue to concentrate on sustainable value creation in future. By means of the work that is currently underway, the explicit goal is to bring the structural and sustainable profitability of the Lufthansa Group to a much higher level.

Standards applied and changes in the group of consolidated companies

The consolidated financial statements for 2012 and the quarterly reports are prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the IFRS Interpretations Committee (IFRS IC) as applicable in the European Union (EU). The commercial law provisions of Section 315a Paragraph 1 of the German Commercial Code (HGB) have also been applied. All mandatory standards and interpretations for the 2012 financial year were respected.

There have been significant changes to the group of consolidated companies since this time last year. bmi was deconsolidated when its sale to IAG was completed on 19 April 2012. The assets of EUR 576m and liabilities of EUR 690m attributable to the company and shown on the balance sheet for the period ending 31 December 2011 as per IFRS 5 were closed out. For further details on the result from discontinued operations at bmi we refer to the chapter "Earnings position" on p. 46 and to the Notes to the consolidated financial statements, "Note 2" from p. 142. The individual changes compared with year-end 2011 are shown in "Note 15" to the consolidated financial statements on p. 153. Apart from the effects outlined above resulting from the separate presentation and deconsolidation of bmi, there was no significant effect on the balance sheet or the income statement in comparison with the first half-year of 2011.

Earnings position

↗ Revenue rose to EUR 30.1bn. ↗ Higher fuel prices caused expenses to rise sharply. ↗ All business segments made positive operating earnings contributions. ↗ Net profit rose to EUR 1.0bn thanks to non-recurring effects. ↗ Earnings per share amounted to EUR 2.16.

As a result of the contract for the sale of bmi to IAG signed by Lufthansa and IAG on 22 December 2011, bmi is to be presented in the Group's income statement as a discontinued operation in line with IFRS 5. bmi was deconsolidated when the sale transaction was completed on 19 April 2012. The proceeds from the discontinued operation include the after-tax result recorded for bmi until its disposal and changes in the valuation or proceeds of disposal for the discontinued operation compared with the 2011 financial statements, which in this case are the proceeds of the aforementioned contractual agreement. The result from discontinued operations in the financial year 2012 was mainly due to price adjustments made as a result of bmi's better than expected liquidity position. Further details on the result from discontinued operations can be found in the Notes to the consolidated financial statements, "Note 15" on p. 153.

Traffic figures of the Lufthansa Group's airlines

		2012	2011	Change in %
Passengers carried	thousands	103,051	100,605	2.4
Available seat-kilometres	millions	259,861	258,263	0.6
Revenue seat-kilometres	millions	204,775	200,394	2.2
Passenger load factor	%	78.8	77.6	1.2 pts
Freight/mail	thousand tonnes	1,972	2,120	–7.0
Available cargo tonne-kilometres	millions	15,249	16,260	–6.2
Revenue cargo tonne-kilometres	millions	10,203	10,861	–6.1
Cargo load factor	%	66.9	66.8	0.1
Total available tonne-kilometres	millions	40,064	40,798	–1.8
Total revenue tonne-kilometres	millions	29,754	29,908	–0.5
Overall load factor	%	74.3	73.3	1.0 pts
Flights	number	1,033,588	1,050,728	–1.6

Revenue and income

Operating income developed well in the 2012 financial year, rising by 5.9 per cent to EUR 33.0bn altogether. This increase is primarily due to the positive development of traffic revenue, which grew by EUR 1.0bn (+4.3 per cent) to EUR 24.8bn as the result of higher traffic volumes. Other revenue was up by EUR 387m (+7.8 per cent) and other operating income even grew by EUR 461m (+19.8 per cent) as a result of non-recurring factors.

Traffic revenue up by more than EUR 1.0bn

Traffic revenue for the Group climbed by 4.3 per cent to EUR 24.8bn. The stronger US dollar accounted for 2.7 per cent, volumes for 1.1 per cent and higher prices for 0.5 per cent of the revenue increase.

The Passenger Airline Group segment accounted for 87.8 per cent of traffic revenue, by far the largest share. It reported revenue totalling around EUR 21.8bn, a rise of 6.0 per cent on the previous year. In addition to the stronger US dollar (+2.7 per cent), revenue was boosted by higher volumes (+2.2 per cent) and higher prices (+1.1 per cent).

Traffic revenue in the Logistics segment was down by 8.6 per cent at EUR 2.6bn. Alongside lower volumes (–8.0 per cent) this is due to the fall in prices (–3.6 per cent). By contrast, foreign exchange movements added 3.0 per cent to revenue.

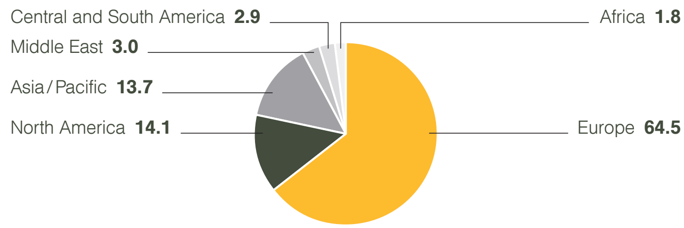
Other revenue climbs steeply

Other revenue stems primarily from the MRO, Catering and IT Services segments, and to a lesser extent from the Passenger Airline Group and Logistics as well. It increased by EUR 387m, or 7.8 per cent, to EUR 5.3bn in the reporting year.

Revenue and income

	2012 in €m	2011 in €m	Change in %
Traffic revenue	24,793	23,779	4.3
Other revenue	5,342	4,955	7.8
Total revenue	**30,135**	**28,734**	**4.9**
Changes in inventories and work performed by the entity and capitalised	113	139	–18.7
Other operating income	2,785	2,324	19.8
Total operating income	**33,033**	**31,197**	**5.9**

Traffic revenue Group in %



Of this, the MRO segment generated EUR 2.4bn (+5.4 per cent), Catering EUR 1.9bn (+11.2 per cent) and IT Services EUR 256m (+11.3 per cent). The airborne companies in the Passenger Airline Group and Logistics segments contributed EUR 724m (+6.2 per cent) to other revenue.

External revenue by segment

2012	External revenue in €m	Year on year change in %	Share of total revenue in %
Passenger Airline Group	22,855	6.1	75.8
Logistics	2,662	–8.7	8.8
MRO	2,429	5.4	8.1
Catering	1,933	11.2	6.4
IT Services	256	11.3	0.9

Revenue again dominated by Passenger Airline Group

The Group's external revenue went up by 4.9 per cent to EUR 30.1bn. The Passenger Airline Group segment's share of total revenue increased to 75.8 per cent (+0.8 percentage points), mainly because of higher traffic volumes. The Logistics segment accounted for 8.8 per cent of total revenue, Lufthansa Technik for 8.1 per cent, Catering for 6.4 per cent and IT Services for 0.9 per cent.

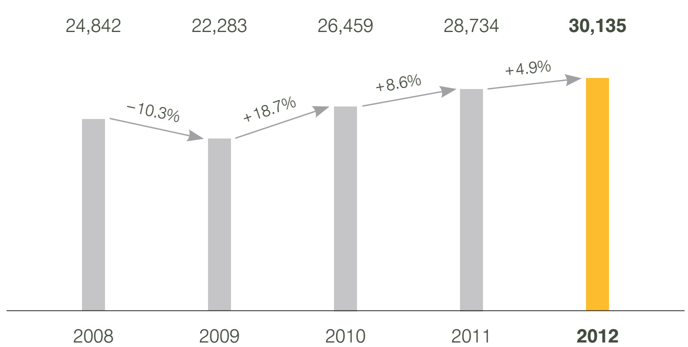
A regional breakdown of revenue by sales location is given in the segment reporting section; see the Notes to the consolidated financial statements, "Note 48" from p. 190. The regional distribution of traffic revenue by traffic region for the segments Passenger Airline Group and Logistics is described in the chapters on the respective business segments from p. 63 and on p. 75.

Other operating income boosted significantly by book gains

Other operating income climbed by EUR 461m (+19.8 per cent) to EUR 2.8bn. The higher income is largely due to the book gains from the disposal of non-current assets of EUR 753m (previous year: EUR 48m).

This includes realised gains (of EUR 631m in total) on the transfer of 4.0 per cent of the shares in Amadeus IT Holding S.A. to the Lufthansa Pension Trust and on the sale of 3.61 per cent of the shares in Amadeus IT Holding S.A. via the capital market. Other book gains of EUR 27m were realised on the sale of 1.45 per cent of the shares in Fraport via the capital market. Alongside lower exchange rate gains (EUR –103m) in the reporting period, the previous year also saw non-recurring income from the reimbursement of air traffic control charges, as well as compensation payments for delays in the delivery of Airbus A380 aircraft.

Development of revenue in €m
Change in revenue in %



Income from write-backs of provisions was on par with the previous year at EUR 162m (previous year: EUR 163m). Whereas commission income picked up by EUR 17m, income from compensation payments fell year on year by EUR 18m. Other items did not vary significantly compared with the previous year. "Note 6" to the consolidated financial statements from p. 148 contains a detailed list of other operating income.

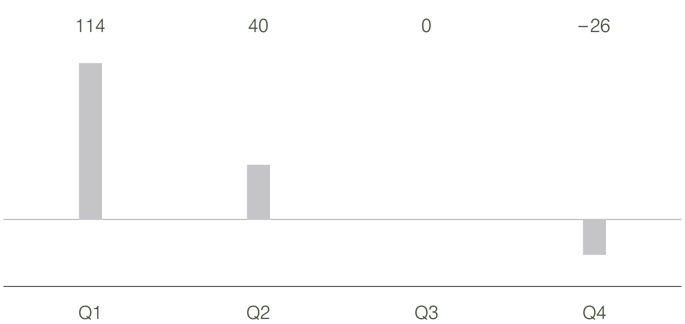
Expenses

The rise in fuel prices dominated developments in operating expenses, which rose by 4.3 per cent to EUR 31.7bn altogether.

Cost of materials and services climbs by 7.3 per cent

The cost of materials and services rose by 7.3 per cent to EUR 18.0bn in the financial year 2012. This increase was primarily driven by the 17.8 per cent climb in fuel costs to EUR 7.4bn. After hedging, fuel prices were up by 11.9 per cent. In addition, the stronger US dollar added 8.3 per cent to expenses. The volume effect caused by the smaller number of flights led to a slight reduction in expenses (–2.4 per cent).

Result of fuel price hedging per quarter 2012 in €m



Price hedging cut fuel costs by a total of EUR 128m in the financial year. The hedging effect fluctuated considerably over the year, however, and in the second half even increased costs. Expenses for other raw materials, consumables and supplies were up by 2.1 per cent at EUR 2.6bn.

Fees and charges went up by 3.3 per cent to EUR 5.2bn. Of particular note were the changes in passenger fees (+8.8 per cent), take-off and landing fees (+4.7 per cent), security charges (+9.4 per cent) and air traffic control charges (+2.6 per cent). Fees and charges per flight and passenger/cargo therefore rose disproportionately. Expenses for the air traffic tax were stable year on year at EUR 362m. Other purchased services were down by 4.2 per cent to EUR 2.8bn, mostly due to lower charter expenses.

Staff costs rise by 5.6 per cent

Staff costs went up by 5.6 per cent to EUR 7.1bn in the reporting period. On average over the year the Group had 117,443 employees (+1.8 per cent), not counting the staff at bmi. In addition to the larger workforce, costs were driven by restructuring activities as part of SCORE (EUR 160m), exchange rate movements, additions to the group of consolidated companies and pay increases as a result of the wage settlements. They were offset by lower expenses for pension provisions. These stemmed from the adjustments to retirement saving schemes for cabin crew from Austrian Airlines which were agreed when the carrier's flight operations were transferred to Tyrolean Airways, as well as the settlement of pension obligations for bmi.

Expenses

	2012 in €m	2011 in €m	Change in %	Percentage of operating expenses in %
Cost of materials and services	17,946	16,731	7.3	56.6
of which fuel	7,392	6,276	17.8	23.3
of which fees and charges	5,167	5,000	3.3	16.3
of which operating lease	113	136	–16.9	0.4
Staff costs	7,052	6,678	5.6	22.2
Depreciation	1,839	1,722	6.8	5.8
Other operating expenses	4,885	5,293	–7.7	15.4
of which sales commissions paid to agencies	405	417	–2.9	1.3
of which indirect staff costs and external staff	883	868	1.7	2.8
of which rental and maintenance expenses	760	757	0.4	2.4
Total operating expenses	**31,722**	**30,424**	**4.3**	**100.0**

Depreciation and amortisation up by 6.8 per cent

Depreciation, amortisation and impairment came to EUR 1.8bn in the financial year (+6.8 per cent). The rise came, among other things, from higher depreciation on aircraft (+2.2 per cent), particularly for new aircraft deliveries last year and in the current year. Impairment losses rose much faster to a total of EUR 117m (previous year: EUR 59m). EUR 102m (previous year: EUR 57m) related to six Boeing 747-400s, one Airbus A340-300, two B737-800s, nine B737-300s, two A319-100s and one A310-300, all of which have been decommissioned or are held for disposal.

Other impairment losses of EUR 27m in total were incurred on four of the aforementioned B747-400s, one A330-200, two of the aforementioned B737-800s and three additional B737-800s, one Canadair Regional Jet 200 and five Avro RJs as well as on repairable spare parts for aircraft, shown in the balance sheet as assets held for sale. These impairment charges are recognised in other operating expenses.

Other operating expenses contract by 7.7 per cent

Other operating expenses fell year on year by 7.7 per cent. Lower exchange rate losses (EUR –377m) and reduced losses on current financial investments (EUR –40m) were offset primarily by higher write-downs on current assets (EUR +62m). The exchange rate losses were offset by corresponding exchange rate gains in other operating income. The other items did not vary significantly compared with the previous year.

Earnings development

The Lufthansa Group reported positive earnings figures throughout the entire 2012 financial year – partly thanks to non-recurring factors. All segments contributed operating profits. Increasingly difficult conditions nevertheless had an impact, especially on the airborne companies, where the performance indicators were down compared to the previous year.

Restructuring costs of SCORE depress operating result

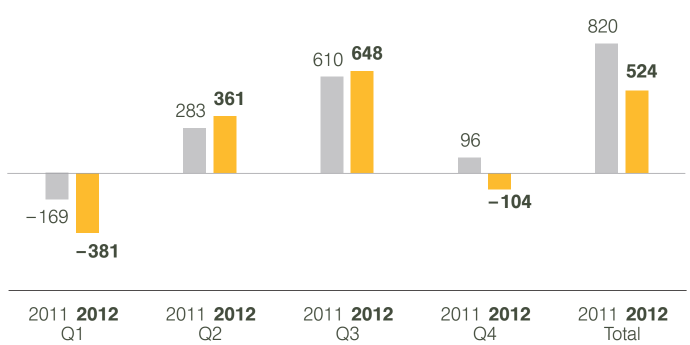
The profit from operating activities as defined by IFRS rose sharply by EUR 538m year on year to EUR 1.3bn. As in prior years, to obtain the operating result it was adjusted for net book gains, write-backs of provisions, impairment losses, results of financial investments and measurements of financial liabilities on the reporting date. This adjusted operating result facilitates comparison of the financial performance with other financial years. The adjustments applied are shown in the "Reconciliation of results" table on p. 51. In 2012, net income of EUR 787m (previous year: net expenses of EUR 47m) were eliminated in this way.

After these adjustments the operating profit came to EUR 524m (previous year: EUR 820m). The adjusted operating margin, calculated by adding write-backs of provisions, was 2.3 per cent (previous year: 3.4 per cent).

The contribution of the individual business segments to the operating profit varied enormously. Whereas the airborne companies suffered a sharp fall in earnings – as in the previous year – the service companies were able to increase their earnings contributions, in some cases substantially. Profit for the Passenger Airline Group sank year on year by EUR 91m, or 26.1 per cent, to EUR 258m. After a fall of 8.7 per cent in revenue, the operating profit for the Logistics segment even contracted by 58.2 per cent to EUR 104m. By contrast, the MRO segment was able to improve its operating result to EUR 318m (+23.7 per cent). The Catering and IT Services segments also generated higher operating profits of EUR 97m (+14.1 per cent) and EUR 21m (+10.5 per cent) respectively. The other Group companies, which under IFRS 8 do not require separate reporting, and the central Group functions reduced the Group's operating result by a total of EUR –263m (previous year: EUR –92m). At the Central Group Functions, the major drain on earnings were the expenses of EUR 108m charged to this cost centre by the other segments for restructuring activities as part of the SCORE programme.

The variation in seasonal earnings was similarly pronounced. Earnings for the individual business segments in the Group also have their own variations and ranges of fluctuation. Overall, this had a stabilising effect on the Group's operating result. Despite the deteriorating market environment, Lufthansa was therefore able to report a substantial operating profit for the financial year 2012, in contrast to many of its competitors.

Development of operating result by quarter in €m



Financial result improves

The financial result improved by EUR 55m to EUR –272m. The result from equity investments picked up by EUR 23m. Although the result of companies accounted for using the equity method improved by EUR +51m – partly due to the losses incurred the previous year by Jade Cargo – the remaining result from equity investments fell by EUR 28m.

Net interest dropped by a total of EUR 30m to EUR –318m, mainly due to lower interest income.

Profit breakdown of the Lufthansa Group

	2012 in €m	2011 in €m	Change in %
Operating income	33,033	31,197	5.9
Operating expenses	–31,722	–30,424	4.3
Profit from operating activities	**1,311**	**773**	**69.6**
Financial result	–272	–327	16.8
Profit/loss before income taxes	**1,039**	**446**	133.0
Income taxes	–72	–157	54.1
Profit/loss from continuing operations	**967**	**289**	
Profit/loss from discontinued operations	36	–285	
Profit/loss attributable to minority interests	–13	–17	23.5
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG	**990**	**–13**	

The result from other financial items was up EUR 62m at EUR –48m. Changes in the time values of options used for hedging (primarily fuel hedges) amounting to EUR 82m (previous year: EUR –96m) were recognised in the financial result in line with IAS 39. Expenses of EUR 101m (previous year: income of EUR 23m) came from changes in the value of hedging instruments considered under IAS 39 as held for trading. Further expenses of EUR 29m (previous year: EUR 37m) were incurred for write-downs on loans.

Net profit hits EUR 990m thanks to non-recurring factors

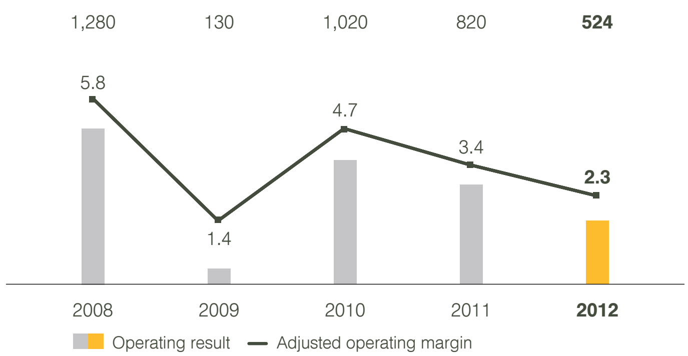
Earnings before interest and tax (EBIT) came to EUR 1.4bn. In the previous year, EBIT amounted to EUR 734m. It includes the profit from operating activities, the result from equity investments and other financial items. Adding depreciation and amortisation results in EBITDA of EUR 3.3bn (previous year: EUR 2.5bn). The main reason for the improvement was book gains from the disposal of equity investments totalling EUR 658m.

The profit from operating activities and the financial result added up to a profit before income taxes of EUR 1.0bn. This was EUR 593m higher than the year before. Income taxes reduced the result by EUR 72m (previous year: EUR 157m).

After deducting income taxes, the profit from continuing operations came to EUR 967m (previous year: EUR 289m). After deducting the result of discontinued operations (EUR 36m, see "Note 15" to the consolidated financial statements on p. 153) and profit attributable to minority interests of EUR 13m (previous year: EUR 17m), resulted in a net profit for the period attributable to shareholders of Deutsche Lufthansa AG of EUR 990m (previous year EUR –13m).

Earnings per share and diluted earnings per share came to EUR 2.16 (previous year: EUR –0.03), see also "Note 16" to the consolidated financial statements on p. 153.

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



Long-term overview of earnings is volatile

The Lufthansa Group and its business segments operate in a volatile environment, which is severely exposed to economic cycles and other external factors. Despite this, the Company is confident of its ability to generate stable income, even during times of crisis, and to benefit disproportionately from economic upturns. The Company reported positive operating results in the weaker years of 2009 and 2012 (EUR 130m and EUR 524m respectively), and attained much higher earnings levels in the other years.

Reconciliation of results

in €m	2012 Income statement	2012 Reconciliation with operating result	2011 Income statement	2011 Reconciliation with operating result
Total revenue	**30,135**	**–**	**28,734**	**–**
Changes in inventories	113	–	139	–
Other operating income	2,785	–	2,324	–
of which book gains and current financial investments	–	–777	–	–61
of which income from reversal of provisions	–	–162	–	–163
of which write-ups on capital assets	–	–9	–	–6
of which period-end valuation of non-current financial liabilities	–	–37	–	–23
Total operating income	**33,033**	**–985**	**31,197**	**–253**
Cost of materials and services	–17,946	–	–16,731	–
Staff costs	–7,052	–	–6,678	–
of which past service costs	–	–1	–	24
Depreciation, amortisation and impairment	–1,839	–	–1,722	–
of which impairment losses	–	117	–	59
Other operating expenses	–4,885	–	–5,293	–
of which other non-operating expenses	–	–	–	–
of which impairment losses on assets held for sale – non-operating	–	27	–	21
of which expenses incurred from book losses and current financial investments	–	39	–	87
of which period-end valuation of non-current financial liabilities	–	16	–	109
Total operating expenses	**–31,722**	**198**	**–30,424**	**300**
Profit/loss from operating activities	**1,311**	**–**	**773**	**–**
Total from reconciliation with operating result	–	–787	–	47
Operating result	**–**	**524**	**–**	**820**
Result from equity investments	94	–	71	–
Other financial items	–48	–	–110	–
EBIT	**1,357**	**–**	**734**	**–**
Write-downs (included in profit from operating activities)	1,839	–	1,722	–
Write-downs on financial investments (including at equity)	74	–	90	–
EBITDA	**3,270**	**–**	**2,546**	**–**

Profit distribution

The Lufthansa Group's dividend policy aims for continuity on the basis of distributing a stable percentage of the operating result, as long as a dividend payment is possible from the net profit for the year as shown in the individual financial statements for Deutsche Lufthansa AG drawn up according to the commercial law provisions (HGB), and if there are no other opposing considerations. Please see also the chapter "Financial strategy" on p. 36.

Full details of the individual financial statements for Deutsche Lufthansa AG in accordance with German commercial law can be found starting from p. 124. In the 2012 financial year, the net profit for the year came to EUR 592m, largely thanks to an increase of EUR 857m in the result from equity investments. As with net profit, this includes gains on the transfer of 4.0 per cent of the shares in Amadeus IT Holding S.A. to the Lufthansa Pension Trust and on the sale of 3.61 per cent of the shares in Amadeus IT Holding S.A. via the capital market which have had a positive effect.

The Executive Board and Supervisory Board will propose the transfer of the entire distributable profit of EUR 296m to other retained earnings at the Annual General Meeting to be held on 7 May 2013. By retaining the total net profit for the year, the aim is to strengthen shareholders' equity to an extent that will enable the Lufthansa Group to continue the programme of investment that is so important for the Company's continued viability at this challenging time, while maintaining its solid financial profile. This can therefore be counted as a contribution on the part of the shareholders towards stabilising the financial situation as part of the overall restructuring.

Assets and financial position

↗ Capital expenditure secures ability to shape the future. ↗ Free cash flow rises to EUR 1.4bn despite gross capital expenditure of EUR 2.4bn. ↗ Financial liabilities are systematically repaid. ↗ Equity ratio reaches almost 30 per cent. ↗ The Lufthansa Group remains the only European airline group with an investment grade rating.

Capital expenditure

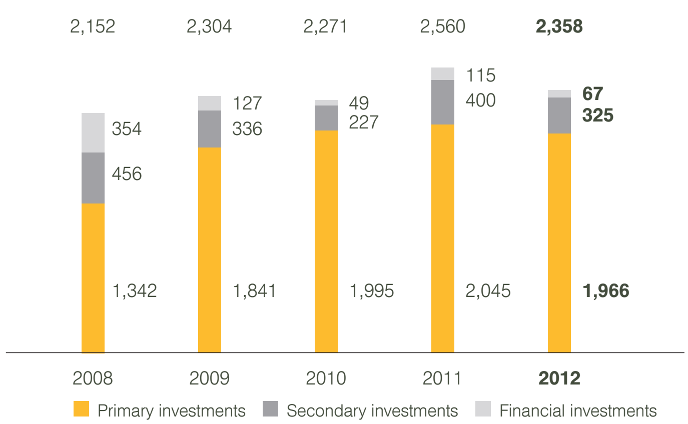
Investment safeguards the Group's future development
While tightening its strict cost management even further compared with the previous year, the Lufthansa Group made more important investments in the financial year 2012 in order to open up additional prospects for the future. The extensive fleet renewal programme was pursued systematically in order to further improve the future cost basis by means of fuel-efficient aircraft. At EUR 2.4bn, capital expenditure for the Group remained 7.9 per cent down on the previous year. This includes primary investment, i.e. down payments and final payments for aircraft and aircraft overhauls, equipment and reserve engines, which was down by 4.2 per cent to EUR 2.0bn.

Capital expenditure for other items of property, plant and equipment and for intangible assets, known collectively as secondary investment, declined by 18.8 per cent to EUR 325m. Property, plant and equipment, such as technical equipment and machinery, operating and office equipment, accounted for EUR 244m in total (previous year: EUR 265m). EUR 81m (previous year: EUR 128m) was invested in intangible assets such as licences and goodwill.

Financial investments, related solely to loans, added up to EUR 67m in 2012 (previous year: EUR 115m).

The Passenger Airline Group segment accounted for the largest share of capital expenditure in 2012 at EUR 1.9bn (previous year: EUR 2.1bn). Expenses were primarily on new aircraft and down payments for aircraft.

Primary, secondary and financial investments in €m*



* Excluding acquired net assets from changes in group of consolidated companies.

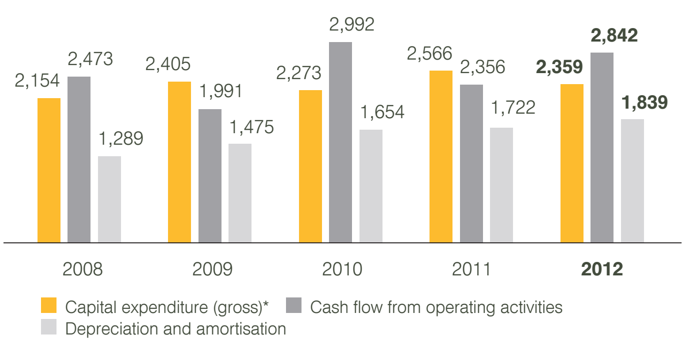
Investments in the 2012 financial year included 44 aircraft: four Boeing B747-8i's, two Airbus A380s, six A330s, six A321s, nine A320s, five A319s, two B767s, nine Embraer 195s and one ATR 72. In the Logistics business segment, capital expenditure of EUR 198m in total (previous year: EUR 76m) consisted largely of down payments in connection with orders for five B777F freighter aircraft. Capital expenditure of EUR 129m (previous year: EUR 139m) in the MRO segment was partly for purchasing reserve engines and partly for extending loans to portfolio companies. The Catering segment reduced its capital expenditure to EUR 46m in 2012 (previous year: EUR 74m). The funds were used particularly to secure existing production facilities. In the IT Services segment capital expenditure fell to EUR 24m (previous year: EUR 55m). In the 2011 financial year, investments still went largely on realigning the business model of a subsidiary and on the related transfer of assets.

Cash flow

Cash flow from operating activities reaches EUR 2.8bn
The Group's cash flow from operating activities increased by EUR 486m (20.6 per cent) in the financial year 2012.

Based on a EUR 593m increase in the profit/loss before income taxes, non-cash expenses of EUR 19m from changes in the market value of financial derivatives (previous year: EUR 73m) were eliminated when calculating cash flow because they do not affect the cash flow from operating activities. Non-cash depreciation and amortisation and net proceeds which are attributed to investing activities resulted in the elimination of EUR 592m in the calculation of cash flow from operating activities. By contrast, EUR 231m less was spent on income tax payments than in the previous year. The change in working capital boosted cash flow from operating activities by EUR 199m compared with the previous year. As of the financial year 2011 the calculation of cash flow from operating activities also includes retirement benefits paid to former staff from external pension funds (EUR 83m; previous year: EUR 95m), which are included in changes in working capital. This resulted in a cash flow from continuing operations of EUR 2.9bn. Cash flow from discontinued operations came to EUR –82m.

Capital expenditure, cash flow from operating activities and depreciation and amortisation in €m

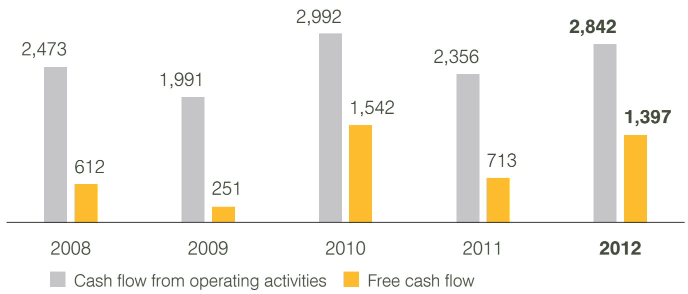


* Capital expenditure shown without pro rata profit/loss from the equity valuation.

Free cash flow up sharply to EUR 1.4bn
Gross capital expenditure for the Lufthansa Group came to EUR 2.4bn. This includes the primary, secondary and financial investment described above as well as repairable spare parts for aircraft.

Asset disposals, including the disposal of non-consolidated shareholdings, gave an income of EUR 822m in 2012. EUR 404m of this stems from the disposal of non-consolidated shares, of which the sale of 3.61 per cent of Amadeus IT Holding S.A. accounts for

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



EUR 307m and the sale of 1.45 per cent of Fraport accounts for EUR 59m. Further income stemmed mainly from the disposal of aircraft (EUR 218m) and securities (EUR 116m) as well as repayments received for loans (EUR 21m). Interest and dividend income went down by 14.5 per cent to EUR 388m. This brought total net cash used for investing activities to EUR 1.4bn (previous year: EUR 1.6bn).

After deducting this net cash used for investing activities, free cash flow for the financial year 2012, was substantially positive at EUR 1.4bn (previous year: EUR 713m). The internal financing ratio, that is the proportion of capital expenditure financed from cash flow, came to 120.5 per cent (previous year: 91.8 per cent).

Targeted reduction of financial liabilities
In the financial year 2012, the Lufthansa Group retained its policy of funding pension obligations flexibly over the medium term. A total of EUR 730m was committed to further funding in Germany and abroad.

The purchase of securities for EUR 1.3bn and the sale of securities for EUR 571m resulted in a net cash outflow of EUR 745m (previous year: net inflow of EUR 535m).

The balance of financing activities was a net cash outflow of EUR 111m (previous year: EUR 1.4bn). Cash outflows included dividends paid, including profits attributable to minority interests (EUR 131m), as well as interest paid (EUR 449m) and scheduled repayment of debt amounting to EUR 637m. New borrowing of EUR 1.1bn mainly related to six borrower's note loans as well as several aircraft financing transactions and the issue of a convertible bond for the JetBlue shares held by the Lufthansa Group.

Cash and cash equivalents at EUR 5.0bn

Cash and cash equivalents increased by EUR 549m in the reporting period to EUR 1.4bn at year-end. This includes an increase of EUR 8m in cash and cash equivalents due to exchange rate movements. Total liquid funds (including current securities) came to EUR 5.0bn (previous year: EUR 4.0bn).

Assets

Balance sheet total up to EUR 28.4bn

The Group's balance sheet total rose by EUR 338m to EUR 28.4bn compared with year-end 2011. Whereas non-current assets only increased slightly by EUR 32m to EUR 18.6bn, current assets increased by EUR 306m to EUR 9.8bn.

Within non-current assets, the item aircraft and reserve engines increased by EUR 246m to EUR 11.8bn due to additions in the current financial year.

Of the total decline in equity investments of EUR 485m, EUR 427m is due to the disposal of the 7.61 per cent share in Amadeus IT Holding S.A. The sale of 3.61 per cent of the shares took place on 14 November 2012 at a price of EUR 19.00, realising sales revenue of EUR 307m. The remaining 4.0 per cent of the shares with a market value of EUR 327m were contributed to the Lufthansa Pension Trust as part of the continued funding of pension obligations. A further decline of EUR 50m resulted from the sale of a 1.45 per cent stake in Fraport. The book gains on these disposals (EUR 658m in total) were recognised in other operating income. The increase of EUR 14m in equity investments is attributable to changes in the market value of the shares in JetBlue, which are not recognised in profit or loss.

Non-current securities sank by EUR 115m due in large part to the disposal of a borrower's note loan. The EUR 436m increase in loans and receivables includes contributions to plan assets of EUR 592m to fund pension obligations, which in accordance with IAS 19 do not reduce the amount of provisions but are shown

Abbreviated cash flow statement of the Lufthansa Group

	2012 in €m	2011 in €m	Change in %
Profit / loss before income taxes	1,039	446	133.0
Depreciation and amortisation / reversals	1,925	1,780	8.1
Net proceeds on disposal of non-current assets	–739	–25	
Net interest / result from equity investments	224	217	3.2
Income tax payments	–34	–265	–87.2
Measurement of financial derivatives through profit or loss	19	73	–74.0
Change in working capital	490	291	68.4
Cash flow from continuing operations	**2,924**	**2,517**	**16.2**
Cash flow from discontinued operations	–82	–161	–49.1
Cash flow from operating activities	**2,842**	**2,356**	**20.6**
Investments and additions to repairable spare parts	–2,479	–2,562	–3.2
Purchase / disposal of shares / non-current assets	646	465	38.9
Dividends and interest received	388	454	–14.5
Net cash from used in investing activities	**–1,445**	**–1,643**	**–12.1**
Free cash flow	**1,397**	**713**	**95.9**
Purchase / disposal of securities / fund investments	**–745**	**535**	**–239.3**
Capital increase	–	5	–100.0
Non-current borrowing and repayment of non-current borrowing	469	–681	–168.9
Dividends paid	–131	–296	–55.7
Interest paid	–449	–449	0.0
Net cash from used in investing activities	**–111**	**–1,421**	**–92.2**
Changes due to currency translation differences	8	9	–11.1
Cash included in assets held for sale	0	–46	–100.0
Cash and cash equivalents 1.1.	**887**	**1,097**	**–19.1**
Cash and cash equivalents 31.12.	**1,436**	**887**	**61.9**

under consolidated assets as an “artificial’ surplus. The fall in the market value of non-current financial derivatives (EUR –75m) relates mainly to foreign exchange and interest rate hedges.

Within current assets receivables rose slightly by EUR 141m to EUR 3.6bn. The market value of current financial derivatives (mostly from fuel and exchange rate hedging) dropped by EUR 199m. Cash and cash equivalents, consisting of current securities, bank balances and cash-in-hand, went up by EUR 968m to EUR 5.0bn. Assets held for sale were EUR 576m lower at EUR 110m. In the previous year, this item included the assets of bmi. Details on the components of this item can be found in the Notes to the consolidated financial statements, “Note 33” from p. 167.

Capital structure improved slightly

Shareholders’ equity (including minority interests) came to EUR 8.3bn as of the reporting date. This represents an increase of 3.2 per cent and stems largely from the positive after-tax result of EUR 1.0bn. It was offset by reductions in neutral reserves totalling EUR 597m, in particular due to negative changes in market values and disposals of financial assets. This decline is largely due to the disposal of the 7.61 per cent interest in Amadeus IT Holding S.A. (EUR –419m) and the fall of EUR 230m in intrinsic values for financial derivatives used to hedge fuel and currency risks. Furthermore, equity was reduced by dividend payments of EUR 131m for the 2011 financial year to shareholders of Deutsche Lufthansa AG and minority shareholders. As total assets increased by 1.2 per cent at the same time, the equity ratio went up as a result to 29.2 per cent (year-end 2011: 28.6 per cent). It is therefore now very close to the target of 30 per cent.

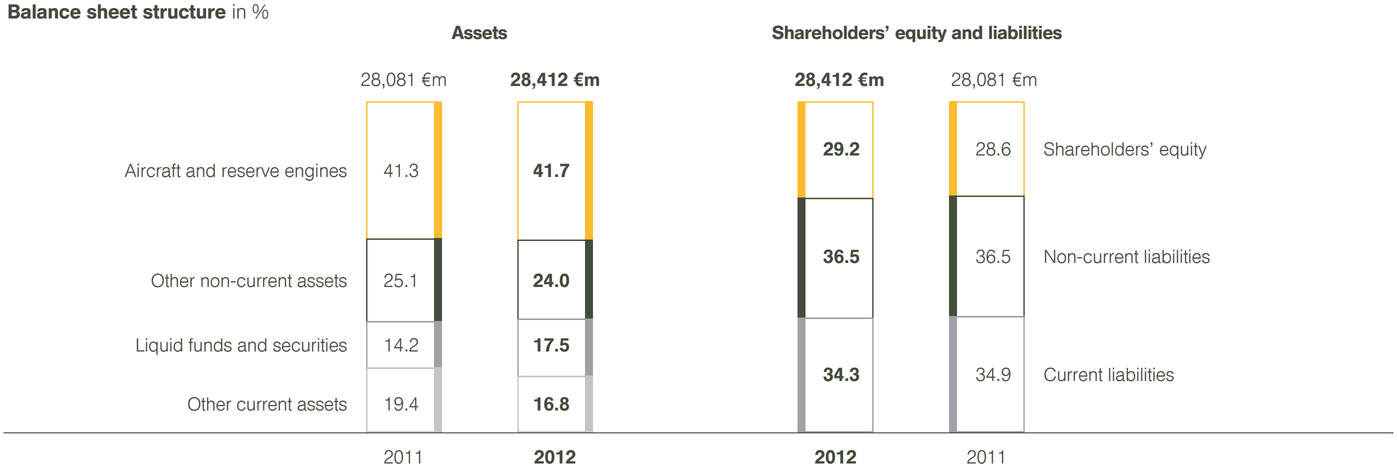
Development of earnings, equity and equity ratio

		2012	2011	2010	2009	2008
Result*	€m	1,003	4	1,143	–22	552
Equity*	€m	8,298	8,044	8,340	6,202	6,594
Equity ratio*	%	29.2	28.6	28.4	23.5	29.4

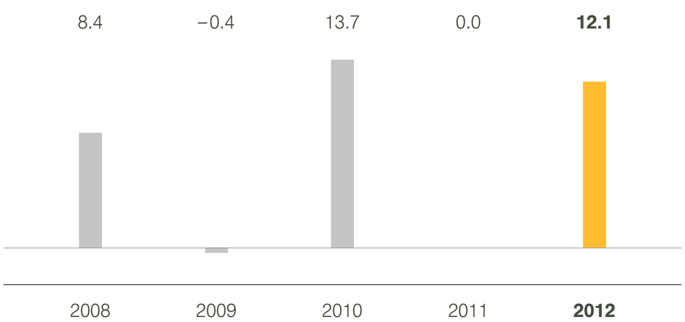
* Including minority interests.

Non-current liabilities and provisions rose slightly by EUR 108m to EUR 10.4bn. Current borrowing was stable year on year at EUR 9.7bn. Within non-current liabilities, the pension obligations were EUR 89m lower following the settlement of pension obligations for bmi and the adjustments made to the retirement saving schemes for cabin crew at Austrian Airlines in the course of transferring its flight operations to Tyrolean Airways. Financial liabilities were up by EUR 139m. The increase in negative market values of derivative financial instruments (EUR +95m) was due to changes in the market value of currency hedges and to the change in fair value of EUR 58m attributable to the conversion option included in the convertible bond issued in April 2012, which entitles the holder to acquire the Lufthansa Group’s shares in JetBlue. Within current liabilities and provisions, financial liabilities increased due to maturities by EUR 347m. Liabilities from unused flight documents went up by EUR 253m to EUR 2.6bn. By contrast, the negative market values of current financial derivatives (largely from exchange rate hedging) dropped by EUR 35m. In the previous year, liabilities included within a disposal group consisted primarily of liabilities attributable to bmi, which was due to be sold. Further details can be found in the Notes to the consolidated financial statements, “Note 33” from p. 167.

Balance sheet structure in %



Return on equity in %



Debt repayment ratio

in €m	2012	2011
Cash flow from operating activities	2,924	2,517
Change in working capital	−490	−291
Interest income	296	336
Interest paid	−449	−449
Dividends received	92	118
Adjusted cash flow from operating activities	**2,373**	**2,231**
Net indebtedness and pensions	**4,029**	**4,493**
Debt repayment ratio in %	**58.9**	**49.7**

Non-current funding accounts for 65.7 per cent of the balance sheet total (previous year: 65.1 per cent). Non-current financing now covers 100.0 per cent of non-current assets (previous year: 98.2 per cent).

Net indebtedness fell to EUR 2.0bn (previous year: EUR 2.3bn). This is the balance of gross financial debt and available financial assets plus non-current securities that can be liquidated at short notice.

Calculation of net indebtedness and gearing

	2012 in €m	2011 in €m	Change in %
Liabilities to banks	1,507	1,456	3.5
Bonds	2,312	2,119	9.1
Other non-current borrowing	3,091	2,849	8.5
	6,910	**6,424**	**7.6**
Other bank borrowing	9	16	−43.8
Group indebtedness	**6,919**	**6,440**	**7.4**
Cash and cash equivalents	1,436	887	61.9
Securities	3,530	3,111	13.5
Non-current securities (liquidity reserve)*	–	114	−100.0
Net indebtedness	**1,953**	**2,328**	**−16.1**
Pension provisions	2,076	2,165	−4.1
Net indebtedness and pensions	**4,029**	**4,493**	**−10.3**
Gearing in %	**48.6**	**55.9**	**−7.3 pts**

* Realisable at any time.

Gearing, at 48.6 per cent (previous year: 55.9 per cent), was still within the target corridor of 40 to 60 per cent. The figure expresses the ratio of net indebtedness plus pension provisions to shareholders' equity. The debt repayment ratio came to 58.9 per cent in 2012, just narrowly missing its target of 60 per cent. A ten-year overview of the main performance indicators can be found in the chapter "Ten-year overview" from p. 214.

Fleet

Ongoing fleet renewal is progressing to plan

By far the largest asset in the Lufthansa Group's balance sheet is its fleet of aircraft. As a core element of value creation, a modern and efficient fleet is decisive for the Group's success. At the same time, a modern fleet structure is a vital component of the Lufthansa Group's environmental policy. More information on this can be found in the chapter "Corporate responsibility" from p. 100. Aircraft from the two major manufacturers Airbus and Boeing make up the majority of the fleet. Planes from Bombardier and Embraer are also used in the European and regional segments.

As of the reporting date the fleet comprised 627 aircraft with an average age of 11.2 years. Compared with the previous year, this is a reduction of nine aircraft (not including bmi). Available capacity was nevertheless kept stable by replacing smaller planes with larger ones. This helps to reduce unit costs and fuel consumption. Another focus of the Lufthansa Group's environmental policy is to substantially reduce CO_2 and noise emissions, which is also being achieved by continuous investment in the aircraft.

The Lufthansa Group attaches great importance to continuity in its fleet policy. The majority of the fleet is still owned by the airborne companies and is unencumbered; the fleet is rounded off by just small proportion of externally leased aircraft. If demand contracts, this means that capacity can be cut at short notice, whereas additional capacities are available immediately if demand is higher. The ongoing modernisation of the fleet as well as strict capacity management were of great help in maintaining competitiveness last year.

In 2012, the first four B747-8i aircraft were delivered. The newest member of the Lufthansa fleet is characterised by its improved fuel efficiency and 30 per cent lower noise emissions than its predecessor, the B747-400. This new aircraft design will gradually replace the B747-400s in the Lufthansa fleet and thereby make a major contribution to cutting unit costs in the long term.

In addition, two new Airbus A380s joined the Lufthansa Group fleet. This took the number of the Group's flagships to a total of ten. New additions in 2012 also included 20 aircraft from the A320 family, six A330s and nine regional jets.

For 2013, the Lufthansa Group is expecting deliveries of five B747-8i aircraft, one Airbus A330, 22 planes from the A320 family, four Embraer 195s and two B777F cargo aircraft.

No aircraft were ordered in 2012. The Supervisory Board approved the leasing of seven A320 aircraft by Austrian Airlines in 2012.

A total of 133 aircraft are on order for the period up to 2018. The 69 aircraft from the A320 family intended to renew the short and medium-haul fleet account for the bulk of these orders.

Fleet orders

		Deliveries
Long-haul fleet		
7	Airbus A380	2014 to 2015
15	Boeing 747-8i	2013 to 2015
5	Boeing 777F	2013 to 2015
1	Airbus A330	2014
2	Airbus A330	2013 to 2016
Short-haul fleet		
57	Airbus A320 family	2013 to 2018
6	Airbus A320 family	2013 to 2014
3	Airbus A320 family	2013 to 2016
3	Airbus A320 family	2013
Regional fleet		
30	Bombardier C-Series	2014 to 2016
4	Embraer EMB190 family	2013

Group fleet – Number of commercial aircraft and fleet orders
Deutsche Lufthansa AG (LH), SWISS (LX), Austrian Airlines (OS), Germanwings (4U), Lufthansa CityLine (CLH), Air Dolomiti (EN), Eurowings (EW) and Lufthansa Cargo (LCAG) as of 31.12.2012

Manufacturer/type	LH	LX	OS	4U	CLH	EN	EW	LCAG	**Group fleet**	of which finance lease	of which operating lease	Change compared with 31.12.11	Additions 2013 to 2018	Additional options
Airbus A310	2[3]								2			–		
Airbus A319	35	7	7	32					81	2	16	–6	7	
Airbus A320	49	27	13						89	15	2	+2	53	
Airbus A321	62	7	6						75	4		–1	9	5
Airbus A330	18	18							36		4	+2	3	2
Airbus A340	48	13	2[2]						63	2	2	–2		
Airbus A380	10								10			+2	7	3
Boeing 737	40		5						45			–35		
Boeing 747	29								29			–1	15	
Boeing 767			6						6	2		–		
Boeing 777			4						4			–	5	5
Boeing MD-11F								18	18			–		
Bombardier CRJ	23[1]				32		1		56		1	–9		
Bombardier C-Series									0			–	30	30
Bombardier Q-Series			14						14			–		
ATR	5[1]					6			11		6	–		
Avro RJ		20			2				22		6	–7		
Embraer	39[1]		3[3]						42	2		–14	4	
Fokker F70			9						9			–		
Fokker F100			15						15			–		
Total aircraft	**360**	**92**	**84**	**32**	**34**	**6**	**1**	**18**	**627**	**27**	**37**	**–69**	**133**	**45**

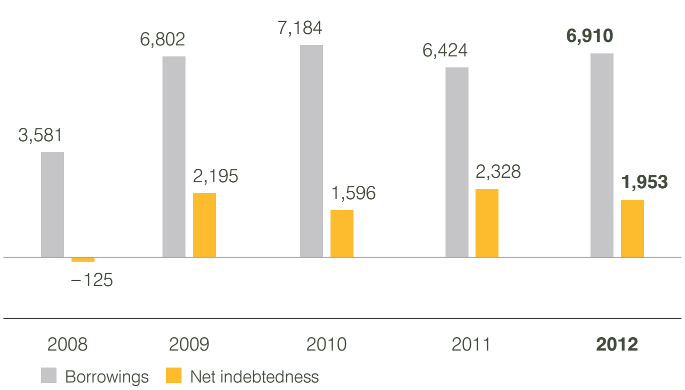
[1] Let to Lufthansa regional airlines.
[2] Let to SWISS.
[3] Leased to company outside the Group.

Financing

Group finances are managed and optimised centrally
The Lufthansa Group has a centralised financial management function, where all cash flows are pooled. Excess liquidity is invested and new funding is raised externally as required. The integrated financial and liquidity planning for the entire Group ensures that the Group and its business segments always have enough liquidity to react flexibly to operating and strategic opportunities and challenges. The financial reporting system provides all companies in the Lufthansa Group with information on their actual financial status and forecast cash flows. At the end of every month the cash flow planning for all Group companies is updated and entered for the next 24 months. The inter-Group financial equalisation mechanism and a Group-wide cash management system make it possible to reduce the borrowing requirement and optimise the investment of the Group's liquid funds.

It is generally Deutsche Lufthansa AG that raises the necessary external funds for the Group, passing these on to subsidiaries by means of internal Group loans. Only in exceptional cases do subsidiaries raise external funds directly, in coordination with Group financial management.

Development of borrowings and net indebtedness in €m



Financing mix ensures flexibility and favourable terms
The funding instruments chosen in each case are derived from the financial strategy, see chapter "Financial strategy" from p. 35. The funding mix is aimed at optimising the terms of funding and maintaining a balanced maturity structure and a diversified portfolio of investors and lenders.

Thanks to its good credit rating, the Lufthansa Group has a wide range of different financing instruments at its disposal. Aircraft financing plays an important role because in combination with the good rating it is available on particularly favourable terms. Capital market transactions are also carried out successfully at regular intervals. They diversify the base of investors, lenders and financing instruments. Its creditor relations activities enable the Lufthansa Group to stay in permanent contact with lenders and therefore strengthen its existing investor base.

The Lufthansa Group mainly refinances its business in euros, the reporting currency. The risk management strategy provides for holding 85 per cent of financial liabilities at floating rates of interest. More information can be found in the Notes to the consolidated financial statements, "Note 47" from p. 183 under "Price risks". The current financing structure is described in the Notes to the consolidated financial statements, "Note 40" on p. 178. The Lufthansa Group's main financial liabilities do not include covenants.

There are also unused bilateral lines of credit with a large number of banks and which amounted to some EUR 1.7bn at the end of the 2012 financial year. These bilateral credit lines were traditionally granted to Deutsche Lufthansa AG for a period of one year and renewed annually. In the fourth quarter of last year, the Lufthansa Group changed its policy with regard to these arrangements. As they expire, lines of credit are now being successively renewed for a period of two years and for a lesser amount. Credit lines that expire over the course of 2013 will be handled in the same way. By the end of the financial year, the aim is to have a volume of EUR 600m to EUR 700m in bilateral, two-year lines of credit. This change is intended to give the Lufthansa Group a smaller, but thanks to the longer duration, much more stable volume of credit lines as an additional liquidity reserve.

Aircraft financing and capital market transactions completed successfully
A number of aircraft financing and capital market transactions were closed in 2012.

The Lufthansa Group again made successful use of various aircraft financing models, obtaining a total of EUR 542m on very favourable terms. They included the world's first Japanese operating lease (JOL) for an Airbus A380, the first JOL for a Boeing 747-8i and the first French lease deal for a B747-8i.

Two A380s were also used as collateral for financing. All the aircraft financing arrangements are repaid continuously over the duration of the contracts. Depending on the model, the duration of the contract is between 11 and 13 years.

In the reporting period, the market for borrower's notes was again used successfully for a total volume of EUR 295m. In February 2012, EUR 50m was raised for five years with a small issue. As part of a larger transaction for EUR 245m in June 2012, tranches with terms of five, seven and ten years were issued.

In April 2012, a convertible bond was issued for EUR 234.4m via Lufthansa Malta Blues LP, a Lufthansa Group financing company. The bond has a maturity of five years, pays a coupon of 0.75 per cent p. a. and, at the request of investors, can be redeemed by a specified number of shares in JetBlue Airways, as an alternative to receiving its face value in cash. A total of 46.7 million JetBlue Airways shares are subject to conversion rights under this bond. This is equivalent to almost the entire equity interest of the Lufthansa Group in JetBlue Airways.

In November 2012, the Lufthansa Group relaunched its Euro Medium Term Note (EMTN) programme, a form of debt issuance programme. The programme enables the Group to issue bonds on the capital market at very short notice. It is listed on the Luxembourg stock exchange.

There was no significant off-balance-sheet financing in the reporting 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 the Notes to the consolidated financial statements, "Note 22" from p. 160. The funding of pension obligations was continued in 2012. Contributions of EUR 730m were made across the Group in 2012. The funding of German pension obligations accounted for EUR 625m. Of the total, contributions valued at EUR 588m went to the Lufthansa Pension Trust. This consisted of a package of 4 per cent of the shares in Amadeus IT Holding, S.A., valued at EUR 327m, and a cash sum of EUR 261m.

Development of ratings

Rating/outlook	**2012**	2011	2010	2009	2008
Standard & Poor's	BBB–/ stable	BBB–/ stable	BBB–/ stable	BBB–/ negative	BBB/ negative
Moody's	Ba1/ stable	Ba1/ stable	Ba1/ stable	Ba1/ stable	Baa3/ stable

Rating grades unchanged with stable outlook

Its current credit ratings make the Lufthansa Group the best rated airline in Europe. Over the course of 2012, the rating agencies Moody's and Standard & Poor's both confirmed their ratings. The current grades reflect the good access to liquidity as well as the diversification across a broad route network and the various business segments of the Lufthansa Group. The following table provides further details.

Lufthansa's credit ratings

Standard & Poor's (December 2012)*	**Moody's Investors Service** (May 2012)*
Long-term: BBB- Short-term: A-3 Outlook: Stable	Long-term: Ba1 Short-term: Not Prime Outlook: Stable
Strengths	**Strengths**
+ One of the world's leading airlines with a strong position at hubs in Frankfurt, Munich and Zurich	+ One of the largest airlines in the world with a strongly diversified route network in terms of geography
+ Well diversified business profile with leading positions in cargo transport, maintenance, repair and overhaul services as well as airline catering	+ Robust business profile with diversified business segments reduces its exposure to industry volatility
+ Strong position in profitable long-haul business and premium traffic	+ Divestment of bmi should benefit Lufthansa´s reported profitability in 2012
+ Good liquidity holdings	+ Strong liquidity position
+ Comprehensive managerial experience in flexibly adjusting costs and capacity when the economy slows	+ New company-wide program SCORE, implemented in the beginning of 2012, to respond to ongoing industry challenges and to generate synergies and cost savings
Weaknesses	**Weaknesses**
– Weak industry environment due to deteriorating economic growth	– Diffident sector forecasts and increase in fuel prices weigh on the profitability of the airline industry
– Difficult environment, cyclical industry, strong price competition and capital intensity	– Deteriorating metrics due to higher fuel costs and increase in pension deficit
– Profitability depends on volatile fuel prices	– Limited flexibility to increase the share of secured financing
– Tough competition on home and European market	

* Latest report.

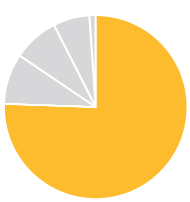
Passenger Airline Group business segment

Revenue | 23.6 €bn |

Operating result | 258 €m |

The position as the leading group of European quality carriers is being developed. Partnerships and joint ventures are becoming ever more important. Improvements are being made to the market positions on North Atlantic and Japanese routes. Traffic revenue increases in all regions despite adverse non-recurring factors. Revenue increases, operating profit falls. The Group's SCORE programme is being intensified at all airlines.

Share of Group revenue 75.8%



Leading group of European quality carriers

Key figures Passenger Airline Group / **of which Lufthansa Passenger Airlines** [2]

		Passenger Airline Group 2012	Passenger Airline Group 2011	Passenger Airline Group Change in %	Lufthansa Passenger Airlines 2012	Lufthansa Passenger Airlines 2011	Lufthansa Passenger Airlines Change in %
Revenue	€m	23,559	22,290	5.7	17,261	16,376	5.4
of which with companies of the Lufthansa Group	€m	704	746	–5.6			
Operating result	€m	258	349	–26.1	–45	116	
Adjusted operating margin	%	1.6	2.1	–0.5 pts	0.3	1.4	–1.1 pts
Segment result	€m	262	355	–26.2			
EBITDA [1]	€m	1,851	1,667	11.0	1,113	1,121	–0.7
CVA	€m	–340	–122	–178.7			
Segment capital expenditure	€m	1,868	2,085	–10.4			
Employees as of 31.12.	number	55,236	55,361	–0.2	40,622	40,671	–0.1
Average number of employees	number	55,649	54,946	1.3	40,880	40,252	1.6
Passengers carried	thousands	103,051	100,603	2.4	74,740	72,981	2.4
Available seat-kilometres	millions	259,861	258,263	0.6	191,735	191,291	0.2
Revenue seat-kilometres	millions	204,775	200,376	2.2	149,780	147,869	1.3
Passenger load factor	%	78.8	77.6	1.2 pts	78.1	77.3	0.8 pts

[1] Before profit/loss transfer from other companies.
[2] Including Germanwings and regional partners.

Business and strategy

A group of leading quality carriers in Europe

The Passenger Airline Group constitutes the core business segment of the Lufthansa Group. Operating together as an airline group, the segment consists of Lufthansa Passenger Airlines (including Germanwings) as well as SWISS, Austrian Airlines and the equity investment in Brussels Airlines. Equity investments in JetBlue and SunExpresss are also part of the Passenger Airline Group. The group of airlines offers passengers a global route network currently comprising 250 destinations in more than 100 countries. Via its transfer airports in Frankfurt, Munich, Zurich, Vienna and Brussels, the airline group applies a multi-hub strategy to give customers a wide range of options for convenient travel planning.

In addition to continuous optimisation within the individual airlines, the cooperation between them in the group is also being extended systematically. Synergies are being harnessed, primarily by realising economies of scale. Joint purchasing initiatives for fuel, aircraft and handling services, the merger of freight activities, optimisation of local traffic and joint sales are all generating sustainable cost and income synergies for the airline group. At the same time, the cooperation with the service companies in the Lufthansa Group is being successively intensified in order to pool and optimise a greater proportion of inter-segment processes as well.

The airline group and its overriding significance for the service companies is at the heart of value creation in the Lufthansa Group. The Executive Board is responsible for collaboration within the group of airlines. Last year, it again took a number of important steps to foster further cooperation within the airline group and between segments. By selling the loss-making company bmi to IAG in April 2012, the Lufthansa Group made further systematic progress towards sustainably increasing its profitability. The companies in the Lufthansa airline group remain market leaders in Europe.

Expanding their leading position as an independent group of European quality carriers is the objective which is vigorously pursued. To do so, the airlines put the key qualities of reliability, safety, punctuality and professional service at the core of their operations. The airline group companies are also well aware of their ecological responsibility and are pushing on with the reduction of fuel consumption and CO_2 emissions by modernising their fleets. At the same time, the modernised, efficient fleet brings lower unit costs.

One important contribution is made by the new Boeing 747-8i. In June 2012, Lufthansa Passenger Airlines became the first carrier in the world to put this new aircraft into service. The Boeing 747-8i is characterised by 15 per cent greater fuel efficiency and 30 per cent lower noise emissions than its predecessor, the B747-400. By 2015, a total of 19 of this new type of aircraft will make intercontinental traffic at Lufthansa Passenger Airlines even more cost-effective and efficient. From 2014, SWISS will take delivery of the C-Series from Bombardier – new aircraft for European routes that also stand out for their efficient consumption of fuel. Systematic fleet renewal is also underway at the other members of the airline group. In 2012, a total of 41 aircraft were acquired by the airline group, primarily as replacements for older aircraft. Overall, the Passenger Airline Group fleet was reduced by nine aircraft in the 2012 financial year. More information can be found in the chapter “Fleet” from p. 56.

Joint ventures are becoming ever more important

The positive experience of the existing North Atlantic joint venture with United Airlines and Air Canada (A++) prompted Lufthansa Passenger Airlines to implement another strategic joint venture with the Star Alliance partner All Nippon Airways (J+) as of 1 April 2012. SWISS and Austrian Airlines are to join this Europe-Japan commercial joint venture in 2013. The airline group was one of the first to recognise the increasing importance of such close cooperation with its main partners for opening up new markets and serving existing markets more efficiently with an improved customer offering. In future, the Passenger Airline Group intends to make even greater use of commercial joint ventures for its global strategy.

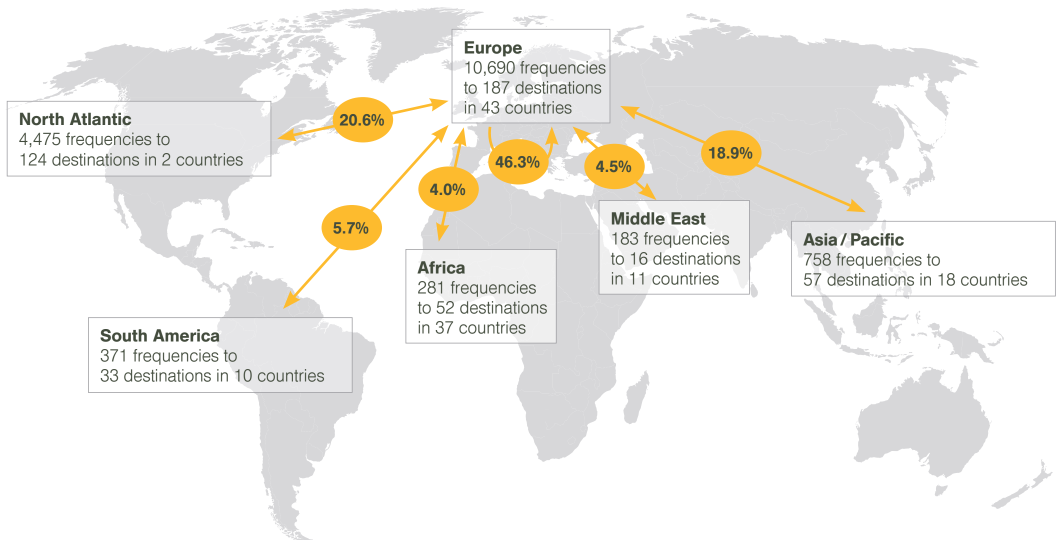
The global airline alliance Star Alliance, of which the Lufthansa Group is a founding member, celebrated its 15th anniversary in 2012 and expanded the network even further. In the reporting period, the Latin American airlines AviancaTaca (Colombia, El Salvador and Costa Rica) and Copa Airlines (Panama) joined the alliance. They were followed in November by the south Chinese company Shenzhen Airlines, which closed the gap left in 2010 by the departure of Shanghai Airlines. The accession of Eva Air from Taiwan is planned for mid 2013. Star Alliance remains the leading global alliance system, currently flying to 1,356 destinations in 193 countries.

Markets and competition

Airlines apply new concepts for increased competition

International competition in the airline industry is increasing rapidly due to fast-growing companies from the Middle East, such as Emirates, Qatar Airways and Etihad Airways, as well as Turkish Airlines in South East Europe. Alongside the European competitors Air France-KLM and British Airways/Iberia, plus US carriers like Delta Airlines and American Airlines, the Gulf carriers pose an additional challenge for the Passenger Airline Group in intercontinental traffic.

Destinations of Lufthansa and group airlines* and share of traffic revenue in %



* Frequencies per week, Lufthansa including code-shares.

Share of revenue of the Passenger Airline Group.

By pooling its strengths in the joint ventures A++ and J+ as mentioned above, the Passenger Airline Group has further bolstered its market position and that of its partners across the North Atlantic and on routes between Europe and Japan.

At the same time, Lufthansa Passenger Airlines has prepared the ground for a return to profitability in European traffic by reorganising the segment. Decentralised traffic in Germany, i.e. all flights that do not take off or land in Frankfurt or Munich, will be operated exclusively by Germanwings by 2014 at the latest. In its new formation as of 1 January 2013, Germanwings made a successful start to its ongoing integration phase as the third largest German airline and market leader at several locations.

In Geneva, SWISS is introducing a new regional concept in 2013, with the aim of establishing a stable and profitable competitive position with products and services tailored to the local market.

After an intensive restructuring phase, Austrian Airlines is starting the new year in a stronger position, whereas Brussels Airlines must still make further efforts before returning to profitability.

Sales and customers

Miles & More – Europe's leading frequent flyer programme remains on a course of growth

Miles & More remains the industry's leading customer loyalty programme in Europe, growing to include more than 23 million members in its 19th year. Miles & More now has 37 airline partners and more than 350 commercial partners. The internationalisation of Miles & More and the establishment of additional regional partner concepts continued apace in 2012.

In February 2012, the new Miles & More IT infrastructure was launched successfully, creating an important foundation for further growth and the development of the programme in the years ahead. For iPhone users there is now a Miles & More app; the i www.miles-and-more.com website was expanded to include the ProductFinder online shopping portal and a flight award advisor was added to the online mileage calculator.

Status miles can now also be earned on flights with the airline partners AviancaTaca, Copa Airlines and Germanwings. Frequent travellers can still qualify via the number of flights taken as well as miles. The qualification threshold for Senators in Germany was lowered to 100,000 miles. The way miles are earned and entitlements to flight awards were also updated. The Lufthansa WorldShop celebrated its 10th anniversary in 2012 and created a number of exclusive special editions for the occasion.

Course of business

High fuel prices and volatile demand define 2012
The slowing global economy, crises in the Middle East and great uncertainty in the euro area were the hallmarks of the business environment in 2012. The Passenger Airline Group responded flexibly to these challenges and carried more passengers than in the previous year despite the difficult conditions. Thanks to successful capacity management by all the airlines in the group, the load factors of the aircraft were improved while the number of flight movements was reduced. Nonetheless, the operating result for the Passenger Airline Group was down on the previous year.

The steps taken to increase earnings are therefore to be continued and intensified in future, in order to keep up with the challenges of the market and the difficult operating environment. All members of the airline group have continually boosted their commitment to achieving sustainable structural earnings improvements by means of SCORE. Detailed information on the measures taken by the individual companies and their performance is provided in the respective comments from p. 66.

Operating performance

Increase in sales, load factors and average yields
In the 2012 financial year, the Passenger Airline Group carried a total of 103.1 million passengers, which represents growth of 2.4 per cent compared with the previous year. Capacity was increased by 0.6 per cent in the reporting period, mainly as a result of the continued fleet roll-over to larger aircraft at Lufthansa Passenger Airlines and additional capacity at SWISS.

By contrast, the number of flights even declined slightly by 1.5 per cent. As sales grew faster than capacity at 2.2 per cent, the passenger load factor went up to 78.8 per cent, an increase of 1.2 percentage points. At the same time, all the airlines in the Passenger Airline Group were able to improve their average yields (including fuel surcharges and air traffic tax) and record higher passenger load factors. Combined with higher sales, this drove up traffic revenue by a total of 6.0 per cent.

Revenue up in all traffic regions
Traffic revenue was increased in all traffic regions. Traffic revenue of EUR 9.9bn (+6.5 per cent) was generated in the Europe traffic region. At the same time average yields went up by 2.7 per cent. Capacity increased by 2.1 per cent. As sales rose by 3.7 per cent, the passenger load factor improved by 1.1 percentage points to 72.7 per cent. At 9.7 per cent, traffic revenue grew fastest in the Americas traffic region, reaching EUR 5.6bn. Average yields climbed sharply at the same time (+7.7 per cent). Although capacity fell slightly by 0.4 per cent, sales rose by 1.9 per cent. The passenger load factor rose as a result to 85.4 per cent (+1.9 percentage points). Capacity in the Asia/Pacific traffic region was increased moderately by 0.2 per cent. Because sales went up slightly more than capacity (+0.7 per cent), the passenger load factor edged up to 81.6 per cent (+0.5 percentage points). Average yields were slightly up on the year (+0.7 per cent), which also boosted traffic revenue by 1.4 per cent. Capacity in the Middle East/Africa traffic region was reduced by 1.8 per cent. As sales only fell by 0.3 per cent, the passenger load factor improved by 1.1 percentage points to 73.9 per cent. In spite of lower sales, an increase of 2.7 per cent in average yields pushed traffic revenue up by 2.5 per cent.

Trends in traffic regions
Passenger Airline Group*

	Net traffic revenue in €m external revenue		Number of passengers in thousands		Available seat-kilometres in millions		Revenue seat-kilometres in millions		Passenger load factor in %	
	2012	Change in %	**2012**	Change in %	**2012**	Change in %	**2012**	Change in %	**2012**	Change in pts
Europe	9,934	6.5	81,827	2.8	90,480	2.1	65,754	3.7	72.7	1.1
America	5,637	9.7	9,086	1.2	79,141	–0.4	67,585	1.9	85.4	1.9
Asia/Pacific	4,065	1.4	6,198	0.0	59,399	0.2	48,458	0.7	81.6	0.5
Middle East/Africa	1,823	2.5	4,762	2.5	25,975	–1.8	19,187	–0.3	73.9	1.1
Total scheduled services	**21,459**	**6.0**	**101,874**	**2.4**	**254,995**	**0.5**	**200,984**	**2.0**	**78.8**	**1.2**
Charter	307	7.7	1,177	2.4	4,866	9.6	3,791	14.8	77.9	3.5
Total	**21,766**	**6.0**	**103,051**	**2.4**	**259,861**	**0.6**	**204,775**	**2.2**	**78.8**	**1.2**

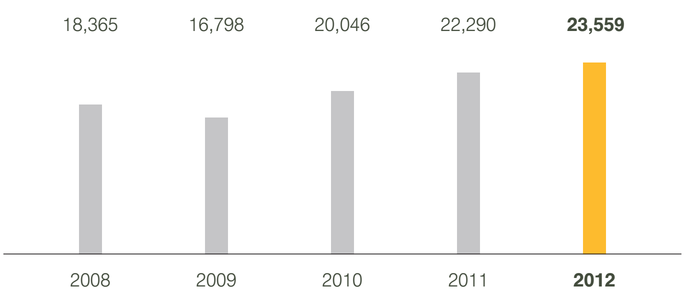
* Including Lufthansa Passenger Airlines, SWISS and Austrian Airlines.

Revenue and earnings development

Revenue climbs by 5.7 per cent

Increased traffic meant that the segment's traffic revenue climbed to EUR 21.8bn and was therefore 6.0 per cent higher than in the previous year. Higher sales volumes accounted for 2.2 per cent of the revenue increase, the stronger US dollar for 2.7 per cent and higher prices for 1.1 per cent. Total revenue picked up by 5.7 per cent to EUR 23.6bn. Other operating income was considerably reduced by 16.1 per cent to EUR 927m. This decline is largely due to non-recurring income in the previous year (reimbursement of air traffic control charges and compensation payments), as well as lower exchange rate gains (EUR –52m). Overall, total operating income improved by 4.7 per cent to EUR 24.5bn.

Operating result Passenger Airline Group in €m



Expenses up by 5.1 per cent

Operating expenses rose by 5.1 per cent to EUR 24.2bn. This increase was driven by the sharp rise in the cost of materials and services, which were up 8.3 per cent at EUR 15.7bn. This, in turn, stemmed mainly from the 19.1 per cent rise in fuel costs.

Expenses Passenger Airline Group

	2012 in €m	2011 in €m	Change in %
Cost of materials and services	15,749	14,542	8.3
of which fuel	6,870	5,769	19.1
of which fees	4,913	4,731	3.8
of which MRO services	1,782	1,909	–6.7
of which operating lease	113	136	–16.9
Staff costs	3,945	3,874	1.8
Depreciation and amortisation	1,415	1,350	4.8
Other operating expenses	3,119	3,280	–4.9
of which agency commissions	357	359	–0.6
of which external staff	609	577	5.5
Total operating expenses	**24,228**	**23,046**	**5.1**

In addition to the 12.8 per cent higher fuel prices (after hedging), the stronger US dollar accounted for a rise of 8.4 per cent, while lower volumes reduced expenses by 2.1 per cent. Fees and charges also rose, namely by 3.8 per cent to EUR 4.9bn. The main components of the increase were higher passenger fees (+8.8 per cent), security charges (+9.4 per cent), take-off and landing fees (+4.8 per cent) and air traffic control charges (+2.8 per cent). Other purchased services were down by 3.5 per cent to EUR 3.6bn, mostly due to less MRO work.

The average number of employees for the year rose by 1.3 per cent to 55,649, whereas staff costs were 1.8 per cent higher at EUR 3.9bn. An increase in wages and salaries of 2.5 per cent was partially offset by a fall in other staff costs. The reduction was largely due to the adjustments to retirement saving plans for cabin crew from Austrian Airlines which were agreed when the carrier's flight operations were transferred to Tyrolean Airways, as well as effects from the settlement of pension obligations for bmi.

Depreciation and amortisation rose by 4.8 per cent to a total of EUR 1.4bn mainly due to new aircraft deliveries this year and last.

Other operating expenses fell by 4.9 per cent, to EUR 3.1bn. Lower exchange rate losses (EUR –203m) were contrasted by higher indirect staff costs (EUR +32m) and higher write-downs of current assets (EUR +34m).

Operating profit falls to EUR 258m

Despite higher traffic, the operating result for the Passenger Airline Group was well down on the previous year. The segment generated an operating profit of EUR 258m, compared with a profit of EUR 349m the previous year. The steepest fall in earnings was felt by Lufthansa Passenger Airlines, but SWISS also remained well down the previous year's figure. By contrast, Austrian Airlines delivered a positive operating earnings contribution for the first time since joining the Passenger Airline Group – also thanks to the one-off effects of transferring flight operations to Tyrolean Airways. Comments on the earnings of the individual airlines can be found in the following sections from p. 66.

Other segment income of EUR 157m (EUR +6m) was attributable above all to book gains from the disposal of non-current assets of EUR 26m and income from write-backs of provisions of EUR 124m (EUR +10m). Other segment expenses came to EUR 138m (EUR +27m). Of total impairment losses of EUR 104m, EUR 102m were recognised on six Boeing 747-400s, one Airbus A340-300, two B737-800s, nine B737-300s, two A319-100s and one A310-300, which have been decommissioned or are held for disposal.

Other impairment charges of EUR 27m in total were incurred on four of the aforementioned Boeing 747-400s, one Airbus A330-200, two of the aforementioned B737-800s and three additional B737-800s, one Canadair Regional Jet 200 and five Avro RJs as well as on repairable spare parts for aircraft, which are shown in the balance sheet as assets held for sale. The result of the equity valuation came to EUR –15m (previous year: EUR –34m) and related in particular to SN Airholding (EUR –30m), SunExpress (EUR –6m) and Terminal 2 GmbH & CO OHG (EUR 22m), which was accounted for using the equity method for the first time. The segment result fell overall by EUR 93m to EUR 262m.

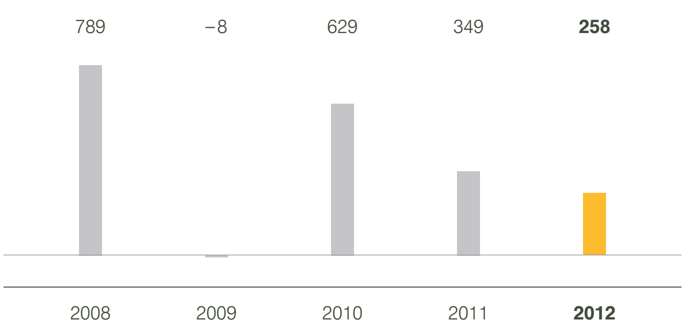
Segment capital expenditure declines

Segment capital expenditure fell by EUR 217m to EUR 1.9bn. This mainly involved investments in the fleet and included 44 aircraft in total: four Boeing 747-8i's, two Airbus A380s, six A330s, six A321s, nine A320s, five A319s, two B767s, nine Embraer 195s and one ATR 72.

Long-term overview shows considerable volatility

The long-term overview highlights the profitability and thus the importance of the Passenger Airline Group for the Lufthansa Group, as well as the effect on earnings of the economic cycle. Despite the financial crisis, the Passenger Airline Group generated a strong operating result in 2008, whereas in 2009 the global recession then had a very adverse impact, however. In the first year after the crisis, the segment recovered quickly, generating a substantial operating profit. In 2011 and in the reporting year 2012, by contrast, the gloomier economic environment and the high oil price had a marked impact on the earnings of the Passenger Airline Group.

Operating result Passenger Airline Group in €m



Forecast

Internal and external factors have major impact on earnings development

The increase in traffic revenue and the modest rise in costs, with the exception of fuel, fees and charges, were positive features of the past financial year. Developments nonetheless show that dependency of earnings from cost items beyond the control of management is still too high. This was all the more relevant because great volatility in fuel prices meant that hedging no longer had an effect on fuel costs in the second half of the year. Measures to improve earnings in other areas were thus overcompensated by higher fuel costs again in the reporting year. This illustrates the pressure on the Lufthansa Group's core business segment to take action.

The focus therefore remains on increasing the structural profitability of the airlines. This is taking place by means of extensive restructuring as well as the ongoing modernisation of the fleet, bringing in more efficient aircraft with structurally lower unit costs. However, both the restructuring and the modernisation entail costs which will initially depress the earnings of the Passenger Airline Group. The improvement in earnings will therefore not be seen to its full extent immediately.

Altogether, and on the assumption that conditions remain the same, the Passenger Airline Group expects modest increases in revenue and operating profit for 2013 and 2014. Profitability is only forecast to improve significantly at a later date, when SCORE and investments in the product have been completed.

As in previous years, the absolute volume of profits depends to a large extent on macroeconomic developments and the trend in fuel prices and exchange rates.

To support these efforts, the airlines will maintain their strict capacity management and largely forego any increase in the size of their fleets. For 2013, the Passenger Airline Group is planning to increase capacity by 1.0 per cent while leaving the number of aircraft virtually unchanged. Information on the measures and prospects of the individual companies can be found in the relevant comments on the following pages.

Lufthansa Passenger Airlines

Challenging market conditions met with strict capacity management

Lufthansa Passenger Airlines continues to focus on sustainably increasing profitability. By means of sustainable structures it will build on its status as the world's leading European premium-quality airline. With Germanwings as a quality carrier in the low-cost segment, it is also well established throughout Germany outside the hubs.

The crisis in Europe and slower growth in the Asia/Pacific region had an adverse effect on business performance in the past financial year. Under these difficult conditions, Lufthansa Passenger Airlines still managed to increase average yields by foregoing the growth which was originally planned and accelerating the modernisation of the fleet. Despite all the efforts, the higher income was not able to offset the cost drivers of fuel, fees and charges, and the effects of the strike by cabin crew, however. A negative operating result was therefore reported for the full year.

In this difficult environment, Lufthansa Passenger Airlines kept its route network in the winter flight timetable largely stable. Customers can count on the usual high number and frequency of flights. The new flight timetable again covers 199 destinations in 81 countries (previous year: 199 destinations in 82 countries). On average, Lufthansa Passenger Airlines offers its customers 11,628 flights every week in the winter. Compared with the previous year's winter timetable, the number of aircraft deployed and flight movements were down by 5.6 per cent (previous year: 12,322 flights).

Strategic course for direct traffic is set

Lufthansa Passenger Airlines is continuing to respond consistently to competition from low-cost carriers in German and European direct traffic. From 1 January 2013, direct European flights by Lufthansa Passenger Airlines outside the hubs in Frankfurt and Munich will be merged in commercial and organisational terms with Germanwings, in a company based on Germanwings GmbH. The Lufthansa Group regional subsidiary Eurowings GmbH will fly on behalf of Germanwings in future, enabling the combined fleet of around 90 aircraft to cover point-to-point traffic in Germany and Europe. In 2013, the company should already carry more than 18 million passengers. The new Germanwings will be the third largest German airline and serve a total of 110 destinations in Europe. As a quality carrier in the low-cost segment with an innovative, high-quality product and brand concept, it will complement the global route network of the Passenger Airline Group, offering customers the widest possible flight network also outside the major hubs in Frankfurt and Munich.

At the same time, the number of aircraft types in the fleet and the number of operators in the Group is also being steadily reduced. Lufthansa Passenger Airlines ended its partnership with the former Contact Air at the end of the summer flight timetable 2012, and will cease working with Augsburg Airways as of the winter flight timetable 2013/2014. The restructuring of Lufthansa Passenger Airlines regional traffic that began in 2009 is therefore holding its course, assisted considerably by the switch to larger, lower-cost aircraft.

Key projects initiated as part of the Group's SCORE programme

The efforts being made as part of the Group's SCORE programme were further intensified at Lufthansa Passenger Airlines. To achieve the lasting profitability required, numerous projects have been launched which should improve the operating result steadily in the period up to 2015. In addition to merging decentralised traffic for Lufthansa Passenger Airlines and Germanwings, as well as restructuring regional traffic, the set of measures includes the two projects SPRINT and Shape!, both of which are vital components. They are primarily intended to improve the Company's competitive position against low-cost carriers and competitors from the Middle East.

A number of steps are already being prepared for SPRINT (stepping up profitability in intercontinental traffic), which is intended to make a major contribution to earnings improvement by delivering a 10 per cent reduction in unit costs on long-haul routes by 2015. In addition to the measures to optimise fuel consumption and adapt the flight timetable more to seasonal demand, initiatives were launched to increase earnings capacity, boost the productivity of the fleet, cut ground times and explore new maintenance concepts. To achieve sustainable earnings improvements at Lufthansa Passenger Airlines, the Shape! project aims to boost efficiency in workflow management in all non-airborne areas. This entails reviewing the necessity of existing activities in the operating departments as well as simplifying and streamlining workflows.

Management and organisational structure to be adapted to current challenges

A new position for Human Resources and Infrastructure Services was set up on the Lufthansa Passenger Airlines Executive Board as of 1 June 2012. The post is currently held by Peter Gerber and comprises Human Resources and Commercial Airport Relations, pooling both the strategic and functional responsibility for all human resources issues relating to ground and airborne staff. A department for Business Development Passenger Airlines was added to the renamed board seat for Finances and Information Management, which is still led by Dr Roland Busch.

Further development towards greater autonomy for Lufthansa Passenger Airlines requires a focus on commercial control mechanisms and the more intensive integration of the strategic and financial orientation.

Opening of new A-Plus pier enables further growth in Frankfurt

The expansion of infrastructure in Germany, Lufthansa Passenger Airlines' largest single market, is helping to consolidate its position in the European home market. Operational punctuality for customers was improved at a stroke when the new runway at Frankfurt Airport was opened in October 2011. The inauguration on schedule of the westerly extension of Terminal 1, the new A-Plus pier, enables Germany's busiest aviation hub to handle an additional six million passengers a year. The pier was built by Fraport at a cost of EUR 700m and is for the exclusive use of the airlines in the Lufthansa Group and its partners in the Star Alliance. It has been specially designed to handle wide-bodied aircraft such as the Airbus A380 and the Boeing 747.

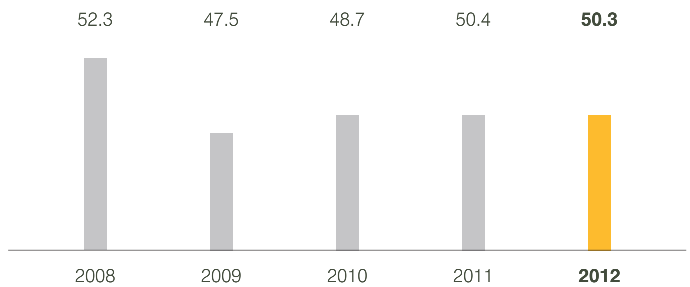
The new pier simplifies and speeds up our customers' transfers at Lufthansa Passenger Airlines' main hub considerably. For many connecting flights, the minimum transfer time can be reduced from the current 60 minutes to 45 minutes. In addition, it provides customers with one First Class, two Senator and two Business Class lounges. The realisation of this urgently needed infrastructure facility has significantly improved the performance and quality of the hub. At the same time, it opens up long-term growth prospects for Lufthansa Passenger Airlines at Frankfurt Airport.

Customer satisfaction improves even further

Investment by Lufthansa Passenger Airlines in products and services is appreciated by its customers. For more than a decade, Lufthansa Passenger Airlines has been continuously and systematically measuring customer satisfaction by means of the Customer Profile Index (CPI). Compared with the previous year, customer satisfaction improved to 7,733 points in 2012 (+2). Appraisals of the flight timetable, punctuality, ground product and the general attitude to Lufthansa Passenger Airlines all improved again.

To ensure customer satisfaction keeps on rising, Lufthansa Passenger Airlines is expanding its product portfolio and is to equip its entire intercontinental fleet with a Premium Economy Class. This substantially upgraded Premium Economy product will fill the gap between the superior Business Class segment, which features a seat that can be converted into a fully flat bed, and the classic Economy Class. This new product is aimed at both private travellers seeking extra comfort and business travellers whose company travel policies do not provide for Business Class flights.

Premium share of intercontinental traffic revenue of Lufthansa Passenger Airlines in %



Lufthansa Passenger Airlines was voted Germany's "Service Champion 2012" in the airline category in a customer survey carried out by the company ServiceValue. With this award, Lufthansa Passenger Airlines came out on top against competitors including Air Berlin, Singapore Airlines and Emirates. In the latest rating by Skytrax, an important specialist institute for testing airline quality, Lufthansa Passenger Airlines was one of just a few airlines in the world to be given the top mark of "Five Stars" for its First Class product.

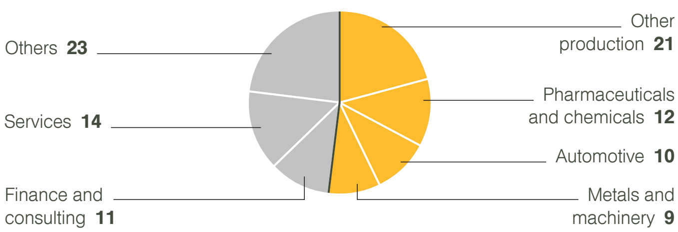
On 28 September 2012, Lufthansa Passenger Airlines was awarded first place in the "Best European Airline" category by the acclaimed magazine Business Traveller Asia/Pacific. The winners in 55 categories related to the travel and tourism industry were selected by readers of the magazine, who are primarily business travellers. This is the first time that Lufthansa Passenger Airlines has won this award, which has been honouring the best in the business for 21 years.

Substantial capital expenditure to strengthen fleet, inflight and ground product

Lufthansa Passenger Airlines is continuing to invest substantially in modernising the fleet. In 2012, two more Airbus 380s and the first four Boeing 747-8i's entered service, among others. Lufthansa Passenger Airlines is pushing on with improvements to its products, and around EUR 3bn will be spent here by the end of 2016. They include the new Business Class seat, which was introduced for the first time in 2012 on the new B747-8i, and the latest deliveries of the A330-300. To enable all customers on intercontinental routes to enjoy the new products, Lufthansa Passenger Airlines' entire wide-bodied fleet is to be successively fitted with the new Business Class and all other product innovations by the end of 2014.

Other upgrades include the extensive inflight entertainment programme. For the first time, it now includes an integrated live TV channel, Sports 24. The signal is transmitted directly on board by satellite via Lufthansa FlyNet and from there to the entertainment system. The service, which is already available in three of the Airbus A330s delivered in 2012, is free for passengers.

Sector origin of Lufthansa Passenger Airlines' corporate customers in %



Business travellers and corporate customers are vital for the sales strategy

Income in the corporate customers segment fell by 2 per cent in 2012. At 38.6 per cent, corporate business continues to account for a large proportion of total revenue, which is proof of Lufthansa Passenger Airlines' leading position in the industry. The portfolio of corporate customers is broadly diversified across several industries. The high proportion of business travellers lifted First and Business Class revenue by 0.6 per cent compared with the previous year.

Since September, travellers in Business Class and HON Circle members, Senators and Star Gold cardholders have also enjoyed priority boarding on short-haul flights once again. They are personally boarded by a crew member without having to queue in the bridge and are assured of empty overhead lockers above their seats to stow their hand baggage.

Operating loss despite higher revenue

In 2012, Lufthansa Passenger Airlines registered a year-on-year increase in passenger numbers of 2.4 per cent. The number of flights declined by 1.3 per cent to 723,486. Available seats per flight were, on average, increased slightly, however, primarily by replacing older aircraft with modern, more efficient ones. This meant that available seating capacity was roughly on a par with last year (+0.2 per cent). The passenger load factor went up by 0.8 percentage points.

Revenue increased to EUR 17.3bn (+5.4 per cent). Traffic revenue rose by 5.9 per cent and average yields per revenue passenger-kilometre by 4.6 per cent. The sharp rise in fuel costs (EUR +787m) and in fees and charges – mainly by German air traffic control (DFS) and Fraport – together with the effects of the flight attendants' strike more than offset the positive revenue trend, however. The operating result for Lufthansa Passenger Airlines in 2012 came to EUR –45m (previous year: EUR 116m). The adjusted operating margin was 0.3 per cent (previous year: 1.4 per cent).

Forecast

Flexible capacity management will remain Lufthansa Passenger Airlines' primary approach to tackling the challenges of the economic environment in future. Despite a smaller fleet, capacity is to grow by a moderate 2.9 per cent on long-haul routes thanks to the deployment of larger aircraft. In response to the economic downturn in various European countries, the number of aircraft deployed and the available seat-kilometres in German and European traffic are to be reduced by 2.6 per cent, however. Capacity management is being bolstered by making staff deployment even more flexible and by the highly productive deployment of the fleet. The ongoing modernisation of the fleet will also keep improving fuel efficiency. 24 new aircraft are to be delivered in 2013. In exchange, 32 older planes are to be withdrawn from the fleet. The total fleet is therefore to be reduced by eight aircraft by the end of 2013.

In order to eliminate operating losses, increasing operating results substantially and to cope better with external cost increases beyond the Group's control, internal processes and workflows will be optimised by a host of measures as part of the SCORE programme. These projects serve to identify synergies, optimise processes and cut costs sustainably. The merger of decentralised traffic under the Germanwings brand is the first step towards restructuring this persistent loss-maker. One operational focus will be on implementing both these measures as well as the SCORE initiatives Shape! and SPRINT.

For 2013 and 2014, Lufthansa Passenger Airlines anticipates higher revenue and an improvement in the operating result. The results for both years will be burdened by the high costs of investment projects. Nonetheless, the aim is to increase the operating result in spite of volatile external cost factors. The absolute level of the operating result will depend to a great extent on the development of fuel costs and exchange rates, however, in particular that of the euro against the US dollar and the Japanese yen. Regulatory factors, such as further developments in the trading of emissions certificates in the European Union, will also play a vital role.

SWISS

SWISS*

		2012	2011	Change in %
Revenue	€m	4,220	3,942	7.1
Operating result	€m	191	259	–26.3
EBITDA	€m	507	503	0.8
Passengers carried	thousands	16,844	16,361	3.0
Employees as of 31.12.	number	8,378	7,918	5.8

* Including Edelweiss Air.
Further information on SWISS can be found at www.swiss.com.

SWISS and its high-quality product are firmly rooted in the Swiss market

Swiss International Air Lines (SWISS) has its roots and its heart in Switzerland, and as the national airline cultivates such traditional values as quality, punctuality and hospitality. Business travellers are a particular target group for SWISS, but as the airline of Switzerland the company is also very popular with leisure travellers. The leisure airline Edelweiss Air successfully adds to the product range here. SWISS offers a three-class product on all intercontinental routes, with First, Business and Economy Class. The entire long-haul fleet is fitted with the same modern Business Class and the corresponding “lie-flat” seats.

Geneva presence is strengthened

SWISS is to increase its presence in Geneva in future, in order to better serve the different requirements in its Swiss home market, where the hub is in Zurich and with stations in Basel and Geneva. An independent operating base will be opened there, with crews from French-speaking western Switzerland and a management team with profit and loss responsibility to serve the local market. The new local structure should enable closer contact with French-speaking customers and the market in western Switzerland. At the same time, it should make flight operations more efficient and boost profits.

Record passenger numbers at SWISS

In the winter flight timetable 2012/2013, SWISS served 69 destinations in 37 countries. In May 2013, SWISS will also open a new direct connection from Zurich to Singapore, taking the number of intercontinental destinations to 24. The new connection to Beijing, which has been served since spring 2012, is developing ahead of expectations in terms of both passenger numbers and freight volumes. In the 2012 financial year, SWISS carried 16.8 million passengers, again beating the previous year’s record. The number of flights was 0.3 per cent higher than the previous year at 157,963. Capacity rose by 5.0 per cent. The average passenger load factor came to 82.4 per cent, which was 1.3 percentage points up on the previous year and the highest in the company’s history.

SWISS reports fall in earnings in 2012

Despite the positive developments in demand, the financial year at SWISS was marred by numerous adverse trends in terms of costs. The persistently weak earnings for the entire airline industry were exacerbated at SWISS, most notably by the strong Swiss franc exchange rate. Furthermore, business performance was shaken by high fuel prices, the difficult economic environment in Europe, the political turmoil in the Middle East and Africa and the damage caused by hurricane Sandy in North America. Under these circumstances, SWISS was able to maintain a steady course, but its operating result of EUR 191m was much lower than in the previous year.

SWISS remains on course of sustainable growth

SWISS World Cargo, which markets freight capacities for SWISS, makes a major contribution to its success, accounting for 10.7 per cent of revenue. The course of business at SWISS World Cargo produced revenue of EUR 450m in 2012. Freight volumes showed very positive growth compared with 2011 (+7.6 per cent). The average cargo load factor came to 69.0 per cent (–0.7 percentage points).

SWISS Technical Division took over routine maintenance of SWISS aircraft in 2012. Besides improving the technical reliability of the fleet, this also achieved considerable cost savings.

Capital expenditure on the fleet and on products will continue in 2013, but at a lower level than originally planned. One new Airbus A330-300 and one A321 are to be added to the fleet in April 2013. Altogether, there are 35 aircraft on the order list. It includes 30 Bombardier C-Series models, which will gradually replace the Avro RJ regional fleet from 2014. The delivery of another A330-300 and two A320s was postponed. With a fleet of 92 aircraft, and an additional six operated under wet leases, the airline will maintain the necessary flexibility to cope with the highly volatile environment in the industry.

With only the aircraft mentioned above being delivered in 2013, growth at SWISS will be modest. It will entail further recruitment, however, particularly of cockpit and cabin staff. At the same time, jobs in administrative areas at SWISS will be reduced, as a result of optimisation and synergies within the Lufthansa Group. In January 2013, 19 jobs were cut in the finance department as part of the development of GLOBE, a service company for the entire Group. Further reviews are underway to streamline the administrative areas. Redundancies are to be avoided wherever possible and the remaining cuts will be made in a socially responsible way.

Profitability to be improved further

SWISS's goal as a company is to maintain and build on its position as one of Europe's leading airlines in terms of service, quality and profitability. In the 2012 financial year, SWISS generated revenue of EUR 4.2bn, (+7.1 per cent). The operating profit fell to EUR 191m, mainly due to lost income, but also to the high fuel costs. These alone accounted for additional expenses of EUR 253m compared with the previous year. This represents an increase of 25.8 per cent, whereas sales only rose by 6.6 per cent. Given its international revenue and cost structure, SWISS is also particularly affected by the situation on foreign exchange markets, as the strength of the Swiss franc against the euro and US dollar directly reduces the margins that can be achieved in these markets.

As part of its target of sustainable growth, and in order to be able to make ongoing investments in renewal and growth, SWISS aims for an annual operating margin of 8 per cent. In 2012, the figure was 4.5 per cent, which is well below where the company wants to be. As a result, no profit-share payment was made to staff in 2012. In order to boost earnings again in the years ahead, various long-term measures were adopted as part of the SCORE programme. They include the new market-focused organisation in western Switzerland, a programme to promote sales of the First Class product on long-haul routes and the redesign and optimisation of ground handling processes, as well as other instruments, such as more efficient planning of flight routes, to improve the management of fuel consumption.

Forecast

Passenger numbers are still expected to progress well in the 2013 financial year. However, the competitive environment remains tense, which may put average yields under pressure. Given the uncertain global economic conditions, SWISS expects the year ahead to be challenging and the market to become more difficult. Under these circumstances, all areas at SWISS will continue to draw up systematic plans for optimising costs further and generating additional income, as they have in the past. Both operating and structural measures are to bolster profitability.

An increase in revenue is expected for 2013. If conditions remain the same, the operating result for 2013 is likely to be roughly on par with the previous year's. Both revenue and costs, as well as the resulting earnings, are heavily dependent on the development of the Swiss franc.

Austrian Airlines

Austrian Airlines*

		2012	2011	Change in %
Revenue	€m	2,158	2,047	5.4
Operating result	€m	65	–62	
EBITDA	€m	228	107	113.1
Passengers carried	thousands	11,467	11,261	1.8
Employees as of 31.12.	number	6,236	6,777	–8.0

* Further information on Austrian Airlines can be found at www.austrian.com.

Restructuring measures show results

Austrian Airlines initiated a comprehensive restructuring programme last year with the aim of increasing the company's competitiveness and profitability. The restructuring measures are showing results: the operating result improved significantly in 2012. Including the non-recurring effects of transferring operations, the operating result was positive. Without this one-off factor, Austrian Airlines still reported a slightly negative operating result, however. Management and staff are therefore continuing to work vigorously on the sustainable restructuring of the company. The aim is to improve the cost situation compared with direct competitors and increase profitability at the same time.

Last year saw major elements of the restructuring put into practice. As it proved impossible to reach a consensus about reducing staff costs in discussions between the bargaining partners at the beginning of the year, the Executive Board decided on 30 April 2012 to transfer flight operations to the Tyrolean Airways subsidiary. Since 1 July 2012, it has been carrying out Austrian Airlines' flight operations. Non-recurring expenses and income were recognised in connection with the transfer, which had a positive overall effect on earnings for the full year 2012. Most of the expenses related to severance payments, while the income was derived from lower future pension obligations. A number of legal challenges to the transfer of operations are currently pending. Clarification is being sought on the legality of the transfer, for instance, and on the continued validity of former collective staff entitlements. It is considered highly probable that in the main aspects, verdicts will be rendered in favour of Austrian Airlines. Final judgements are only expected in the years ahead, however.

The standardisation of the medium-haul fleet is also an important component of the reform package at Austrian Airlines. A homogenous fleet of Airbus A320 aircraft in European traffic will, in future, deliver substantial savings in operating costs and make the deployment of aircraft in network planning more productive. The restructuring measures implemented so far also allow for some renewed growth. From 17 May 2013, the number of connections to North America will go up to 26 per week when Chicago is included in the flight timetable. Austrian Airlines currently operates a route network of around 130 destinations worldwide.

Capacities managed successfully despite strong competition in Vienna

The restructuring begun in 2012 will have a greater effect in the years ahead. Transferring flight operations ensured that staff costs will undergo a relative decline in future. The ongoing negotiations with all the main suppliers are also contributing to cutting costs. Global developments made the market situation difficult for Austrian Airlines in 2012. Competition from low-cost carriers and airlines from the Middle East was particularly intense at Vienna Airport. By realigning its capacities, Austrian Airlines is confronting this ever tougher competition in Vienna. On the basis of its successful capacity management, it was possible to increase the load factor for the fleet in all traffic regions and improve average yields at the same time. Together with the cost-cutting measures this made a vital contribution to the considerable improvement in the operating result.

Focus remains on customers

To boost sales even further, Austrian Airlines further developed its direct sales channels, especially via internet, and by means of specific marketing campaigns. The heightened focus on crisis-proof market segments and its increased presence in all relevant sales channels have also contributed to the growth in passenger numbers. Austrian Airlines will continue to implement its restructuring activities as part of the Group-wide SCORE programme. This involves reviewing all processes for synergies and implementing them in joint projects.

New inflight product for greater comfort

In 2013, Austrian Airlines will upgrade the entire long-haul fleet and install a modern cabin. All ten Boeing 777 and 767 wide-bodied aircraft will get new, modern Economy seats, a new inflight entertainment system and seats in Business Class that can be folded out to fully flat beds. The entire interior design of the aircraft will also be given a new look on the basis of a revised colour scheme. In the second quarter of 2013, all Dash and Fokker cabins will also receive a facelift, with leather seats in the new cabin design. In June 2012, the new Austrian Star Alliance terminal with six lounges was opened at Vienna Airport. Also new is the catering concept introduced in parallel, featuring high-quality à la carte menus on certain flights in the Austrian Economy Class.

Sharp upturn in 2012 result

With 11.5 million passengers, Austrian Airlines transported 1.8 per cent more customers than a year earlier. Capacity in passenger-kilometres was reduced sharply by 4.0 per cent. As sales rose slightly (+0.9 per cent), the load factor of 77.5 per cent was well up on the previous year (+3.8 percentage points). Despite cutting capacity, revenue rose disproportionately to EUR 2.2bn (+5.4 per cent) due to an increase in average yields. In 2012, the operating result for Austrian Airlines was positive at EUR 65m – a year-on-year improvement of EUR 127m, largely due to the non-recurring income of EUR 76m mentioned above. Adjusted for non-recurring effects, the operating result of EUR –11m was still slightly negative, but represents an improvement of EUR 51m compared with the previous year.

Starting position remains positive for 2013

Austrian Airlines has set itself the goal of consolidating the turnaround and generating a positive operating result, without non-recurring effects in 2013. The restructuring activities are to be continued decisively. Further steps to streamline administrative functions have already been identified and are to be implemented in 2013. From a current perspective, Austrian Airlines is expecting the environment to remain difficult, with lasting shifts and further consolidation in the airline industry. Assuming that conditions remain stable, revenue and results after adjustment for restructuring are expected to improve year on year in both 2013 and 2014.

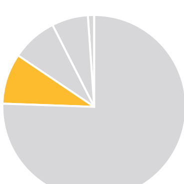
Logistics business segment

Revenue | 2.7 €bn |

Operating result | 104 €m |

Lufthansa Cargo offers a comprehensive range of products for the airfreight business worldwide. Declining demand and increasing supply are leading to overcapacities on the market. The company's own capacities are being managed successfully. In a difficult market environment, the operating result fell to EUR 104m. The Lufthansa Cargo 2020 strategy and strict cost management are intended to boost profits again in 2013.

Share of Group revenue 8.8%



One of the largest cargo airlines

Key figures Logistics

		2012	2011	Change in %
Revenue	€m	2,688	2,943	–8.7
of which with companies of the Lufthansa Group	€m	26	26	0.0
Operating result	€m	104	249	–58.2
Adjusted operating margin	%	4.2	9.1	–4.9 pts
Segment result	€m	127	243	–47.7
EBITDA*	€m	196	328	–40.2
CVA	€m	65	202	–67.8
Segment capital expenditure	€m	198	76	160.5
Employees as of 31.12.	number	4,606	4,624	–0.4
Average number of employees	number	4,609	4,572	0.8
Freight and mail	thousand tonnes	1,724	1,885	–8.5
Available cargo tonne-kilometres	millions	12,532	13,647	–8.2
Revenue cargo tonne-kilometres	millions	8,727	9,487	–8.0
Cargo load factor	%	69.6	69.5	0.1 pts

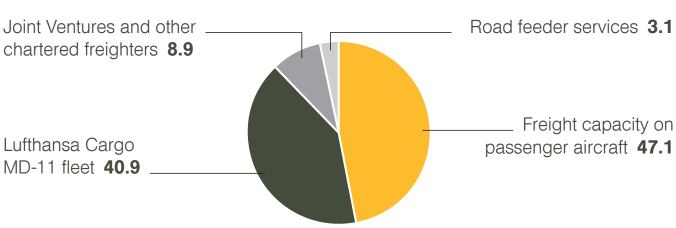
* Before profit/loss transfer from other companies.

Business and strategy

A global market leader in the airfreight business
Lufthansa Cargo is the logistics specialist within the Lufthansa Group. The company's own fleet consists of 18 Boeing MD-11 freighters. Lufthansa Cargo also markets at its own risk belly capacities on passenger aircraft operated by Lufthansa Passenger Airlines and Austrian Airlines. Lufthansa Cargo and DHL Express each own 50 per cent of AeroLogic GmbH and have exclusive use of the capacities of its eight B777 freighters. Altogether, this makes the company one of the world's leading cargo airlines.

Broad product portfolio and a worldwide network
The focus of Lufthansa Cargo's operations lies in the airport-to-airport business. Its product portfolio in this segment covers both standard and express freight. The product range is completed by special cargo segments such as the transport of temperature-sensitive goods, live animals, valuable cargo, mail and dangerous goods. All the product segments benefit from a tightly meshed global network of around 300 destinations in 100 countries, which is made possible by combining capacities from different production platforms.

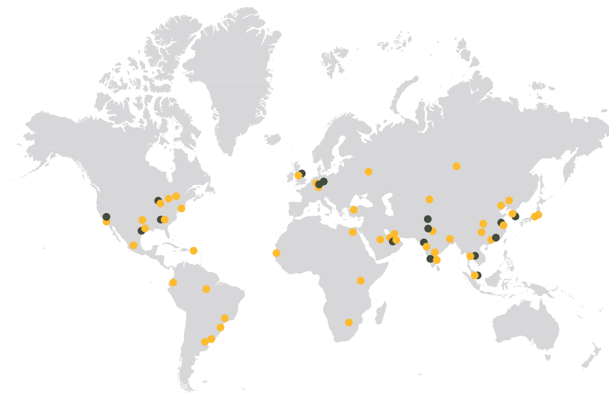
Composition of Logistics capacity in %



Lufthansa Cargo transports nearly half its freight on board cargo aircraft and roughly the same amount on board passenger aircraft. The remaining cargo tonnage comes from consignments sent by truck, known as road feeder services. These are principally used for transport to and from airports.

Until recently, the Chinese joint venture Jade Cargo International also provided capacities. In June 2012, an application was made to liquidate the company, however, as the restructuring efforts had proven unsuccessful. Lufthansa Cargo held a stake of 25 per cent in Jade Cargo. Despite this, Lufthansa Cargo retains a strong position in China, the most important airfreight market in the world. In the transport business, China accounts for around 14 per cent of transport volumes.

Locations Lufthansa Cargo



● Lufthansa Cargo destinations ● AeroLogic destinations

In freight handling, the investment in Shanghai Pudong International Airport Cargo Terminal, in particular, has been successful for years.

Another subsidiary, Jettainer GmbH, is a global provider of management services for loading aids such as containers and pallets. The time:matters group is also the express provider in the segment and specialises in courier, same-day and emergency logistics.

It has since been decided to reintegrate Lufthansa Cargo Charter Agency GmbH, a subsidiary specialising in ad hoc charter solutions, into the Lufthansa Cargo organisational structure.

Markets and competition

Load factors remain stable despite falling demand and overcapacities
Global airfreight markets saw demand contract in 2012. Lufthansa Cargo responded with sharp cuts to capacity, both in traffic to and from Asia and across the North and South Atlantic. This ensured that the load factor remained on a very high level.

Other airlines, in particular those from Asia and the Middle East, increased their cargo capacities considerably – especially by putting wide-bodied passenger jets with greater freight capacities into service. This led to further overcapacities on the market.

Towards the end of the year, the decline in demand slowed down. Demand also stabilised in China, which is the most important airfreight market.

Sales and customers

Individual service for large and small corporate clients
In 2012, Lufthansa Cargo continued to develop its relationships to its most important customers. The Global Partner Program plays a vital role in this respect. Lufthansa Cargo generates almost half of its global revenue with the eleven accounts in this programme. The logistics provider Dachser became a new Global Partner in 2012. The programme aims to retain customers over the long term and for all partners to share in the global growth of the airfreight market by integrating their operations in the best possible way. At the tenth Global Partner Council, the annual meeting between Lufthansa Cargo and its Global Partners, DB Schenker was presented with the Planet Award of Partner Excellence. Lufthansa Cargo presents this award for outstanding performance in global partnership over the course of the year, which was primarily expressed by the continually high freight volumes between the two companies.

As well as the Global Partners, small and medium-sized forwarders are also very important for Lufthansa Cargo. They are served by special key account managers in their own Business Partnership Program.

Innovative products protect the environment
Lufthansa Cargo and its clients are a driving force behind the increased use of electronic processes, in particular paperless airfreight (eFreight). Around 25 per cent of potential paperless transport took place via eFreight processes last year. This is equivalent to a growth of 11 percentage points compared with 2011. All consignments in the route network that is open to eFreight should be paperless by 2015. Last year, Lufthansa Cargo also reinforced its own electronic booking channels. Around 44 per cent of global bookings are now made via the eServices platform.

Prizes for services and quality at Lufthansa Cargo
As in previous years, Lufthansa Cargo again picked up a large number of awards in 2012 for the high quality of its products and services. At the Cargo Airline of the Year Awards, the company took the prize for best European cargo airline and the title of best cargo airline to Asia. Hellmann Worldwide Logistics acknowledged Lufthansa Cargo's superlative quality with the European Award. In Italy too, Lufthansa Cargo won several awards from the freight-forwarding association A.N.A.M.A., including in the category "Security and Safety".

The quality initiative launched on the German market in 2010 was continued last year. In March, Lufthansa Cargo became one of just five airlines in the world to receive a platinum seal for its own quality management as part of the IATA industry initiative Cargo 2000.

Lufthansa Cargo has new products and open innovation management
With its in 2012 recently launched Courier.Solutions and Emergency.Solutions, Lufthansa Cargo offers its customers new products in the segment for particularly urgent express deliveries. The shortest collection times, the fastest transit processes and preferred access to capacities represent further additions to the product portfolio. This expands the express business at the upper end of the product range with the td.Flash product. Customers for the new products come from the oil and gas industry and the automotive sector, among others.

In September, Lufthansa Cargo launched the second edition of its open innovation platform. It enables innovative ideas in various categories to be generated and developed with the involvement of scientists, airfreight experts and customers.

Course of business

Average yields and high load factor remain stable
After very strong years in 2010 and 2011, the year 2012 saw a decline in airfreight volumes. Demand fell sharply year on year, especially in Asia. Business across the North and South Atlantic was also down on the previous year. By contrast, the German home market put in a relatively stable performance.

The difficult market environment, especially in direct comparison with the previous year, led to a distinct fall in tonnage in all traffic regions. Lufthansa Cargo responded with very strict capacity management.

Capacities on the freighter platforms in particular were aligned closely with demand. In some cases, the load factor and average yields even improved.

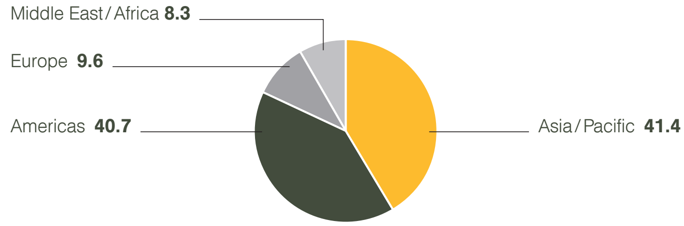
Short-term peaks in demand were met by flexible aircraft deployment. In addition to new flights to Detroit and Tel Aviv, the Indian metropolis of Calcutta was included in the freighter flight plan again. The connection to Chongqing, China, introduced in the spring was not retained in the winter flight timetable.

With the support of strict cost discipline in general, Lufthansa Cargo was able to report an operating profit in every quarter. In Frankfurt, the night-flight ban imposed in October 2011 and confirmed by the court in April 2012 had a tangible adverse impact on Lufthansa Cargo's business.

Last year, Lufthansa Cargo initiated and implemented a large number of measures as part of the Group-wide SCORE programme. This puts the company on course to reach its target of a sustainable annual earnings improvement of EUR 70m on the operating result for 2011. The measures taken involved both cutting costs and increasing income. A new contract for fuel deliveries at the important Russian stopover in Krasnoyarsk will save around EUR 7.4m a year. In terms of income, Lufthansa Cargo has great hopes for the Product Push project. The more prominent positioning of profitable special products is also intended to generate a significant increase in revenue.

The Lufthansa Cargo 2020 programme is progressing well
In the reporting year, Lufthansa Cargo pursued its Lufthansa Cargo 2020 programme begun in 2011. As well as launching the project to modernise the IT environment, preliminary work was completed for the capital expenditure on the construction of a new Lufthansa Cargo Center in Frankfurt.

Logistics traffic revenue by traffic region in %



Steady progress was also made in other areas such as eCargo and quality/lean logistics. As part of its fleet development, two of the five Boeing 777 freighters ordered are to be delivered and put into service in the company's own operations in late 2013. A decision on whether to use the new deliveries as additional or replacement aircraft will be taken at a later date.

Lufthansa Cargo takes responsibility
A sense of responsibility for staff, society and the environment is a core company value at Lufthansa Cargo. Environmental management focuses on reducing noise and emissions. This was recognised last year when Lufthansa Cargo was awarded the ÖkoGlobe 2012 international environmental prize for the development and deployment of its lightweight containers. Lufthansa Cargo and its Jettainer subsidiary operate an extensive joint replacement programme, which will enable 5,000 of the lightweight containers made of composite materials to be put into service over the coming years. Their reduced weight compared with conventional containers means they contribute to significantly lower fuel consumption. Lufthansa Cargo's commitment to social responsibility can also be seen in its support for the Cargo Human Care aid project set up by employees in Nairobi.

Trends in traffic regions
Lufthansa Cargo

	Net traffic revenue in €m external revenue*		Freight/mail in thousand tonnes		Available cargo tonne-kilometres in millions		Revenue cargo tonne-kilometres in millions		Cargo load factor in %	
	2012	Change in %	**2012**	Change in %	**2012**	Change in %	**2012**	Change in %	**2012**	Change in %pts
Europe	248	1.2	598	−5.7	692	−14.5	354	−7.2	51.1	4.0
America	1,050	−3.4	520	−10.0	5,484	−3.4	3,774	−6.5	68.8	−2.3
Asia/Pacific	1,064	−16.0	466	−12.2	5,140	−13.0	3,879	−10.4	75.5	2.2
Middle East/Africa	215	−1.4	141	−2.1	1,216	−3.0	720	−3.0	59.2	0.0
Total	**2,577**	**−8.5**	**1,724**	**−8.5**	**12,532**	**−8.2**	**8,727**	**−8.0**	**69.6**	**0.1**

* Not including Extracharter.

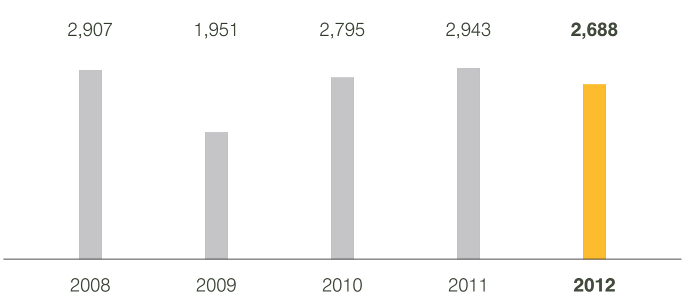
Operating performance

The year 2012 was characterised by a difficult market environment. Freight volumes fell year on year by 8.5 per cent. Restrictive capacity management – capacity was cut year on year by 8.2 per cent – made it possible to improve the load factor marginally to 69.6 per cent (+0.1 percentage points).

The fall in tonnage was steepest in the Asia/Pacific region. Sales there sank by 12.2 per cent. The state of demand ex China did stabilise towards the end of the year, but the situation in other Asian markets simultaneously took a turn for the worse, especially in Japan. Capacity was cut by 13.0 per cent compared with a year ago. As a result, the load factor improved by 2.2 percentage points to 75.5 per cent, the highest of any traffic region.

Freight volumes in the Americas declined year on year by 10.0 per cent. By shifting traffic flows towards South America, sales only fell by 6.5 per cent. Capacity could not be cut to the same extent as in other traffic regions, because it consists mainly of capacities on Lufthansa Passenger Airlines flights, which are beyond the control of Lufthansa Cargo. Capacity was trimmed by 3.4 per cent and the load factor fell by 2.3 percentage points on the year.

Revenue Logistics in €m



Freight volumes within Europe fell by 5.7 per cent. These volumes primarily consist of shuttle services to and from the Americas and Asia/Pacific traffic regions. Sales dropped by 7.2 per cent, but capacity was successfully managed down by 14.5 per cent, which caused the load factor to rise by 4.0 percentage points.

Sales volumes in the Middle East/Africa region fell year on year by 2.1 per cent. Markets stabilised considerably over the second half of the year. Capacity was brought down by 3.0 per cent; the load factor of 59.2 per cent was the same as the previous year.

Strict capacity management meant that price developments were only slightly negative. Faced by a weak market environment, Lufthansa Cargo reported a fall of 0.7 per cent in average yields per tonne-kilometre.

Revenue and earnings development

Declining traffic revenue (–8.6 per cent to EUR 2.6bn) meant that Lufthansa Cargo's revenue for the 2012 financial year dropped by 8.7 per cent year on year to EUR 2.7bn. Other revenue sank to EUR 95m (–9.5 per cent), in particular due to lower income from aircraft charters. Other operating income of EUR 67m was 14.1 per cent lower than the year before, mainly due to a lower foreign exchange result and lower insurance payouts. Total operating income fell to EUR 2.8bn (–8.8 per cent).

Operating expenses Logistics

	2012 in €m	2011 in €m	Change in %
Cost of materials and services	1,953	2,043	–4.4
of which fuel	516	502	2.8
of which fees	284	299	–5.0
of which charter expenses	927	1,023	–9.4
of which MRO services	125	129	–3.1
Staff costs	358	347	3.2
Depreciation and amortisation	58	83	–30.1
Other operating expenses	282	299	–5.7
Total operating expenses	**2,651**	**2,772**	**–4.4**

Operating expenses fell by 4.4 per cent year on year to EUR 2.7bn. This was largely due to the lower volume-related cost of materials and services, which stood at EUR 2.0bn (–4.4 per cent). Within this item, charter expenses came to EUR 927m (–9.4 per cent), charges to EUR 284m (–5.0 per cent) and MRO expenses to EUR 125m (–3.1 per cent). Fuel expenses went up, despite lower transport volumes, to EUR 516m (+2.8 per cent), driven by prices and exchange rates.

Staff costs climbed 3.2 per cent to EUR 358m. Higher basic pay, a slight increase in staff numbers and higher retirement benefit expenses were the main reasons for the increase. The companies in the Logistics segment had an average of 4,609 employees in the reporting period (+0.8 per cent).

Depreciation and amortisation went down by 30.1 per cent to EUR 58m. This was mainly because depreciation of some MD-11 freighters had come to an end.

Other operating expenses contracted by 5.7 per cent to EUR 282m, owing primarily to lower agency commissions.

In the reporting period, the Logistics segment generated an operating result of EUR 104m, which, as expected, was below the previous year's strong figure of EUR 249m.

Other segment income, mainly consisting of write-backs of provisions, came to EUR 10m (previous year: EUR 17m). Other segment expenses remained minor. The segment result was EUR 127m (previous year: EUR 243m). This includes a result from equity investments of EUR 16m (previous year: EUR –22m) from subsidiaries accounted for using the equity method.

Segment capital expenditure went up to EUR 198m in the reporting period (previous year: EUR 76m). The rise was due largely to the down payments for five Boeing 777F aircraft as well as investment in IT applications.

Long-term overview
After the crisis year of 2009, when the operating result fell to EUR –171m, the Logistics segment had two exceptionally strong years for earnings in 2010 (EUR 310m) and 2011 (EUR 249m). Despite a weaker performance in the airfreight business, 2012 again saw an operating result in the three-digit million euro range (EUR 104m).

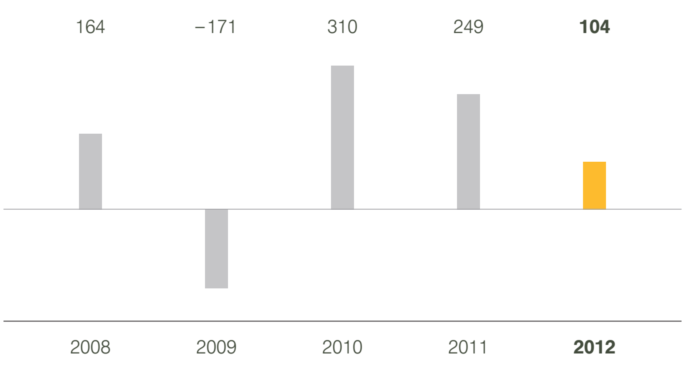
Forecast

Increase in profits expected for 2013
Following the slower course of business last year, Lufthansa Cargo is expecting an upturn on the global airfreight markets in 2013. Demand is projected to recover noticeably and tonnage to start rising again at the latest in the second half of the year. In this market environment, Lufthansa Cargo will continue to pursue its successful strategy of managing capacity in line with demand and so support load factors and average yields. Strict cost management will remain in force and be backed up by the implementation of numerous measures as part of the SCORE programme.

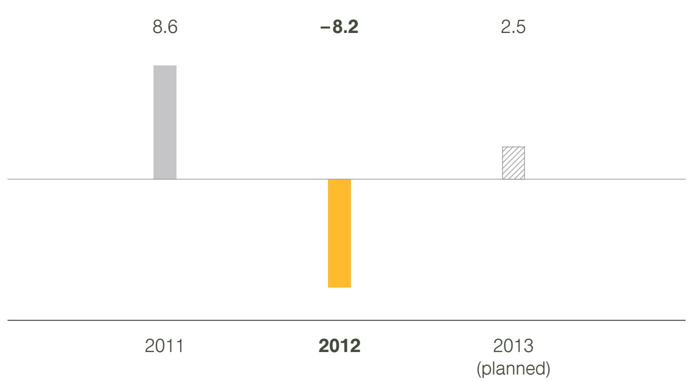
Lufthansa Cargo 2020, the company's own mission statement with which it is positioning itself as the leading global innovator in the airfreight sector, will remain a priority in the new year.

For the financial year 2013, Lufthansa Cargo is again expecting an operating profit in the three-digit million euro range. An increase on the previous year's result is anticipated. On the basis of current forecasts, an increasingly positive business performance is expected for 2014.

Operating result Logistics in €m



Capacity adjustment Logistics in %



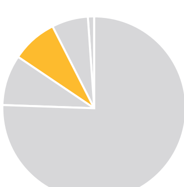
MRO business segment

Revenue | 4.0 €bn |

Operating result | 318 €m |

↗ Lufthansa Technik is the world's leading MRO provider. ↗ Structural adjustments ensure future viability. ↗ The company's presence in North America and in key growth markets is being expanded. ↗ Innovative products form the basis for organic growth. ↗ The operating result went up significantly although revenue was flat. ↗ Improvements to the cost and competitive position ensure future growth.

Share of Group revenue 8.1%



↗ Worldwide leading provider of maintenance, repair and overhaul services

Key figures MRO

		2012	2011	Change in %
Revenue	€m	4,013	4,093	–2.0
of which with companies of the Lufthansa Group	€m	1,584	1,788	–11.4
Operating result	€m	318	257	23.7
Adjusted operating margin	%	8.6	6.9	1.7 pts
Segment result	€m	367	306	19.9
EBITDA*	€m	491	377	30.2
CVA	€m	241	152	58.6
Segment capital expenditure	€m	129	139	–7.2
Employees as of 31.12.	number	20,282	19,975	1.5
Average number of employees	number	20,368	19,822	2.8

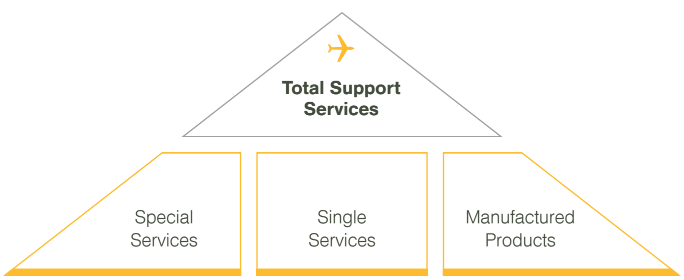
* Before profit/loss transfer from other companies.

Business and strategy

Global market leader in maintenance, repair and overhaul
Lufthansa Technik is the world's leading independent provider of maintenance, repair and overhaul services (MRO) for civil commercial aircraft. The Lufthansa Technik Group includes 33 technical maintenance operations around the world with a total of more than 20,000 employees. The company also holds direct and indirect stakes in 55 companies.

Lufthansa Technik's range of services is provided by six divisions: maintenance, aircraft overhaul, engines, components, aircraft systems and completion and servicing for VIP aircraft. The portfolio consists of a variety of different product structures and combinations, from the repair of individual components to the fully integrated supply of entire fleets. These Total Support service packages guarantee customers full-service treatment, including complete fleet management, making them the company's most popular products. In addition, Lufthansa Technik develops new products and services, thereby enabling airlines to safely introduce new aircraft types into scheduled operations, for example.

Lufthansa Technik product portfolio



Hamburg is the primary location for maintenance operations, with aircraft overhauls, completion of VIP aircraft, engine and component maintenance, the logistics centre, and development and manufacturing operations, and is the headquarters of Lufthansa Technik. The largest maintenance stations are Frankfurt and Munich. There are other stations at all larger German airports and some 50 other sites around the world.

SCORE at Lufthansa Technik was the main point of focus in 2012
Changing market and competitive conditions require structural adjustments to meet the present challenges and secure the company's future viability. As part of the Group programme SCORE, Lufthansa Technik has therefore introduced numerous measures to achieve sustainable earnings improvements. Alongside the already very successful large-scale projects to cut unit costs in engines ("iSave", reduction of up to 20 per cent in production costs) and component maintenance ("KICK15"), these also include steps to boost productivity and income, such as enhanced sales activities ("REV UP") comprising an innovation drive and the optimisation of existing contracts.

Structural changes throughout the whole company are also under examination: the "NETwork" project has analysed all the company's administrative processes and, after some fundamental decision-making, is to make significant reductions in functions that are not directly productive over the period 2013 to 2015. A reduction of 650 jobs in this area has since been decided. Engine overhaul operations in Hamburg were also adapted to the new environment with sharp capacity adjustments and cost reductions. The group of overhaul sites in Europe is also being comprehensively reorganised. In the course of adjusting the portfolio within the Lufthansa Technik Group, a decision was made in 2012 to suspend operations at Lufthansa Technik Qantas Engineering in Melbourne, Australia, and to focus Lufthansa Technik Switzerland in Basel on line and light base maintenance. At the beginning of 2013, a decision was then taken to close the Lufthansa Technik Switzerland plant as of 30 April. Work on repainting entire aircraft at the Hamburg site was also discontinued at the end of May. As a full-line provider, Lufthansa Technik nonetheless continues to offer aircraft painting services via partners and as part of base maintenance at foreign sites in the MRO group.

The company extended its presence in North America, the biggest MRO market in the world, as well as in growth markets such as Eastern Europe and Asia. Lufthansa Technik Component Services in Tulsa, USA, added extensive new workshop and storage space for component supplies in North America. This site also dismantles decommissioned Boeing 737-300s from Lufthansa Passenger Airlines, recycling usable spare parts to the supply pool and generating additional revenue by selling them. Capacities at Lufthansa Technik Philippines were expanded considerably with the opening of the third hangar for wide-bodied aircraft. The extension of Lufthansa Technik Shenzhen in China and the construction of a materials depot in Singapore also ensure that Lufthansa Technik participates in the growth of the Asian MRO market. The growing importance of the Turkish market was reflected by the opening of a sales office in Istanbul. The VIP group further strengthened its relations with aircraft manufacturers – Boeing approved portfolio company BizJet International in Tulsa, USA, as an official completion centre for Boeing business jets and Airbus and Lufthansa Technik extended the scope of their partnership in cabin completions for Airbus corporate jets.

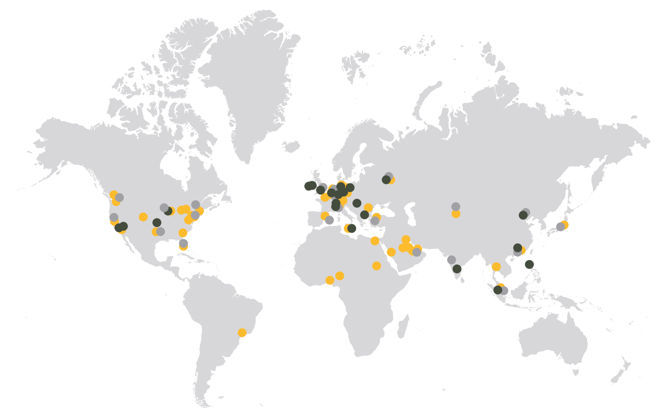
Economic and environmental sustainability are also a priority in the coming years
Lufthansa Technik aims for organic growth in its existing portfolio and strives to develop innovative products to reach new markets and customers. The focus therefore remains on preparing for new aircraft types and technologies, which is assisted by research work, particularly on new repair methods. As part of the Green MRO programme, there are research projects working on multifunctional coatings, a sharkskin structure to enhance airflow over the aircraft, and on environmentally friendly cleaning methods for heat exchangers, for instance. A combined heat and power plant also went into operation at the Lufthansa Technik base in Hamburg. In the spirit of sustainable production, it will enable a quarter of the heating and a third of the electricity required at the site to be generated on location.

Other cornerstones of the company's strategy are to increase its presence in growth markets by expanding the group and to form targeted partnerships with airlines and aircraft manufacturers. Negotiations on wide-ranging programmes of cooperation are currently underway with several external customers. The Lufthansa Group's strategic partnerships are also maintained and developed in order to make better use of synergies. At the same time, this strengthens the company's position against competition from original equipment manufacturers (OEM) such as aircraft, engine and component maufacturers. Even as an independent MRO service provider, partnerships can make sense in some cases in order to gain access to knowledge and licenses or to win and retain business. In addition to the partnerships within the VIP group, cooperation agreements have also been signed with two of the leading engine manufacturers, for instance.

Markets and competition

Airline consolidation also results in consolidation among MRO providers
A total of 37 airlines with 377 aircraft worldwide ceased flight operations in 2012, for a variety of reasons. Ongoing pressure on airline finances – especially in the European market – led to a significantly lower price level for MRO services compared with previous years. Despite growth in global air traffic, overcapacities continue to aggravate competition for MRO services. An incipient market consolidation became visible last year when the Canadian MRO provider Aveos ceased operations in March 2012, laying off 2,400 employees. Finnair decided to close its own MRO activities and American Airlines announced the loss of more than 1,700 jobs at its MRO sites in the USA. At the same time, capacities were added – especially in Asia – so that the overall market for MRO services grew at a lower price level in 2012.

Locations Lufthansa Technik



Lufthansa Technik's main competitors include aircraft, engine and component OEMs such as General Electric, the MRO businesses of other airlines, such as Air France Industries, and other independent suppliers like SR Technics. OEMs are increasingly moving into the MRO market: component and engine manufacturers see it as an addition to their business activities due to the high development costs and low share of income from aircraft sales. Aircraft manufacturers (including Boeing and Airbus) also see it as a lucrative, completely new business segment. As a result, they impede the MRO suppliers' access to intellectual property and only license it restrictedly or at very high prices. These trends exacerbate competition and price pressure in the MRO market and are therefore the main challenges for Lufthansa Technik. Lufthansa Technik was unable to expand its market position, because revenue declined slightly, especially in modifications and engine overhauls. The company nevertheless remains global market leader among independent MRO providers – its comprehensive and modern product portfolio covers around 80 per cent of the market volume.

Sales and customers

Revenue share is expanded in Asia
Lufthansa Technik has over 730 customers around the world, mostly airlines and aircraft leasing companies, but also operators of VIP jets and public-sector clients. The company's most important sales market is still Europe, including the CIS states. This region accounted for 68 per cent of revenue, slightly less than a year ago. The share of the Americas region was expanded to 11 per cent. Due to the still unstable situation there, the revenue share for the Middle East and Africa region fell slightly to just under 6 per cent. The Asia/Pacific growth region accounted for 15 per cent of total revenue, representing an increase compared with the previous year.

Lufthansa Technik markets the majority of its products and services via a centralised sales organisation, which is present in all major locations via regional sales offices. This is supplemented by decentralised sales activities for specific products, which in some cases have a regional focus. These products are primarily sold by the respective divisions and subsidiaries, which have cultivated a direct access to their customers and markets over many years. Account management for existing customers is decentralised, with further regional differentiation in some cases. Lufthansa Technik stays in close touch with its customers by means of regular visits, its customer portal that offers a wide range of information and also enables services to be ordered under existing contracts, and various print media. These instruments are supplemented by opportunities for discussion at trade fairs and regular customer surveys. For many years, these activities have helped to retain Lufthansa Technik's largest and most important customers in the long term.

Course of business

513 new contracts were signed

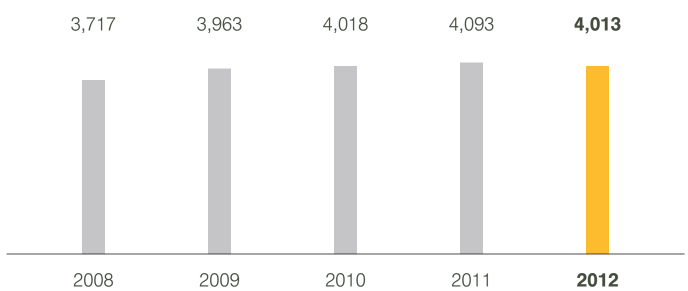
Altogether, Lufthansa Technik was able to close the full year 2012 with a contract value of EUR 484m from 513 new contracts and 45 new customers. In the period under review, 2,249 aircraft were serviced exclusively under existing contracts (+5.8 per cent). The major contract wins included Total Component Supply packages (TCS) for Scandinavian Airlines (SAS) with around 140 aircraft and for Ethiopian Airlines' fleet of Boeing 787s. Other TCS contracts were signed with SriLankan Airlines, Airbus (Beluga fleet), GoAirlines from India and the Mexican low-cost airline Volaris. Other product segments also achieved notable sales successes: a six-year engine overhaul contract was signed for Air Canada's Airbus A320 fleet, as well as a maintenance contract with Virgin Atlantic (C checks for B747-400s) and a five-year Total Base Maintenance contract with Norwegian Air Shuttle. Various additions to the scope of services were agreed with long-standing customer Aeroflot – regarding both additional aircraft and new models such as the B777, as well as whole new ranges of services. Agreements were also signed with Airbus on extensive modification work to be carried out from 2013 onwards on the A380 fleets operated by various customers.

2012 was the year of the new Jumbo Jet

In addition to the successful launch of maintenance services for the new Boeing 787 model, where Japanese Airlines, the first customer, was followed by Ethiopian Airlines in 2012, the year was also defined by the new Boeing 747-8i. The introduction of the new "Jumbo" into scheduled services at Lufthansa Passenger Airlines went off without a hitch, not least thanks to extensive early preparation work and the numerous experiences garnered from the successful introduction of the Airbus A380 the year before.

Four B747-8i's are now being serviced by the Lufthansa Technik maintenance division. In September, work started in Hamburg on the world's first VIP completion of a B747-8i for a private client. By mid 2014, the aircraft will be fitted with a VIP cabin featuring the highest levels of design and technology. In December, another B747-8i was received in Hamburg – again with an order for the VIP completion. Other refits, to Business and First Class, for instance, were carried out for Lufthansa Passenger Airlines and the installation of FlyNet (internet on board) was pushed forward following the successful completion of the installation of the new Europa cabin.

Revenue MRO in €m



Revenue and earnings development

Despite flat revenue, the result improves considerably on the year

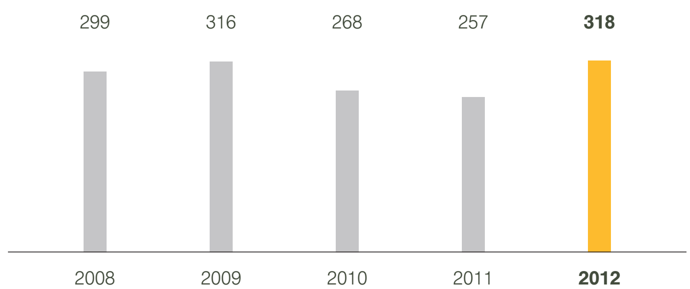
Revenue came to around EUR 4.0bn (EUR –80m) in 2012. Revenue with Group companies fell by 11.4 per cent to EUR 1.6bn due to the sale of bmi and a high-revenue modification programme in the previous year (including the new Europa cabin). At the same time, external revenue rose by 5.4 per cent to EUR 2.4bn. Overall, external revenue as a proportion of total revenue went up sharply to 61 per cent (+5 percentage points). Revenue growth in component maintenance and the VIP segment was offset by customer insolvencies, lower demand in the engines unit and the portfolio disposals. Other operating income of EUR 224m (–3.4 per cent) was roughly the same as in the previous year. All in all, the MRO segment reported operating income of EUR 4.2bn (–2.0 per cent).

Total operating expenses fell to EUR 3.9bn (–3.7 per cent). The cost of materials and services declined sharply by 7.4 per cent to EUR 2.0bn, largely as a result of less modification work and lower demand for engine overhauls, accompanied by a corresponding reduction in the quantity of materials and external services required.

Operating expenses MRO

	2012 in €m	2011 in €m	Change in %
Cost of materials and services	1,966	2,123	–7.4
of which raw materials, consumables and supplies	1,251	1,389	–9.9
of which external services	561	644	–12.9
Staff costs	1,237	1,095	13.0
Depreciation and amortisation	101	90	12.2
Other operating expenses	615	760	–19.1
Total operating expenses	**3,919**	**4,068**	**–3.7**

Operating result MRO in €m



Depreciation and amortisation was EUR 11m higher than in the previous year at EUR 101m. Other operating expenses fell by 19.1 per cent to EUR 615m due to currency movements and the previous year's provisions in connection with long-term contracts.

The average number of employees went up by 2.8 per cent to 20,368, as two entities joined the group of consolidated companies at year-end and temporary employees were put on permanent contracts as agreed in the wage settlement, which has since resulted in a total increase of 260 employees. More than 250 staff members switched to the leisure phase of their partial retirement arrangements or retired completely, whereas around 100 school-leavers began their apprenticeship at Lufthansa Technik. In combination with a wage increase in place since the start of the year, higher pension provisions and additional partial retirement agreements (now an option for administrative staff), this drove up staff costs to EUR 1.2bn (+13.0 per cent). Nonetheless, the workforce was reduced in particular in plants where restructuring is currently underway or has been recently completed, in order to secure their long-term competitiveness or to discontinue certain services. They include Lufthansa Technik Qantas Engineering and Lufthansa Technik Switzerland, but also the engine and repainting units within Lufthansa Technik AG.

In total, Lufthansa Technik generated an operating profit of EUR 318m (+23.7 per cent), a significant improvement on the previous year. Other segment income rose to EUR 37m (+23.3 per cent). The contribution from the equity investments consolidated using the equity method fell to EUR 15m (EUR –6m), mainly because of a change in the dividend policy and a corresponding write-down at Belac, and in spite of a good performance by Heico and N3. Overall, this added up to a segment result of EUR 367m (+19.9 per cent).

Segment capital expenditure dropped to EUR 129m (EUR –10m). Key investments were the purchase of reserve engines at LTAIL to expand the Group fleets as well as infrastructure investments. An investment was also made to acquire the Air Canada engine supply contract from insolvent competitor Aveos.

Forecast

Emerging from the market consolidation stronger with SCORE
In view of global fleet expansion, the MRO industry expects medium-term growth of around 4 per cent per year, with regional differences. The rising number of competitors aggressively targeting the marketplace and the ensuing capacity expansion means that higher demand is met by a much greater supply of MRO services. The market consolidation that has already begun is therefore likely to continue.

Lufthansa Technik is stepping up to this increased competition, accompanied by extremely high price sensitivity on the part of customers, and intends to create the conditions for further growth by improving its cost base and competitive position. The Group's SCORE programme forms an integral part of the company and its cost-saving activities are well established. Lufthansa Technik has a strong, stable position in the market. The company derives its operational expertise from direct experience of airline operations and a comprehensive and innovative product portfolio featuring the latest repair methods. Lufthansa Technik also relies on the breadth of its services – from one-off repairs through to total technical support, also for new aircraft models – and its unique selling points, such as quality, turnaround time and punctuality as well as the global presence of its group network. The successful implementation of the SCORE projects is reinforcing and building on this market position, so that Lufthansa Technik will emerge stronger from the consolidation in the MRO market. On the basis of current economic forecasts, Lufthansa Technik is expecting a moderate increase in revenue in both 2013 and 2014. Earnings are expected to be stable in 2013 and improve in 2014.

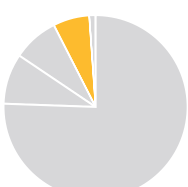
Catering business segment

Revenue | 2.5 €bn |

Operating result | 97 €m |

↗ LSG Sky Chefs continues to expand its product portfolio around airline catering. ↗ The focus is on expansion and cost management. ↗ The productivity of LSG Sky Chefs is being improved continously. ↗ Revenue and result up again in a difficult market environment. ↗ Profitable growth set to continue.

Share of Group revenue 6.4%



↗ Global market leader in airline catering

Key figures Catering

		2012	2011	Change in %
Revenue	€m	2,503	2,299	8.9
of which with companies of the Lufthansa Group	€m	570	561	1.6
Operating result	€m	97	85	14.1
Adjusted operating margin	%	3.9	3.7	0.2 pts
Segment result	€m	127	97	30.9
EBITDA*	€m	214	147	45.6
CVA	€m	39	–25	
Segment capital expenditure	€m	46	74	–37.8
Employees as of 31.12.	number	30,088	29,586	1.7
Average number of employees	number	30,007	29,226	2.7

* Before profit/loss transfer from other companies.

Business and strategy

Leading airline caterer expands its portfolio
With a global market share of 27 per cent, the LSG Sky Chefs Group maintains its leading position in the market for airline catering. In addition, the company has added considerably to its product and sector portfolio over recent years, in order to use the skills acquired in its core business to enter adjacent markets and to make up for the cyclical fluctuations in the airline business. Its diversification has focused on expanding the equipment management business and entering new markets such as railway catering or supplying retail chains.

In geographical terms, the company has a strong presence in its home markets of Germany and the USA. In the growth regions of Latin America, Africa, Asia and Eastern Europe, it continues to extend its network via partnerships and management contracts. As of the reporting date, the group consisted of 151 companies and supplied its customers at 207 airports in 52 countries. The parent company for the group, LSG Lufthansa Service Holding AG, is based in Neu-Isenburg. LSG Sky Chefs can look back on more than 70 years of experience in its core airline catering business.

The company is managed by a four-member Executive Board. The airline catering activities are divided into six regions in order to satisfy the very different challenges in terms of market maturity, trends in demand, opportunities for expansion and the need for restructuring. Depending on their origin, the centres of excellence for additional activities in equipment management and logistics and for opening up neighbouring markets are either centralised or located in one region from where they provide support worldwide.

The group's aim is to increase market share and profitability in equal measure. The focus is therefore on expansion and cost management. The expansion drive includes entering additional, high-potential, national airline catering markets, adding more complementary products and services to the portfolio and realising potential in adjacent markets. These activities are largely carried out via partnerships, in order to gain market and product expertise or local market knowledge and contacts. Cost management also covers continual improvements by streamlining and standardising processes in production and administration, cutting materials and staff costs and establishing new business models closely aligned with customer needs.

Locations Catering

Markets and competition

LSG Sky Chefs has a strong presence on all continents.
LSG Sky Chefs believes that the long-term trend towards growth in passenger numbers in the airline industry will continue. Nonetheless, low-cost airlines are growing faster than the market, especially in Europe. This will have an impact on the service structure, because "buy on board" and generating additional income will become more important. At a global level, the service concept within the airline industry will not be trimmed any further for competition reasons. In the growth regions of Asia, Latin America, Africa and the Middle East, an increasing focus on inflight service can be observed as an important differentiating factor.

LSG Sky Chefs has its own local production facilities in many key sales markets and also operates important joint ventures, particularly in Latin America, China, the UK, Russia and Switzerland. There is only one competitor with a similar global presence. In addition, there is a limited number of providers with sites in just a few regions or pan-regional sites, but these are increasingly expanding and growing via consolidation. New providers from the logistics industry are also entering the market. In America and Europe, market share for LSG Sky Chefs is between 35 and around 40 per cent, according to the company's own calculations. In Asia, LSG Sky Chefs still holds the leading position as an independent supplier. In Africa, the company is systematically developing its market presence.

Sales and customers

Customer relations are to be strengthened and developed
LSG Sky Chefs is the caterer for nearly all international airlines as well as numerous national and regional carriers. The business relationships with around 300 key accounts differ in terms of scope and duration. LSG Sky Chefs supplies its largest customers from its network at their hubs and at many other sites.

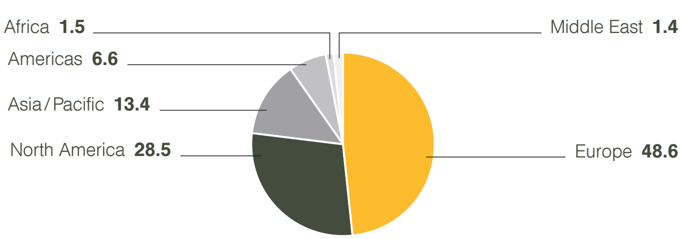
The central sales team is responsible for devising the global sales strategy and implementing it in close coordination with the regions. The aim here is to strengthen existing customer relationships and to grow with emerging airlines as they expand their networks.

The sales teams in the six airline catering regions are made up of key account managers, who serve one or more customers based in the region, depending on the scope of the respective contracts.

Services that go beyond airline catering, such as the development, procurement and logistics of inflight service equipment, are increasingly being marketed internationally by the global centres of excellence in cooperation with the regional teams.

Specific sector expertise is required to serve customers in adjacent markets and to exploit new opportunities and this is therefore carried out by centres of excellence, which are staffed by the necessary experts.

Catering revenue by region in %



Course of business

LSK Sky Chefs increases revenue in a difficult environment
Global demand for catering services rose again in 2012, despite slower economic growth. LSG Sky Chefs was able to increase airline catering revenue compared with the previous year in every region.

Key customer contracts were renewed and expanded in 2012, despite severe market pressure. They include, in particular, the global contracts with the North American carriers American Airlines, United Airlines, US Airways and Alaska Airlines, as well as the renewal with Thomson Airways at 21 airports in the UK and Ireland and the renewal with Alitalia at its hub in Rome. It was also possible to intensify the relationships with the rapidly growing airlines from the Middle East. However, the company's long-standing contracts with Virgin Atlantic in the UK and TUIfly in Germany expired within the period prescribed at the end of May and the end of October respectively.

LSG Sky Chefs signed an agreement with Finnair to manage its catering activities at the airline's hub in Helsinki, which came into effect on 1 August 2012. A joint venture with Alpha Flight Group in the UK was established as of 1 October. As part of the long-term joint venture with Aeroflot, known as Aeromar, the company entered the market in St. Petersburg at the beginning of the year 2012, with Vladivostok following in November.

In the summer, LSG Sky Chefs opened three new joint venture facilities in Luanda, at the new Chinese airport in Kunming and in Vilnius. At Novosibirsk in Russia, the company signed a joint venture agreement with the airport operator Novaport.

The business with retail chains in the USA grew by developing existing customer relationships and by acquiring new clients such as CVS, Hess, Coremark and Walgreens. The "Fine Choice" brand, created for retail activities, was presented to the public for the first time at the trade fair of the National Association of Convenience Stores. In September 2012, the company also attended Innotrans, the leading trade fair for transport technology, and presented its innovative range of products and services for the latest generation of high-speed trains.

Steady improvements in productivity
The company's productivity is being improved step by step as part of the internal "SCORE – Upgrade for Performance" project. At the same time, this assures the company's contribution to the Lufthansa Group's SCORE programme. The project focuses on continuing the excellence initiatives launched in previous years in procurement, operations and sales, as well as on new initiatives in product engineering. Structural weaknesses are also being eliminated by standardising and optimising processes, adapting the site network and agreeing on competitive wage structures.

In the USA, a wage agreement for around 8,000 employees and valid until spring 2015 was signed in January 2012. A pay freeze until the end of January 2013 was agreed at the beginning of the financial year 2012 with the approximately 6,000 employees in Germany. The negotiations with the trade union ver.di to establish sustainably competitive staff cost structures in Germany are ongoing. LSG Sky Chefs is extremely confident of being able to reach a solution by the end of March 2013. A settlement of interests to reduce capacity was signed for the facilities in Nuremberg, Cologne and Stuttgart in the course of restructuring the German site network. The site in Nuremberg will be closed as of 31 March 2013.

The processes and products developed by LSG Sky Chefs all acknowledge increasing environmental awareness and are well received by customers and the general public alike. The product design of the Transaero Economy Class "Slot" tray series won the "iF Design Award". For the second time in a row, the company was presented with the "Global Travel Catering Distinction Award" by a leading trade publication in recognition of its outstanding product and service performance. Following its launch on Lufthansa Passenger Airlines long-haul routes, the lightweight Quantum trolley, which was honoured with an award back in 2010, has also been deployed on the Condor route network since mid August. The Frankfurt International facility won the "Energy Award 2012" from Fraport for an enormous 25 per cent reduction in the consumption of energy and water.

In March 2012, LSG Sky Chefs demonstrated its integrated approach to sustainability in front of an audience of trade professionals from the airline industry, presenting its numerous products and services at the World Travel Catering and Onboard Services Expo, which was being held for the first time.

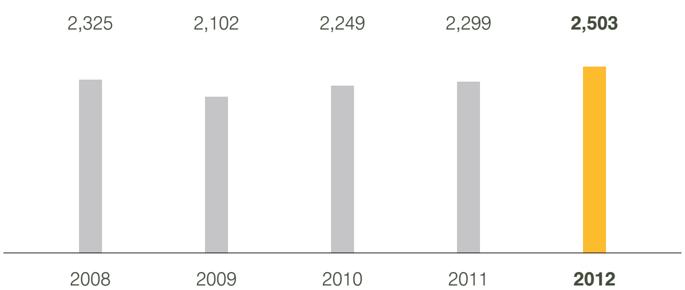
Revenue and earnings development

Revenue up significantly by 8.9 per cent
The Catering segment was able to increase its revenue substantially in 2012. It rose year on year by 8.9 per cent (adjusted for exchange rates: +4.4 per cent) to EUR 2.5bn. External revenue climbed to EUR 1.9bn (+11.2 per cent), while internal revenue increased by just 1.6 per cent to EUR 570m. Changes in the group of consolidated companies contributed EUR 41m to the revenue growth.

Other operating income was EUR 52m up on the previous year at EUR 110m. The positive trend is principally due to the early termination of a lease in the USA and to reimbursements by the Group parent company as part of the SCORE programme.

Overall, total operating income went up by 10.9 per cent to EUR 2.6bn.

Revenue Catering in €m



Operating expenses increase by less than revenue
Total operating expenses rose by 10.7 per cent year on year, which was less than revenue, to EUR 2.5bn. The cost of materials and services amounted to EUR 1.1bn (+9.1 per cent) in the reporting period. Notwithstanding higher food prices, the cost of materials ratio remained stable at 44.9 per cent compared with the previous year's figure of 44.8 per cent.

Operating expenses Catering

	2012 in €m	2011 in €m	Change in %
Cost of materials and services	1,124	1,030	9.1
Staff costs	918	799	14.9
Depreciation and amortisation	65	58	12.1
Other operating expenses	409	385	6.2
Total operating expenses	**2,516**	**2,272**	**10.7**

In the financial year 2012, the LSG Sky Chefs Group had an average of 30,007 employees, 2.7 per cent more than in 2011. Exchange rate movements, restructuring expenses as part of the SCORE programme, changes in the group of consolidated companies and one-off wage payments in the USA lifted total staff costs by 14.9 per cent to EUR 918m. Depreciation and amortisation went up by 12.1 per cent to EUR 65m, mainly as a result of greater capital expenditure in 2011.

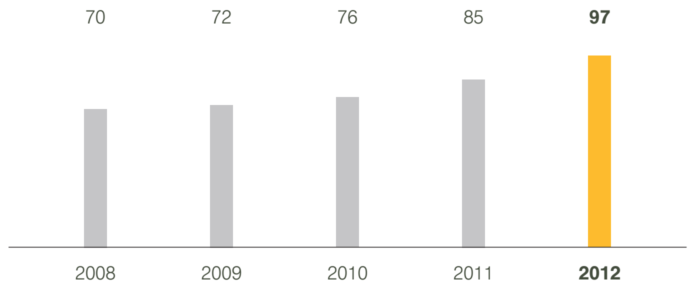
Other operating expenses rose to EUR 409m (+6.2 per cent) due mainly to the higher volume of business.

Operating result 14.1 per cent higher

The operating profit for the LSG Sky Chefs Group outpaced revenue growth, climbing 14.1 per cent to EUR 97m (previous year: EUR 85m).

In 2012, the balance of other segment income and expenses was EUR 16m, EUR 18m above last year's figure. The reason for this increase was primarily income in connection with contributing operations to a joint venture in the UK. On the other hand, impairment losses on assets were also incurred in 2012. The result of the equity valuation was stable year on year at EUR 14m. The segment result for LSG Sky Chefs was EUR 127m altogether (previous year: EUR 97m). Segment capital expenditure was EUR 28m down on the previous year at EUR 46m.

Operating result Catering in €m



Long-term overview again demonstrates the company's positive performance

In recent years, LSG Sky Chefs has been able to steadily increase its revenue and operating profit despite difficult conditions, especially in Europe, and extremely tough competition around the world. A successful standardisation of processes has made the company much more flexible. Despite the freeze on investment, the entry into new markets also continued successfully by means of innovative business models.

Forecast

Revenue and profit expected to keep improving

LSG Sky Chefs is only expecting modest growth in its core business for the financial year 2013. It nonetheless intends to keep building on its position in neighbouring markets.

The company will intensify its innovative and sustainable approach to airline catering in order to generate additional customer value and thus to enhance existing customer relationships and win new clients. At the same time, LSG Sky Chefs will continue to differentiate itself by means of its leading quality claim. Activities in adjacent markets are to be developed in order to grow further and to balance the fluctuations in the airline business. The internal programme to manage costs by standardising and optimising processes and business models remains a key focus area.

For 2013 and 2014, LSG Sky Chefs is expecting further increases in revenue and operating profit.

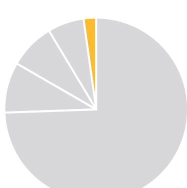
IT Services business segment

Revenue | 609 €m |

Operating result | 21 €m |

↗ Lufthansa Systems is the leading global IT provider in the airline industry. ↗ Innovative products and services cover future market demands. ↗ Revenue and result increased in 2012. ↗ Numerous new orders form a good basis for future profitable growth. ↗ Sustainable cost reductions will further improve profitability.

Share of Group revenue 0.9%



↗ Leading IT service provider for the air transport industry

Key figures IT Services

		2012	2011	Change in %
Revenue	€m	609	599	1.7
of which with companies of the Lufthansa Group	€m	353	369	–4.3
Operating result	€m	21	19	10.5
Adjusted operating margin	%	3.6	4.0	–0.4 pts
Segment result	€m	20	21	–4.8
EBITDA*	€m	76	58	31.0
CVA	€m	7	23	–69.6
Segment capital expenditure	€m	24	55	–56.4
Employees as of 31.12.	number	2,766	2,820	–1.9
Average number of employees	number	2,777	2,855	–2.7

* Before profit/loss transfer from other companies.

Business and strategy

Leading IT service provider for the airline industry
Lufthansa Systems offers consultancy and IT services for selected industries and is a global leader in the airline industry. Other important sectors are transport and logistics, industry, media and publishing, energy, healthcare and tourism. Its customer base includes around 300 airlines around the world and more than 150 companies from other sectors, of which a large number have worked with Lufthansa Systems for many years.

Lufthansa Systems has sites in Germany and 16 other countries. This ensures proximity to the customer and rapid reaction times, which are vital for a global IT service provider. An international production base boosts the company's competitiveness. This includes a global network of proprietary data centres in Kelsterbach, London, Dallas and Singapore. The data centre in Kelsterbach is one of the most modern and powerful in Europe. The company provides its services in a customer-oriented structure made up of the profit centres Lufthansa Group Airline Solutions, Lufthansa Infrastructure, Airline Solutions and Industry Solutions. The Infrastructure Services division performs all infrastructure services and is managed as a cost centre.

Lufthansa Systems covers the full range of IT services
As a full-service provider, Lufthansa Systems offers its customers the complete range of IT services – from consultancy via the development and implementation of custom-built applications through to systems operations in its own data centres. The principle behind all the services and IT solutions is that they have to give the client direct added value in the form of more efficient business processes, cost reduction or higher yields.

Lufthansa Systems combines its understanding of complex business processes, in-depth technology expertise and long lasting experience in managing IT projects of all sizes, right through to complex outsourcing assignments.

Innovation management is a core element of Lufthansa Systems' corporate strategy. The company is a pioneer in the field of virtualisation and cloud computing via its own data centres and offers its customers solutions in both these areas. Mobile technologies also play a vital role, such as in the area of inflight entertainment for example.

Locations Lufthansa Systems

In the airline industry, Lufthansa Systems offers a unique combination of comprehensive airline knowledge with profound IT expertise. Lufthansa Systems is the only provider whose solutions cover all of an airline's business processes.

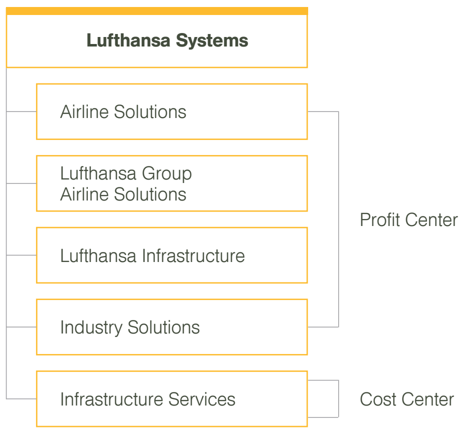
Markets and competition

The trend towards mobile solutions requires innovation
The market for IT services in the airline industry was relatively stable in 2012 with a volume of around USD 8bn compared with the previous year. Airlines' top priorities remain improving customer service, opening up new revenue streams and cutting costs. The introduction of mobile solutions is another area of focus. With its portfolio of products and services, Lufthansa Systems is successfully addressing these priorities with its product and service portfolio.

In the Europe and Middle East/Africa regions, Lufthansa Systems has a market share of 30 per cent of outsourced airline IT services. In Asia/Pacific and America, the market share is 3 per cent respectively. With products like the Lido/Flight flight planning solution, Lufthansa Systems is also a leader in specific segments of the market.

Competitors in the airline IT market include Sabre Airline Solutions, Amadeus, HP, SITA and Jeppesen. However, Lufthansa Systems is the only provider with a comprehensive product and infrastructure portfolio that covers all of an airline's central processes. In the area of inflight entertainment, the company's wireless BoardConnect solution has made it the leading innovator.

Organisational structure of Lufthansa Systems



Sales and customers

Long-standing customer relationships prove IT expertise
The customer base at Lufthansa Systems is growing steadily. In the airline sector, it covers network carriers, low-cost airlines and regional airlines. Other customers are broadly diversified by sector.

Lufthansa Systems has been working with many of its clients for a long time, in some cases since the mid 1990s. This underlines how Lufthansa Systems' proximity to its customers enables the company to identify their changing needs and to satisfy them by developing innovative solutions.

Four regional management units are responsible for airline customers: Europe, Middle East/Africa, Asia/Pacific and America. Their remit covers the entire account and service management as well as sales. The airlines in the Lufthansa Group are served by the Lufthansa Group Airline Solutions and Lufthansa Infrastructure profit centres.

The Industry Solutions area has also organised its sales on the basis of key account management. This brings its structure into line with the other sectors, such as transport and logistics, industry, media and publishing, energy, healthcare and tourism. It ensures that customers are served by industry specialists with extremely good knowledge of both the business and the relevant IT applications.

Course of business

Many new contracts signed and existing ones renewed
The many contracts signed with new and existing customers within and outside of the Lufthansa Group are evidence of Lufthansa Systems' competitiveness. This applies all the more as the environment in every business unit was characterised by ongoing economic uncertainty. The airlines' willingness to invest is particularly hard hit by current market developments. There are, however, initial signs that the market is recovering, which benefits Lufthansa Systems as well.

Lufthansa Passenger Airlines, Lufthansa Cargo and Star Alliance renewed contracts for operating their global data networks on the basis of the SkyConnect product. Malaysia Airlines was another customer acquired for this product. The SkyConnect managed WAN solution provides a secure and cost-effective exchange of data and now connects more than 2,100 sites around the world.

Air France-KLM and Ryanair were two important new client wins for the Lido/Flight flight planning solution. Singapore Airlines renewed its existing contract for another eight years. The low-cost airline Ryanair renewed its contracts for the NetLine/Sched, NetLine/Ops and NetLine/Crew planning systems for another ten years. Egyptair chose the NetLine/Plan solution for its network planning in order to increase income from its route network. Condor is the first airline in the world to adopt the new Revenue Integrity solution from Lufthansa Systems. The system cleans up bookings and can therefore increase airline income significantly. Numerous new clients were acquired for myIDTravel, too. The integrated solution for staff travel is already used by more than 160 airlines around the world and is increasingly becoming an industry standard.

The Eurowings regional airline entrusted Lufthansa Systems with the operation of crucial IT applications as well as the management and hosting of SAP applications for the next five years. The migration from Eurowings' own data centre to the data centre in Kelsterbach was completed in just five months. Lufthansa CityLine began making its rostering even more efficient with the new crew optimisers from Lufthansa Systems.

The introduction of the new deskBase workplace model continued at the Lufthansa Group. deskBase is a virtualisation solution for IT workplaces. At its heart is the desktop workplace provided via a browser-based portal, which is hosted centrally. Employees can access all applications and data irrespective of their location and the device they are using.

In the Industry Solutions area, Lufthansa Systems signed advisory contracts with Volkswagen and is taking over the operation of all business-critical credit card handling processes for the travel management specialist AirPlus. The Hamburg Port Authority appointed Lufthansa Systems to carry out additional service work as part of the major ongoing project to modernise the IT of the port railway. Lufthansa Systems is providing extensive consultancy and development services to get the port rail operations fit for the future with increased throughput and limited capacities.

At the HITEC hotel trade fair in Baltimore, Lufthansa Systems presented its Guest Service Portal, the first fully integrated entertainment and business intelligence platform for the hospitality industry. It was developed on the basis of the established iTV solution from Lufthansa Systems. The Guest Service Portal makes travel more convenient, eases communication between guests and service staff during the entire journey and increases the efficiency of service processes. A well-known cruise shipping company was acquired as a customer within the first few months. The Hurtigruten shipping line from Norway is to equip twelve of its ships with the solution.

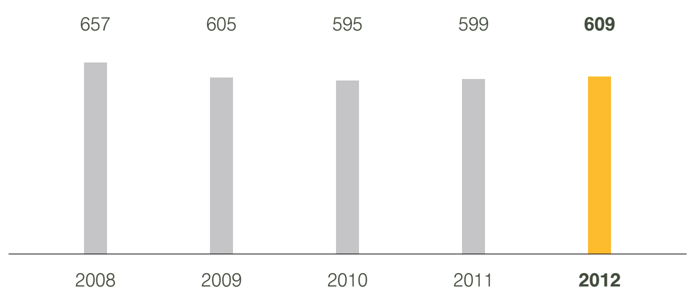
The BoardConnect wireless inflight entertainment solution received two renowned international awards. Lufthansa Systems was presented with the "Crystal Cabin Award" at the Aircraft Interiors Expo in Hamburg. And in September, the product picked up the much sought-after "Avion Award" for the "Best Single Achievement in Passenger Experience (Vendor)" at the Apex Expo in Long Beach. Last year, BoardConnect went into operation at Condor, its first customer. Lufthansa and Virgin Australia are currently carrying out test flights with the new system.

Revenue and earnings development

Revenue develops well

In the reporting year, Lufthansa Systems generated revenue of EUR 609m (previous year: EUR 599m). Although revenue from Lufthansa Group companies continued its fall to EUR 353m (–4.3 per cent), revenue from external customers rose sharply to EUR 256m (previous year: EUR 230m).

Revenue IT Services in €m



Other operating income came to EUR 19m (+5.6 per cent). This includes compensation payments of EUR 8m from Deutsche Lufthansa AG for restructuring expenses in connection with the Group programme SCORE.

Total operating income increased to EUR 628m (+1.8 per cent).

The cost of materials and services rose along with revenue to EUR 98m (previous year: EUR 84m). This stemmed mainly from transferring contracts and the corresponding costs from the Lufthansa Systems subsidiary FlightNav to Lufthansa Systems AG.

The number of employees fell in the reporting year. On average over the year, Lufthansa Systems had 2,777 employees, 2.7 per cent fewer than the year before. Staff costs rose year on year by 5.2 per cent to EUR 241m. The increase results primarily from one-off expenses in connection with the SCORE programme. These one-off expenses were paid by Deutsche Lufthansa AG and are presented under other operating income.

Operating expenses IT Services

	2012 in €m	2011 in €m	Change in %
Cost of materials and services	98	84	16.7
Staff costs	241	229	5.2
Depreciation and amortisation	37	34	8.8
Other operating expenses	231	251	−8.0
of which external staff	59	59	0.0
of which rent/maintenance of IT	130	104	25.0
Total operating expenses	**607**	**598**	**1.5**

Depreciation and amortisation came to EUR 37m (+8.8 per cent).

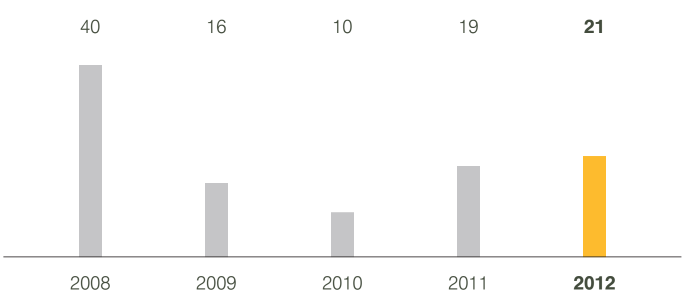
Operating expenses up slightly

Other operating expenses fell by EUR 20m to EUR 231m. The main change comes from the use of new technologies in the infrastructure division and affiliated the savings.

Total operating expenses came to EUR 607m (+1.5 per cent).

This boosted the operating result by 10.5 per cent to EUR 21m. In the reporting year, Lufthansa Systems invested EUR 24m in property, plant and equipment and intangible assets, essentially to safeguard existing business (previous year: EUR 55m). The substantial change results from the realignment of a subsidiary's business model and the corresponding transfer of assets that took place the previous year.

Operating result IT Services in €m



Long-term overview reflects successful restructuring

As in recent years, Lufthansa Systems again reported modest but unbroken revenue growth in the period under review. Systematic restructuring and the implementation of steps to improve earnings also prolonged the positive trend in the operating result.

Forecast

Renewed increase in revenue and profits expected

Despite the tense macroeconomic situation, the expectation is that the IT industry will at least be able to keep its revenue stable in 2013. Although growth in the airline industry is expected to fall again compared with 2012 and price pressure remains high, additional orders are predicted. Despite this, the intense competition in the airline IT industry is tightened by the number of airlines resigning from the market and mergers, thereby reducing the base of potential clients.

In this market, which is characterised by price pressure and difficult growth prospects, Lufthansa Systems again signed contracts with a high total volume of EUR 649m in 2012, thereby providing the basis for profitable growth in the years ahead. The activities in the Jetzt! restructuring project and the changes initiated as part of the Group SCORE programme will also contribute to improving the company's competitiveness and profitability by means of sustainable cost reductions.

Revenue growth and further increases in profitability are therefore expected for 2013 and 2014.

Other

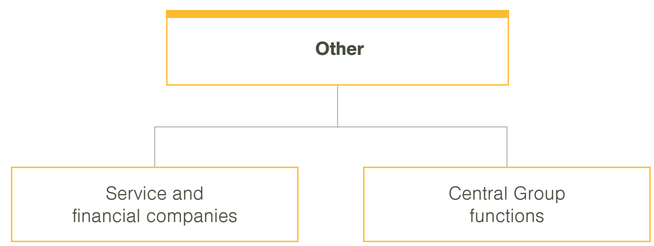
↗ AirPlus again increased income and operating profit in a growing business travel market. ↗ Revenue for Lufthansa Flight Training remained high. ↗ New, lean structures and optimised processes strengthen business at Lufthansa Flight Training. ↗ Group functions delivered a lower earnings contribution. ↗ Decline in segment revenue and result.

Other

	2012 in €m	2011 in €m	Change in %
Total operating income	1,310	1,354	–3.2
Operating result	–263	–92	–185.9
Segment result	–248	–123	–101.6
EBITDA*	507	51	
Segment capital expenditure	21	30	–30.0
Employees as of 31.12.	3,979	3,999	–0.5
Average number of employees	4,033	3,914	3.0

* Before profit/loss transfer from other companies.

Structure Other



The segment Other consists of the service and financial companies and the Group functions

The segment Other consists of the service and financial companies in which the Lufthansa Group's financial and service activities are pooled. These include AirPlus and Lufthansa Flight Training among others. The central Group functions are also part of the segment Other.

AirPlus continues successful expansion

AirPlus is one of the leading worldwide providers of solutions for business travel payment and analysis. Under the AirPlus International brand, the company supplies its clients with tailored products and integrated solutions with which they can make their everyday travel management more efficient and cost-effective. AirPlus enables its customers to achieve full company-wide transparency on all business travel expenses and to meet all the conditions for effective control of travel expenses.

The company is headquartered in Neu-Isenburg. AirPlus also has offices and subsidiaries in more than 25 countries around the world. In the reporting year, over 40,000 corporate customers were served by more than 1,000 employees worldwide.

The year 2012 began with a sharp increase in business travel compared with the record year of 2011: in the first half-year, the number of business trips was up 9.8 per cent on the same period in the previous year. Over the course of the third quarter, companies worldwide became much more restrictive with their travel, however, leading to a halving of the growth rate by the end of the year. Overall, the number of business trips worldwide in the reporting period was 7.4 per cent up on the previous year.

The performance indicators also continued to improve. Operating income was 2.7 per cent up on the year and the operating result soared by 24.1 per cent to EUR 34.7m.

AirPlus continued to pursue its course of international expansion in 2012, which included a strategic partnership with JP Morgan Chase. This partnership aims to support multinational companies in optimising their processes and controlling their company card and travel expense management programmes. The global package includes high-end solutions for travellers and travel managers.

Innovation is an integral part of the AirPlus corporate strategy. In 2012, for instance, the company became the world's first credit card provider to bring a carbon-neutral payment solution to market with the AirPlus Green Company Account. The AirPlus Green Company Account deliberately does away with paper-based processes, for applications or invoices, for example, and has transferred these to paperless processes. All unavoidable CO_2 emissions from internal processes and the use of the AirPlus Green Company Account are offset by means of a climate protection project.

Lufthansa Flight Training continues its strong performance
Since 1997, Lufthansa Flight Training GmbH (LFT) has acted as an independent provider of vocational and professional training for airborne staff within the Lufthansa Group. In addition to the flight operations of the Lufthansa Group, the LFT customer list now includes more than 200 other airlines from all over the world. Its service portfolio includes basic training for pilots and flight attendants, simulator training, emergency and service courses and a wide range of e-learning products. With a total of 40 cockpit simulators in Frankfurt, Berlin, Essen, Munich, Vienna and Zurich, as well as flying schools in Bremen, Rostock and Phoenix, USA, LFT is one of Europe's largest training institutions for pilots and flight attendants.

Demand for simulator and cabin training in 2012 was lower than in the previous year, which was exceptionally strong for LFT. Revenue declined year on year as a result, but it nevertheless remained high compared with the long-term average. Total operating income for LFT came to EUR 171m, which was EUR 7m down on the figure for the previous year. The operating result was EUR 10m lower than in the previous year at EUR 21m. As part of the SCORE programme, measures are currently being prepared to make LFT's capacities more flexible and improve its cost structure even further.

Lufthansa Flight Training commissioned additional facilities and rejuvenated its simulator fleet in 2012 in order to satisfy the demand for training services. In the summer, an Airbus A320 cockpit simulator was moved to Essen where, since October, it has been ready for use by clients in the training centre run by TFC Käufer GmbH. Capacities on the Boeing 737-300 were reduced in the same period by the sale of a cockpit simulator. In November, a new B747-8i simulator was inaugurated in Frankfurt. Also in November, a new A330-300 cockpit simulator went into service in Berlin.

LFT intends to live up to the challenges that lie ahead. Competitiveness requires that long-term profitability is assured in spite of cyclical volatility. The new company structure set up in 2012 forms the basis for this by pooling the simulator training, safety and service training and flying schools businesses. With these lean structures and optimised processes, cost and therefore price advantages should secure existing and additional business.

Group functions report a lower result
The results for the segment Other are largely determined by the Group functions, whose earnings reflect the currency hedging and financing activities carried out by Deutsche Lufthansa AG on behalf of the companies in the Group. The segment result is therefore heavily exposed to exchange rate movements.

In 2012, the performance of Group functions was again impacted by currency effects. Exchange rate movements resulted in a net loss. Total operating income fell by 5.8 per cent to EUR 686m, whereas operating expenses climbed by 13.9 per cent to EUR 1.0bn. The result therefore decreased by 101.8 per cent to EUR –329m.

Significant fall in result for the segment Other
The segment Other generated total operating income of EUR 1.3bn (–3.2 per cent) in the financial year 2012. Operating expenses rose by 8.8 per cent to EUR 1.6bn as companies charged their restructuring expenses for SCORE to Group functions. This dragged the operating result down to EUR –263m (previous year: EUR –92m.) The segment result fell accordingly to EUR –248m (previous year: EUR –123m).

Employees

↗ Entrepreneurial change at the focus of human resources management in 2012. ↗ Projects launched to boost diversity and change the corporate culture. ↗ The Management Landscape 2020 project delivers initial results. ↗ Lufthansa continues to invest in vocational and professional training. ↗ Overarching wage agreements ensure the Lufthansa Group's future competitiveness. ↗ By making suggestions, employees become part of the process of change.

Employees as of 31.12.*

		2012	2011	Change in %
Group employees	number	116,957	116,365	0.5
of which Passenger Airline Group	number	55,236	55,361	–0.2
of which Logistics	number	4,606	4,624	–0.4
of which MRO	number	20,282	19,975	1.5
of which Catering	number	30,088	29,586	1.7
of which IT Services	number	2,766	2,820	–1.9
of which Other	number	3,979	3,999	–0.5
Revenue per employee	thousands €	257	249	3.0
Revenue per full-time equivalence	thousands €	293	285	2.8

* Excluding bmi.

Revenue per full-time equivalence Lufthansa Group in € thousands

Entrepreneurial change drives activities in human resources management

The present state of the Company's market and its competition required an intensive dialogue between staff and managers on the challenges that the Lufthansa Group is facing. In this delicate situation, human resources management has a vital supporting role to play in preparing and qualifying the workforce accordingly, so that staff can drive change and shape it successfully. This entailed developing steps to support and refine the management landscape, which enable managers to guide and implement change in human resources as well. In addition to boosting diversity within management, a number of targeted initiatives were started to alter the corporate culture in all business segments. The Lufthansa Group also continued to invest in vocational and professional training.

The scenarios for reducing personnel drawn up at the end of 2011 were adjusted to strategic requirements over the course of 2012. 3,500 jobs are to be cut worldwide by 2015. A freeze on recruitment was imposed to get the most out of natural fluctuations. The core challenge for human resources management in the financial year 2012 was therefore to create the conditions for sustainable job reductions without losing sight of employees' interests. This reflects the Lufthansa Group's long tradition of making change management as socially acceptable as possible.

Development and change spurred by a demanding competitive environment

The Management Landscape 2020 project launched by the Executive Board in 2011 delivered initial results in the reporting year. The preceding analysis had examined external trends and developments as well as internal surveys and evaluations of corporate structure, culture and management practice as a basis for developing targets for management culture.

Based on these results and with the aim of putting the Company strategy into practice, the human resources department is currently engaged in refining existing management tools and adapting the established frameworks for qualifications and assessments to conform to the desired management culture. The Lufthansa Group wants to strengthen a transformational management culture and so one initial step, for example, was to reorganise the process for filling management positions across the Group. Among other things, it now includes six diversity criteria that are to be applied when selecting employees and filling vacancies. In this way, the Lufthansa Group not only creates more objective staffing processes, but also improves the tools available for achieving its diversity targets in terms of nationality and gender.

In 2012, the Lufthansa Group did not achieve its aim of increasing the proportion of female managers in absolute terms. Nonetheless, with the help of the new appointment process, women have been appointed to senior management positions. In the German part of the Lufthansa Group, the proportion of women in senior management positions is currently 15.5 per cent. The corresponding figure worldwide is 13.6 per cent. The total share of women with personnel and leadership responsibilities across all hierarchical levels is currently 33.2 per cent. By 2020, the Lufthansa Group still aims to increase the share of management positions held by women by 30 per cent compared with 2011.

In addition to these steps to further women's careers, the Lufthansa Group has also refined the framework for reconciling work and family life and expanded the number of nursery places for children. The number of places reserved in existing nurseries for children under three was increased in Frankfurt and offered for the first time in Cologne and Hamburg, for example.

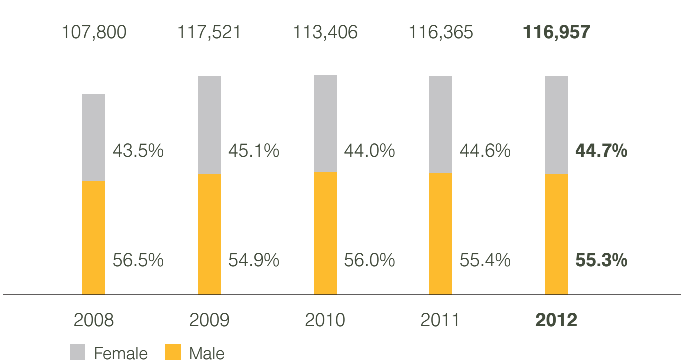
The Lufthansa Group also organised lectures and discussions on the changing role of fathers. Another aspect of a sound work-life balance is health. This year, current demographic developments and their effects prompted the Company to draw up a strategic mission statement for health management. The topic of change was also at the core of the social counselling activities. In 2012, they focused on "psychological health during times of change", and involved those employees affected by changes within the Company who wanted to make use of this psychological and social support.

Investing in vocational and professional training for a sustainable future

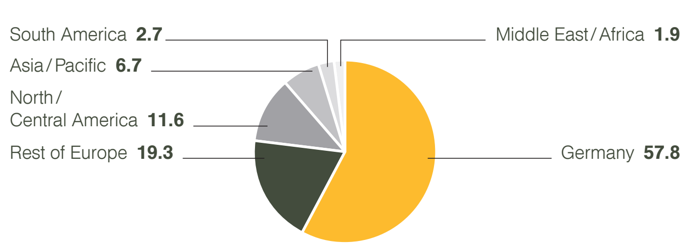
The Lufthansa School of Business ran high-quality, customer-focused training courses for managers and staff in the Lufthansa Group under the year's topic of "Diversity". The Lufthansa Group believes this investment in developing and training staff and managers continues to be indispensable. Vocational and professional training is a crucial success factor for employees in all age groups. In total, the volume of investment in internal training came to EUR 145m, which was 18 per cent higher than the volumes recorded in the previous year. The number of internal training days rose by 7 per cent to 727,000.

The frequency of Company communications was increased significantly across all hierarchical levels by means of a large number of dialogue and network platforms in both established and new formats. In 2012 in particular, they also made a key contribution to implementing the Group strategy and supporting our Group-wide SCORE programme. As a forward-looking company, the Lufthansa Group also dealt with creating digital learning environments. Mobile learning plays a vital role and will, in future, extend the scope of the programmes which the Lufthansa Group intends to offer in cooperation with various universities.

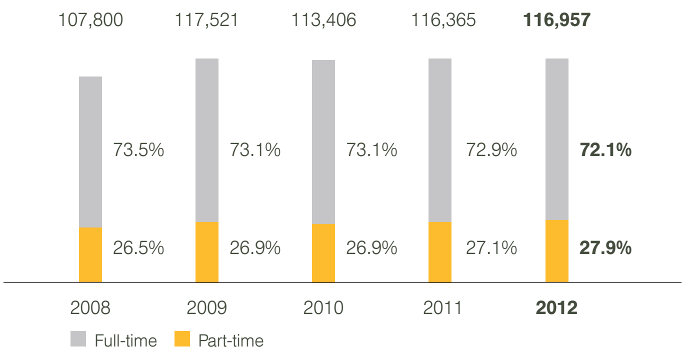
Number of employees by gender



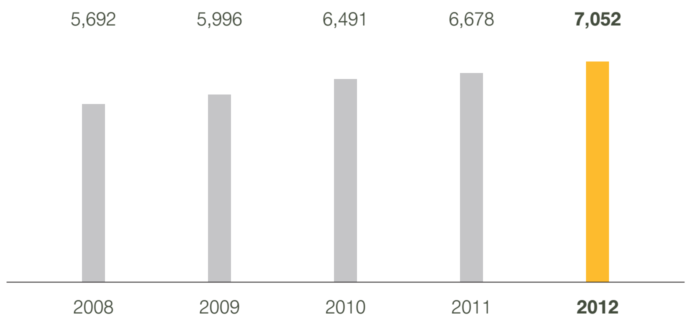
Employees by region in %



Number of employees in part-time and full-time



Staff costs Lufthansa Group in €m



Today: an emerging talent – Tomorrow: a success factor
The Lufthansa Group supports all fundamental declarations of the Bologna Process and is actively participating in the changes affecting education policy in Europe. In recent years, the entry-level programmes for the entire Group have been altered successively in line with the logic of bachelor's and master's degrees. The Company's own dual education and training system has also been adapted. A total of 56 apprenticeships were on offer in 2012, including combined vocational training and degree programmes. In 2012, the Lufthansa Group again offered young people exciting career prospects with the Company. In Germany alone, the Company provided a challenging workplace to more than 1,500 new employees. In addition, 400 apprentices at the Lufthansa Group, of whom 120 were women, completed a combined vocational training and degree programme.

As part of its Group-wide, demand-driven recruitment of emerging talents, the Lufthansa Group refined and pooled its ProTeam programme for top graduates in 2012. In future, SWISS and the trainees from its home market will also be integrated into the programme. The new ProTeam programme will resume its high-quality training at the beginning of 2013.

As well as the apprenticeships and the trainee programmes, the Lufthansa Group again carried out the Lufthansa Case Challenge in partnership with the European Business School in the reporting year. This year's competition gave bachelor's and master's students from all over the world the opportunity to develop concepts based on the topic of innovation. The six best teams were invited to the final where they were able to present their ideas before a top-class jury. As part of the university marketing activities in 2012, the Lufthansa Award for Excellent Performance in the German Language was awarded to students at Boston College and the Massachusetts Institute of Technology (MIT) in the USA. In 2012, the Lufthansa Group again took one of the top spots in the various rankings of employer attractiveness. In the surveys carried out by Universum and trendence, the Lufthansa Group achieved fourth place in both.

In the reporting year, the satisfaction of the current employees was also evaluated using a survey from the previous year. Employees' high levels of motivation and commitment to the Lufthansa Group, which were also identified in the course of the evaluation are to be particularly pointed out. Some areas of cultural relevance were identified, which will serve as a basis for the continued development of the corporate culture as well as for the strategic objectives. The survey was repeated in 2012 because it is very important to measure the success of the activities undertaken, such as the increasingly regular feedback discussions between managers and employees.

Rising to the challenges and actively shaping structural change

At the end of 2012, the Lufthansa Group had 116,957 employees worldwide. This represents a slight increase of 0.5 per cent. The average age of the workforce rose from 40.8 to 41.3 years. The average period of employment at the Company also went up by 2.9 per cent to 14.0 years. In 2012, a total of 7,910 employees left the Company and 7,598 joined. This goes along with changes from inactive employment contracts. The fluctuation in Germany fell in the year under review by 1.0 percentage point to 5.1 per cent. This is because restructuring activities were carried out in 2011, which led to redundancies. In the area of human resources, the Lufthansa Group has again set itself concrete targets for the future as part of the SCORE programme set up in 2012. Over the course of the project up to 2015, 3,500 full-time equivalents in administrative functions are to be shed worldwide, of which some 2,500 are still located in Germany.

In addition to the freeze on external recruitment for administrative positions imposed in February 2012, temporary contracts in these departments may now only be renewed with the approval of the Executive Board. The Lufthansa Group wants to maintain its tradition of reducing staff numbers responsibly and will avoid redundancies wherever possible. A number of modern tools were added to the proven framework – the Group's system of balancing interests and severance payments – in order to establish the conditions for swift and effective job cuts that are also as socially acceptable as possible. Local negotiations are required to balance the interests and severance payments, which will be based on the Group framework.

The new rules make it possible to offer employees in many facilities attractive voluntary arrangements for embracing change before the operational restructuring takes effect. The proposals on offer include incentives to sign partial retirement agreements, to take early retirement or for employees still a long way from retirement age, to leave the Company voluntarily in exchange for a severance payment. A new Group works agreement ensures that any vacancies within the Group are offered to those employees affected by redundancies. Furthermore, the Lufthansa Group offers career advice and additional training to employees as part of a professional reorientation project.

To date, the biggest structural change project set up in the course of SCORE has been the establishment of a global Shared Services unit for parts of standard HR processes and finance functions at the Group companies. This organisational change means that 700 jobs in Germany are affected through outsourcing.

The HR Shared Services function has proven itself within the Lufthansa Group. In 2012, the HR Shared Services were again able to expand their internal market share by acquiring new clients within the Group and taking responsibility for additional processes. As in previous years, continuous improvements to the processes and structures of HR Shared Services have already enabled internal product prices for 2013 to be cut by an average of more than 2.5 per cent. Altogether, the Group companies have thereby benefited from a 10 per cent reduction of price levels compared with three years ago. In order to prolong this positive trend and generate further urgently needed savings, the activities shall be further standardised in future.

Wage structures have to be adapted to ensure that the Lufthansa Group remains competitive

Lasting structural changes to ensure the future competitiveness of the Lufthansa Group were also the focus of collective bargaining in 2012. Following a constructive and rapid round of negotiations with the trade union ver.di, an agreement for the payscale of ground staff in Germany was reached in January 2012. A solution for the cabin crew at Lufthansa Passenger Airlines was only reached through arbitration in November 2012 after long negotiations and industrial action. For the cockpit staff talks are still underway.

The configuration of pay structures was crucial for sustainable success in the turnaround of Austrian Airlines. By the middle of the year and after intense negotiations with the works council for cabin staff, no agreement had been reached. For the management, the last resort was therefore to transfer flight operations to Tyrolean Airways in order to achieve sustainably competitive payment structures for the airborne staff. 110 pilots and 214 flight attendants decided not to take up the offered employment contract from Tyrolean Airways and received severance payments in accordance with the framework agreements.

Lufthansa and ver.di sign wage agreement for ground staff

At the beginning of 2012, the Employers' Federation for Air Transport Companies (AGVL) and the trade union ver.di agreed on a new wage settlement that is to run for 13 months until 31 January 2013. The agreement provides for a 3.5 per cent pay increase, backdated to 1 January 2012, for payscale ground staff employed in Germany.

On an annual basis this represents a pay increase of 3.2 per cent. Other benefits and allowances were also moderately increased and specific rules agreed for the Catering and MRO segments. In the reporting year, too, employees will be given a share of the Company's success and are to receive a profit-share payment based on the operating margin both for the Group and the respective business segment. The following table provides an overview of the figures.

Operating margin[1] for the Group and the business segments in %

	2012	2011	Change in pts
Passenger Airline Group	1.1	1.6	–0.5
Lufthansa Passenger Airlines[2]	–0.3	0.7	–1.0
Logistics	3.9	8.5	–4.6
MRO	7.9	6.3	1.6
Catering	3.9	3.7	0.2
IT Services	3.4	3.2	0.3
Group	1.7	2.9	–1.1

[1] Operating result / revenue.
[2] Including Germanwings. The figures for the previous year have been adjusted accordingly.

ver.di has since terminated this wage settlement within the period prescribed and, at the same time, notified the AGVL of its new demands in December 2012. Talks with ver.di began in February 2013.

Agreement with cabin crew is reached following arbitration

The wage settlement for cabin crew was terminated by the flight attendants union, Unabhängige Flugbegleiter Organisation (UFO) as of 31 March 2012. Despite prolonged negotiations beforehand about the necessity of making adjustments to pay structures, an agreement between the parties could not, initially, be reached. The collective bargaining dispute came to a head late summer when the cabin crew began industrial action. A resolution to the conflict was finally agreed on after long and difficult negotiations in arbitration proceedings. The compromise provides for payscale increases in the basic pay table as well as a one-off payment from January 2013. In exchange, the cabin crew will make a contribution to tackling the challenges that face Lufthansa Passenger Airlines. This contribution partly takes the form of freezing all wage increases for the next 12 months and introducing a more flexible working-time corridor for the term of wage agreement.

From January 2013, a completely new payscale with lower final grades and more modest pay rises overall will also apply to new employees. Adding the concept of annual working hours to the wage model also creates more options for offsetting the fluctuations in demand over the course of the year that are typical for the industry.

Rules were agreed for the employees affected by the planned transfer of European traffic outside the hubs in Frankfurt and Munich to Germanwings as of January 2013. The wage agreement runs until the end of 2014. During this period, Lufthansa Passenger Airlines will not make any redundancies. Furthermore, the use of temporary staff and short-term contracts have been provisionally ruled out. By signing this comprehensive wage agreement and adjusting the structures for cabin staff, the employees have made a major collective contribution to the Group's SCORE programme.

Employees initiate and accompany change

The Company also continues to rely on the ideas and the initiative of its staff to maintain the Lufthansa Group's successful position in the market. In 2012, the mySCORE platform was added to the ideas management framework. The new feature means that all ideas posted on the platform are scanned by members of the SCORE team, making it possible to prioritise promising topics in the review process. Particularly interesting are ideas that identify potential synergies. It is also possible that ideas hitherto deemed infeasible may be reviewed to see how they can in fact be put into practice as part of SCORE. This process makes everyone who puts forward an idea an intrinsic part of the change.

Three months after the launch of the mySCORE platform, around 80 per cent more suggestions had been received as in the same period the previous year. By the end of the year, more than 2,700 suggestions for improvement had been made via mySCORE, taking the total for the year 2012 to 3,900 suggestions with potential savings of more than EUR 8.5m. Besides quantifiable ideas, there are many suggestions that cannot be quantified but will nonetheless have a particularly positive impact on customer satisfaction, quality, image or the environment.

Corporate responsibility

↗ The principles of corporate responsibility are an established part of our Company values. ↗ Our sustainability activities were recognised both with awards and the inclusion in indices. ↗ We are aiming for sustainable economic success. ↗ Ongoing fleet modernisation reduces specific CO_2 emissions even further. ↗ The Lufthansa Group is committed to civil and social causes around the world.

The Lufthansa Group believes in the principles of corporate responsibility, which are firmly embedded in its corporate values and leadership principles. Our understanding of sustainability is based on five aspects which form the organisational framework for assuming our corporate responsibility. These are economic sustainability, responsibility for the climate and the environment, social responsibility, corporate governance and compliance, and corporate citizenship.

The activities and initiatives undertaken in the context of corporate responsibility are managed by the interdisciplinary, cross-segment Corporate Responsibility Council. It is chaired by the head of Group Strategy and is composed of the heads of the Group departments Policy, Environmental Concepts, Executive Personnel, Legal Affairs, Communications, Investor Relations and Group Controlling. The Corporate Sourcing department is also consulted on matters relating to purchasing and supply chains. The council reports directly to the Executive Board and meets regularly to ensure that sustainability agendas are actively driven forward in the Lufthansa Group.

Sustainability activities recognised again

As in previous years, the Lufthansa Group's activities in 2012 were again reviewed and evaluated by external experts and agencies according to the criteria of sustainable business.

Corporate responsibility and focus topics at Lufthansa Group

Economic sustainability	Long-term and sustainable value creation, opportunities and risk management, supply chain management / sourcing, investor dialogue	**Coordination by the Corporate Responsibility Council**
Responsibility for the climate and the environment	Emissions reduction, environmental management systems, resource management, environmental protection, Green IT, environmental conservation (biodiversity), travel management, research projects	
Social responsibility	Employment and pay conditions, freedom of association / collective bargaining, job-security policy, recruiting policy, benefits, leadership principles / culture, staff training / development, diversity management / anti-discrimination, health and safety at work, work-life balance, human rights / international social standards, internal stakeholder dialogues	
Corporate governance and compliance	Corporate governance, corporate compliance, legal, taxes, Executive and Supervisory Board remuneration, data protection	
Corporate citizenship	Politics, external stakeholder dialogues, memberships, sponsoring, aid projects, support for education projects, donations, cultural sponsorship	

The Lufthansa Group was able to maintain its position in several sustainability indices, including the FTSE4Good and ESI (Ethibel Sustainability Index). Furthermore, the Lufthansa Group was included in two sustainability indices compiled by the ECPI agency. As part of the Carbon Disclosure Project (CDP), the Lufthansa Group was again able to improve its ranking in 2012 in comparison with the previous year.

Despite further improving its total score, the Lufthansa Group did not make it into the Dow Jones Sustainability Index (DJSI), however. Potential for improvement was identified primarily in the areas of supply chain management, corporate citizenship and philanthropy. By contrast, in the areas of efficiency and environmental policy/management system, the Lufthansa Group performed very well.

At the same time, the Lufthansa Group won awards from many other institutions for its endeavours in the sphere of corporate responsibility. The US trade magazine Air Transport World awarded the Lufthansa Group the title of Eco-Aviation Airline of the Year. The British journal Airline Business voted the Lufthansa Group into first place in the environment category of its Airline Strategy Awards. The Lufthansa Training & Conference Center in Seeheim was also pronounced a "Certified Green Hotel". In addition, the Lufthansa Group won first place for its commitment to sustainability in the "Doing it All" category at the World Saver Awards of the US magazine Condé Nast Traveler, LSG Sky Chefs picked up the Fraport Energy Award and Lufthansa Cargo was awarded with the Öko-Globe 2012 environmental prize for the development and roll-out of its lightweight container.

The Lufthansa Group takes external feedback on its sustainability activities very seriously and uses it as a basis for pursuing continuous improvements. The Lufthansa Group is committed to the principles of the UN Global Compact. Since 2002, Lufthansa has always complied with most of the recommendations of the German Corporate Governance Code and followed most of its facultative suggestions as well. The declaration of compliance was updated with minor qualifications at the Supervisory Board meeting held on 5 December 2012. Further information can be found in the chapter "Corporate governance" on p. 24.

Value-based management guarantees sustainable value creation

The economic sustainability of the Lufthansa Group is assured not least by its focus on value-based management. This entails measuring the Company's performance by its cash value added (CVA). Further information on this subject can be found in "Value-based management and targets" from p. 30.

The Executive Board and managers of the Lufthansa Group receive their bonuses on the basis of the CVA. This ensures that they strive for sustainable economic success. To safeguard this success, the Lufthansa Group identifies the relevant risks and opportunities for the Company at regular intervals and takes these into consideration in its corporate governance. The Company is thus prepared for positive and negative factors and can respond to them flexibly. Detailed information on our management of risks and opportunities can be found in the "Risk and opportunities report" from p. 104.

Not least because of the service nature of its business, a regular dialogue with stakeholders, based on mutual trust, is vital for all the companies in the Lufthansa Group. This covers relationships with customers, suppliers, investors and neighbours as well as the internal communications with employees. There are regular exchanges with employee representatives in Germany and abroad, and a regular dialogue takes place between Company management and local managers and staff.

Sustainability given even higher priority in Group sourcing guidelines

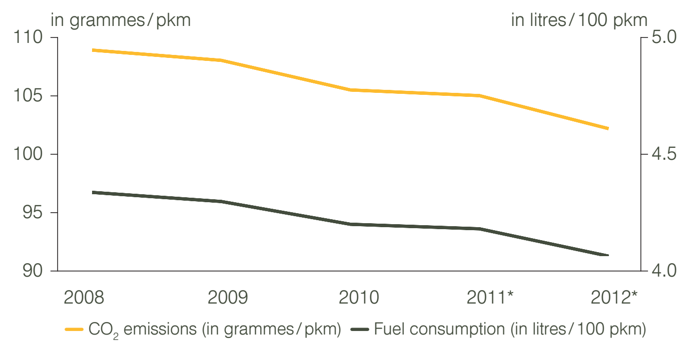
The update of the Group's sourcing guidelines provided an excellent opportunity to focus even more sharply on aspects of corporate responsibility. As part of standard contracts, all suppliers now have to sign up to the following obligations relating to social responsibility and protection of the climate and the environment: compliance with the ten principles of the UN Global Compact, compliance with the four, core ILO labour standards (ILO: International Labour Organisation), knowledge of the Lufthansa Group's Environmental Protection Guidelines, permission for announced and unannounced supplier audits by the Lufthansa Group and acceptance of the Lufthansa Group's right to terminate the contractual relationship if the preceding agreements are breached. By means of these obligations, the Lufthansa Group ensures that sustainability is taken seriously and put into practice in the supply chain, too.

The Lufthansa Group is aware of its responsibility for the environment

As a global aviation group, the Lufthansa Group is aware of its responsibility for the climate and the environment and actively assumes this responsibility. The cornerstone for all initiatives in this area is the environmental strategy 2020. Its 15 principles are intended to guarantee that the Lufthansa Group's future development is compatible with climate and environmental protection. Key contents are emissions targets, the research and promotion of alternative fuels and the optimisation of flight operations.

The environmental experts at the Lufthansa Group work constantly to improve climate and environmental protection within the Company. To do so, they can draw on an internal environmental database, which can be used to calculate a large number of relevant performance indicators. The data gathered includes values for gas and noise emissions, energy and kerosene consumption and figures for refuse, water and waste water. On the basis of these indicators, it is possible to measure the success of past initiatives and make concrete recommendations for further action.

Development of specific CO_2 emissions and specific fuel consumption



* Excluding bmi.

For an aviation group, the reduction of CO_2 emissions and fuel consumption per passenger-kilometre flown (pkm) are particularly important for the environmental efficiency. In absolute terms, the Lufthansa Group's CO_2 emissions fell to 28.0 million tonnes in 2012 (–1.6 per cent). Thanks to more efficient aircraft in the fleets and a higher passenger load factor, average CO_2 emissions were even reduced to 102.4 g/pkm (–2.8 per cent) in the reporting year. Fuel consumption, measured in litres per 100 pkm flown, was also reduced to 4.06 l/100 pkm in 2012 (previous year: 4.18 l/100 pkm). More detailed information about the Lufthansa Group's environmental strategy can be found at i www.lufthansagroup.com/responsibility, from mid 2013 also including detailed environmental performance indicators for the financial year 2012.

As kerosene consumption is the Lufthansa Group's largest single cost pool and has an impact on the climate and the environment, the Group focused particularly on fuel efficiency again in 2012. Ongoing efforts are being intensified as part of the Group-wide SCORE programme and new initiatives are being developed and implemented. They all serve to cut costs and relieve the burden on the climate and the environment. Further information can be found in the chapter "Shaping the future together" from p. 1 and in our "Balance 2012" sustainability report on p. 70–74.

Research and development continued for the good of the environment

In the field of noise prevention, the Lufthansa Group is also expanding the scope of its activities and initiatives. The ongoing fleet renewal is reducing noise emissions, with the best example being the new Boeing 747-8i. Compared with its predecessor, this aircraft stands out for its lower noise emissions and improved fuel efficiency. Nonetheless, the fleet of recently introduced aircraft is also subject to continuous modification. At the end of February 2012, the so-called "Noise Protection Alliance 2012" was established together with local government and other stakeholders. It aims to make an active contribution to greater noise prevention. Lufthansa Passenger Airlines is to modify its Airbus A320 fleet by retrofitting sharklets to the wings, for example. New approach procedures at Frankfurt Airport are also being tested in close cooperation with German air traffic control. More information can be found in the "Balance 2012" Lufthansa Group sustainability report on p. 85–88.

Since 2004, the CARIBIC measurement laboratory installed in a Lufthansa Passenger Airlines Airbus A340-600 has been delivering atmospheric data for climate research on a monthly basis. The laboratory is housed in a container in the aircraft's fuselage. When the plane is cruising it uses 20 instruments to analyse aerosols and trace gases in the air. CARIBIC is funded by the EU and the German Federal Ministry of Education and Research and represents an important contribution by the Lufthansa Group to climate research.

The use of lightweight containers at Lufthansa Cargo is being expanded rapidly. More than 50 per cent of all standard LD3 containers in use are now made of light composite materials. This achieves a weight saving of 13 kilogrammes per container, which over the course of a year represents considerable savings potential in the form of lower kerosene consumption and CO_2 emissions. At LSG Sky Chefs, the increased use of the Quantum Light Weight Trolley since 2011 has meant reductions in weight on board the Lufthansa Passenger Airlines fleet. The trolley weighs a third less than its predecessor and so achieves considerable savings in fuel consumption.

The Lufthansa Group is committed to supporting the airline sector's four-pillar climate protection strategy. It relies on a combination of technical progress, infrastructure improvements, operating measures and economic instruments to achieve the industry's ambitious climate objectives. Further information on this topic and on other Lufthansa research and development projects can be found in our "Balance 2012" sustainability report as well as on our website i www.lufthansagroup.com/responsibility.

Demonstrating responsibility towards employees
The Lufthansa Group operates in a labour-intensive service industry and therefore feels a particular sense of obligation towards its employees. The communication and sharing of specialist knowledge and taking steps to make the Lufthansa Group more attractive as an employer are therefore essential. By responsibility, the Lufthansa Group also understands a socially acceptable approach to reducing its workforce. The chapter "Employees" from p. 95 provides detailed information on this topic.

Corporate compliance is actively monitored and communicated
The management and supervisory culture of our Company is based on German legislation on stock corporations, co-determination and capital markets, as well as on the Articles of Association of Deutsche Lufthansa AG and the German Corporate Governance Code as applied by the Company. As employees also have responsibilities that they must meet in this area, mandatory training is provided on competition compliance and integrity compliance.

Corporate citizenship is a key pillar of corporate responsibility
The Lufthansa Group assumes its social responsibility and is actively involved in the fields of culture, society, education, sport and environmental protection.

Social commitment is actively practised
Many staff members at the Lufthansa Group carry out voluntary work in their spare time for social and charitable causes. The most prominent examples are the HelpAlliance e.V. and Cargo Human Care e.V. organisations. The Lufthansa Group supports both organisations with logistics and communications. HelpAlliance runs projects around the world to improve the living conditions of disadvantaged people, mostly children. The projects include training centres, orphanages, activities for street children, help with business start-ups and hospitals.

HelpAlliance is also on hand to quickly provide emergency aid at short notice. Since 2012, HelpAlliance has also been sponsored by Austrian Airlines. SWISS supports the international aid organisation SOS Kinderdorf, which operates globally to help children in need. In addition, new fundraising concepts such as the platform for donations i www.betterplace.org have also been set up. Cargo Human Care provides fast, straightforward logistics support in humanitarian crises and disasters, primarily by contributing cargo capacities. For many years, Lufthansa Cargo has also sponsored Werkstätten für Behinderte Rhein-Main e.V., a workshop programme for 400 people with physical and mental disabilities.

The Lufthansa Group is committed to sponsoring sport
The Lufthansa Group has a clear commitment to sponsoring top-class German sport. It is a long-term national sponsor of the Deutsche Sporthilfe foundation. This partnership was recently renewed until 2016, demonstrating that the Lufthansa Group is committed to supporting talented young athletes both with and without disabilities. In addition, the Lufthansa Group is a sponsor of the German Olympic Sports Confederation (DOSB) and the National Paralympic Committee Germany. The partnership with the DOSB was recently extended for a further four years. Finally, the Lufthansa Group is also a partner of the German Football Association and in this capacity flies the German national football teams to their away matches and competitions around the world.

Supporting culture and environmental protection has a high priority
Classical music is the focus of the Lufthansa Group's support in the area of culture. Since 1984, the Lufthansa Group has organised the Lufthansa Festival of Baroque Music in London, and since 1997 it has put on a New Year's Concert in the Konzerthaus am Gendarmenmarkt in Berlin. Furthermore, the Lufthansa Group is still the First Global Partner of the Gürzenich Orchestra in Cologne.

In the field of environmental protection, we are particularly involved in protecting cranes and sponsor a number of projects in this area. One of the most important is the crane information centre in Groß Mohrdorf, which offers visitors the chance to learn all about cranes and how they can be protected.

Risk and opportunities report

↗ Risks and opportunities are identified early. ↗ Risk and opportunity management is integrated in all business processes. ↗ A risk map covers all risks and the appropriate countermeasures. ↗ Risk management has been realigned and is even more closely interlinked with controlling. ↗ The continued existence of the Lufthansa Group is not in danger.

Risk and opportunity management system

As an international aviation company the Lufthansa Group is exposed to macroeconomic, sector-specific and Company risks. Our management systems are constantly updated and enable us to identify both risks and opportunities at an early stage and act accordingly. The calculated management of risks and opportunities is an integral factor in the management of our Company. Our risk management is therefore integrated into our business processes.

Risk management at the Lufthansa Group is defined as a logical system of rules covering all business activities and based on a defined risk strategy, which consists of a systematic, permanent process with the following elements: risk identification, risk evaluation, risk management and risk communications (documentation and internal communications) as well as monitoring these activities.

The system enabling operational risks to be identified and managed at an early stage is composed of several modules. Its modules are systematically linked with one another. This enables homogenous risks to be identified in their entirety and managed effectively and responsibly with the necessary effectiveness and economic competence. Financial risk management is an exception, as this is organised centrally. 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 the following section "Financial risks and opportunities" from p. 112 and in the Notes to the consolidated financial statements, "Note 47" from p. 183.

Our Risk Management Committee ensures on behalf of the Executive Board that business risks are permanently identified and evaluated across all functions and processes. The committee is made up of the directors of Corporate Controlling and Risk Management, Legal Affairs, Corporate Finance, Corporate Accounting, Corporate IT, Controlling Lufthansa Passenger Airlines as well as the management of the Delvag Group. The director of Corporate Audit is a permanent member without voting rights. The Risk Management Committee is responsible for ensuring that the risk management system is always up to date and for making continuous improvements to its effectiveness and efficiency.

One important instrument for doing so is the risk map, which lists all the material risk exposure of the Lufthansa Group. At the same time it identifies all the instruments and processes for managing these risks. In 2012, material risks are defined as those which could result in a loss of at least EUR 300m. The materiality threshold is calculated individually for each of the business segments.

The risk map is updated regularly and its structure is aligned with the entire process of risk management, ongoing identification, evaluation, coordination, communication and supervision. 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 Risk Management Committee. This also enables the rapid integration of new business segments, for instance.

As part of a reorganisation of the methods and IT used by the Lufthansa Group risk management in 2012, a system was installed that supports a uniform Group standard for comparing risks and provides a standardised, up-to-date reporting format. It incorporates risk management even more thoroughly in all operating segments, which makes the risks and associated responsibilities even more transparent. A new, independent risk management unit within Group Controlling is responsible for implementing Group-wide standards and for coordinating and continuously improving the risk management process.

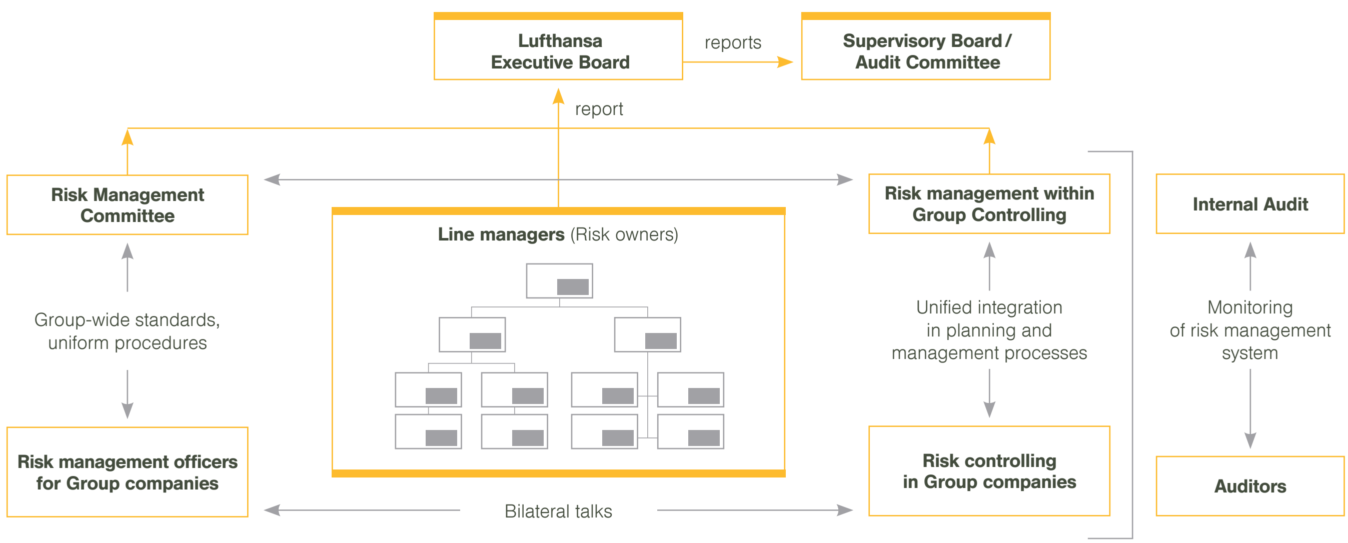
One focus of the methodological improvements is even closer interaction between risk management and controlling. This is aimed at supporting and advising the Executive Board in strategic decision-making processes. Risk and opportunity controlling thereby becomes an important component of the planning and management processes.

Over the course of the year, the risks and opportunities identified in relation to the planned result are tracked with the help of the quarterly Risk and Opportunity Report. Potential departures from the planned operating result are quantified by the risk experts in order to focus attention on the most important risks. Both negative and positive variations, i.e. risks and opportunities, are evaluated in the form of a best case/worst case analysis. A discussion of risks and opportunities is also a fixed element of the regular meetings between Group controlling and the managing directors of Group companies.

Additionally, the potential departures from plan are also examined in separate meetings with departments exposed to risk. The focus here is on identifying the action required and the status of steps taken to manage the corresponding risks and opportunities systematically.

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 made of such a system.

Risk management at Lufthansa Group



Risk categories and individual risks

Macroeconomic risks and opportunities
The expansive monetary policy is continuing apace in the developed economies. Central banks in the USA and the euro area are now declining to set any quantitative limits to their purchase of sovereign bonds. This has increased the risks to price stability compared with the previous year. Inflation expectations may rise sharply as a result, with correspondingly destabilising effects on national economies. The increase in global liquidity may not only cause further price rises on the financial markets, but on commodities markets as well – therefore driving the price of crude oil up. The risks for global economic developments are increasing as a result.

The euro area poses significant downside risks to the global economy. It is possible that the structural reforms and consolidation measures in the crisis-stricken countries may no longer garner the necessary political support, for example because the pressure to reform is relieved by the ECB's programme of quantitative easing. In this case, a renewal of confidence in the euro area should not be expected.

It is doubtful as to whether the Southern European banks will remain stable if they have to sustain capital flight at the current rate this year and next and if an ever larger share of their funding has to be provided by the European System of Central Banks. Under these conditions it is highly unlikely that the real economies in the countries affected by the crisis will recover. An unprepared failure of the reform process in Greece carries considerable risks for the euro area and for the global economy. For the German economy, there remain substantial downside risks if the situation in the euro area continues to deteriorate.

Another significant global economic risk stems from the uncertainty regarding the direction of US financial policy. If the party wrangling in Congress were to prevent the adoption of a rational financial policy, the US economy would likely undergo another recession. Elsewhere, too, the political risks are considerable. They include the recent upsurge of social instability in the Middle East and the risks this entails for the world's oil supply, as well as the risk of a deterioration in economic relations between China and Japan (the second and third largest economies in the world) over the two countries' disputed ownership of the Senkaku/Diaoyu group of islands.

Sector-specific risks and opportunities
Market and competitive risks affecting capacity and load factors
Slower global economic growth has only had a modest effect on developments in international passenger traffic, which grew again worldwide in 2012.

According to the IATA forecast, global passenger demand should rise again by 3.9 per cent in 2013. Given the expectations for the global economy, this prediction is subject to considerable risks. The main threats come primarily from the ongoing finance and sovereign debt crisis in the euro area, with potential consequences for the real economy and, via trade channels, for global trade.

The process of adjustment to austerity and consolidation, particularly in the indebted countries of Southern Europe, is also having an impact on world trade, which will doubtless affect airfreight traffic, too.

In addition, the risk profile of the airline industry is determined by the development of available capacities. The number of new aircraft ordered and the restrained growth prospects mean that overcapacities are expected to persist in all markets. This will further increase the pressure on average yields. Companies' competitiveness continues to depend on their flexibility.

Other business risks can result from developments in oil prices. Despite the subdued economic performance, oil prices have risen rapidly since mid-2012, partly because of greater political tension in the Middle East. Ongoing geopolitical tension would put even more pressure on oil prices.

Legal risks and contingencies
Legislation and changes to national and international regulations can have a decisive effect on the Lufthansa Group's future profitability. Air traffic rights, safety regulations and compliance requirements are just as important as regulations and foreign and domestic rulings on taxes, capital market law, competition law and consumer protection. The latest legal changes which could affect the course of the Lufthansa Group's business are described in the chapter "Regulatory and other significant factors" from p. 40. The Lufthansa Group also runs a compliance programme, which is described in the chapter "Corporate governance" on p. 26.

Political, geopolitical and regulatory risks

The business environment for aviation is severely exposed to geopolitical events such as wars, terrorist attacks, financial crises and environmental catastrophes. In the last twelve months, these have occurred more frequently in different regions. Political decisions at national and European level are also having an increasing impact on the business of the European industry. This is particularly the case when such intervention affects competition in one part of one market, for example by regional or national taxes, fees and charges, or restrictions.

The uncertainty about EU emissions trading is a typical example of the dynamics and limited predictability which can affect proposed legislation. In view of the massive resistance and the negotiations at ICAO level taking place in autumn 2013, the European Commission in November 2012 proposed the temporary suspension of sanctions for refusing to file certificates in order to defuse trading conflicts and give the negotiations with third-party states before the UN's International Civil Aviation Organisation (ICAO) time until October 2013. Refusing to take this step for a long time and then adopting it at short notice has resulted in abstruse changes to liabilities and the details of implementation. It also creates uncertainty about the next steps and about competitive neutrality.

This principle is and will remain a key component of all political programmes and corresponding EU regulations. In addition to a competition-neutral regulatory process for CO_2 emissions, a comprehensive approach to climate protection is also required (known as the four-pillar strategy, which includes improvements in technology, infrastructure and operations as well as financial incentives). More information on the subject can be found from p. 40.

Uncertainty in climate policy is reflected in the field of fiscal and tax policy. The national air traffic tax in force in Germany since 1 January 2011 was reduced on a straight-line basis for 2012 and 2013 in anticipation of emissions trading, but is nevertheless still in place. The tax is divided into three categories depending on the length of the flight and does not include international transfers and cargo flights. Although this makes some modest allowances for Germany's air traffic structures, the year 2012 in particular showed that the tax not only has a very adverse impact on air travel, but also on the export and tourism sectors. Altogether, the German federal government levies EUR 1bn a year from the industry with the tax, of which around 60 per cent comes from German companies. Similar national taxes exist in the UK, France, Ireland and Austria.

In view of the uncertainty regarding EU climate policy and the pressure on public finances, it is difficult to foresee any fundamental changes to the air traffic tax, even though it departs from the fundamental system of internalising costs by means of infrastructure fees which has been applied very successfully to global air traffic over many decades.

In the area of environmental policy there are also other risks. The night-flight ban at Frankfurt Airport, for example, which was applied for by the operator Fraport AG and has now been confirmed by the courts causes not inconsiderable additional expense and restricts the growth prospects at Europe's busiest (cargo) hub. Operator and airlines, together with the relevant regulatory authority, are still striving to find a practicable and cost-effective solution that meets demand and enables flight operations to be continued at this airport. See on p. 42 for the current state of proceedings.

Another topic regularly in the public eye, alongside the environmental restrictions and regulations mentioned above, is changes in consumer protection legislation. For full-service carriers like those in the Lufthansa airline group, most of the standards under debate are already a matter of course, however. One particularly crucial point here is if European regulation does not lean towards internationally accepted norms, for example in the area of denied boarding compensation, and this unilaterally discriminates against the European industry in global competition.

Furthermore, environmental risks can materialise suddenly and without warning, as in 2010 and 2011 when sections of European airspace were closed because of the threat of volcanic ash in the atmosphere. In 2010 in particular, this revealed grave difficulties in the way the authorities dealt with the situation and showed the necessity of improved cooperation between governments and with stakeholders and the key players. Since then, steps have been taken to enable a better, more flexible response if necessary.

A crisis coordination point has been created at European level, the ICAO Volcanic Ash Contingency Plan for Europe has been updated and better coordination processes have been initiated among the EU member states. The ICAO Volcanic Ash Task Force is busy refining global standards for the applicable procedures and defining limits. Nonetheless, some key industry demands have not yet been implemented. They include the airlines' wish to be given greater decision-making authority and to ensure that national authorities proceed in the same way across the EU.

Comprehensive information about atmospheric conditions would enable independent, decentralised decisions on whether flight operations should be maintained or suspended in borderline cases. They would also make it easier to factor operational aspects into the decision-making process faster and more flexibly without compromising safety standards.

Company-specific risks and opportunities

Persistently weak global economic growth, high fuel prices and increasing competition in all traffic regions are putting pressure, especially on European carriers, to abandon unprofitable services and eliminate loss-making capacities from their portfolio. Airlines that are not able to do so are going bankrupt, as happened to Spanair in Spain and Malev in Hungary. The European aviation industry in particular is at a virtual standstill.

For the Lufthansa Group, the priority is therefore to cut costs. In doing so, the Group is benefiting from the successes achieved in the first year of SCORE, its Group-wide earnings improvement programme. In the years ahead, the Group's performance will depend to a large extent on how consistently it pursues its course of structural renewal by means of this project. Where the conditions for sustainable financial success were not present, the Group has closed operations (Lufthansa Italia) or sold them, as with bmi. Austrian Airlines has vastly improved its competitiveness by means of a far-reaching restructuring programme. Brussels Airlines is currently in the middle of a similar programme.

The Lufthansa Group provides its Group companies with targeted financial support for activities to improve competitiveness in the course of restructuring work. Funding is subject to the condition that the success of the planned measures is sufficiently probable.

Markets and competition

The success of a network carrier with global operations depends largely on its worldwide, closely meshed route network. Together with our Star Alliance partners and the airlines in the Lufthansa group, we give our customers access to 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. In Latin America our formation has been improved substantially with the accession of TAM to the Star Alliance and the recent membership of AviancaTaca and Copa.

After the merger between TAM and oneworld member LAN Airlines, a decision still needs to be taken on which alliance the new company should belong to. Strategic opportunities are available to us thanks to our alliance partners with their sites in the various regions of the world and to enhanced cooperation both in transatlantic traffic (Atlantic++ joint venture) and in Japanese traffic (Japan+). Risks can ensue primarily from shifts between different alliances.

At the same time, the Lufthansa Group has to keep investing in modernising its fleet, its inflight and ground products as well as its infrastructure if it is not to lose ground against the competition, above all the rapidly growing airlines from the Middle East. By 2015, total capital expenditure will amount to EUR 9bn. Of the total, investment in aircraft accounts for approximately EUR 7bn. The Group's order list at year-end alone included 133 aircraft to renew and expand the fleet. A wide range of investment decisions need to be taken today so that market opportunities can be exploited tomorrow. Risks arise from the generally volatile environment of the sector. Global market opportunities are nonetheless to be expected based on the sector's forecast growth path.

We are pursuing further the customer-focused, multi-market, multi-hub and multi-brand strategy. It promotes local entrepreneurialism and combines the typical strengths of a large company with the advantages of largely autonomous units focused on their local regions and marketplaces. The successful execution of the airline group strategy depends to a considerable extent on whether the potential synergies within the airline group can be realised. The opportunities offered by the airline group are to be seized by further extending the scope of cooperation as part of SCORE.

Now and in the future, the significance of Lufthansa Cargo and the service companies will depend on their potential for financial and strategic development and their relevance to the core business segment Passenger Airline Group. Thanks to their positions in their respective markets and their profitable growth, Lufthansa Cargo and the service companies make a vital contribution to the Group's success.

Staff

In 2012, the situation in human resources was characterised by the unusually swift changes in the macroeconomic environment and the short-term crises typical of the airline industry. They were increasingly accompanied by structural, longer-term needs for change in international competition.

At the same time, the productivity and commitment of its staff mean that the Lufthansa Group is highly capable of adapting to such short-term crises. The speed and effectiveness of reaction are still risk factors, however, which were addressed in 2012 by continuously extending arrangements to make staff rostering more flexible, for the cabin crews for instance.

When it comes to the flexibility for making structural changes, in Germany in particular the demands of competition are to be seen against the comprehensive protection for employees which has evolved over time. To balance interests, it is therefore vital for the Lufthansa Group to respond swiftly to market changes, in order to ensure that the necessary time and means are available to implement the restructuring projects smoothly. This makes great demands on communications policy and practice. Considerable efforts have been made in the course of SCORE in 2012 to meet the demands that lie ahead.

Once again, the challenge for the Group in terms of human resources is to differentiate between the use of short and long-term management tools. The size and heterogeneity of the companies and the volatility of the business described above, which affects the Group's employees in different places and at different times, require staff numbers to be increased and reduced in parallel. Our chosen approach remains defined by a clear preference for a social balance and an active internal placement policy within the Group. This is also to the benefit of the Lufthansa Group's position in the labour market. It helps to build up staff capacity again quickly in other areas of the Group.

Further classical human resources risks exist in the area of collective bargaining and codetermination. They are concentrated in the spheres of wage settlements and, increasingly, of retirement benefits. The risks inherent in the negotiations that need to be held in the different companies are all the greater for the broad differences in the companies' competitive environments. In a traditionally intensive dialogue with trade unions and works councils, the Lufthansa Group tries to ensure predictability and security as well as an appropriate share of economic gains for the Group and its employees by means of long-term agreements with company-specific and performance-related components. Collective bargaining disputes, potentially including strikes, are systemic, however, and again cannot be ruled out for 2013.

In addition to the damage it does to the Lufthansa Group's image as a dependable service provider, strike action also entails the risk of considerable revenue losses and additional costs. This risk is also run if the Lufthansa Group is affected indirectly by strikes in other areas of the value chain.

The Air Transport Employers' Federation, introduced in 2010 to carry out collective bargaining for several segments within the Group, has worked well. It reflects the changed requirements of collective bargaining within the Group and also meets the conditions for an employers' association specific to the air transport sector, which can take part in legislative processes, for example, and by giving added weight to representation in overarching employer's associations.

The rulings of the Federal Labour Tribunal have departed from the principle of uniform collective bargaining, creating legal uncertainty and opening the door for collective bargaining partners to pursue special interests more vigorously. This jeopardises the principle of abidance by collective bargaining agreements, with considerable effects on operations and the wider economy.

Highly qualified staff are the decisive factor success in competition. The Lufthansa Group makes good use of its modern systems and methods in personnel marketing and staff development to meet its qualitative and quantitative human resources targets. The aim is to create the conditions today for being able to select new employees from among the best in the future, even in different demographic circumstances and different phases of the labour market.

Efforts were again doubled to ensure that the principle of diversity was applied at management level, too. In order to meet the increasingly disparate demands made of managers, the Group sets great store by a good mix of experienced and younger, female and male, internal and external, and local and international staff.

Even as the number of companies in the Group increases, the Lufthansa Group aims to maintain the identities and autonomy of the Group companies and to use the cosmopolitan culture to preserve the specific commitment of the staff employed there. Wherever closer cooperation and integration of individual workforces makes sense, a structure of joint dialogue and decision-making ensures that optimised solutions are reached. These do justice to both local and broader Group interests and obligations.

If risks should arise from epidemic hazards, professional medical services and detailed pandemic plans are at the ready, as in prior years.

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. Lufthansa has taken out a D&O (directors' and officers' liability insurance) policy with an excess in line with the German Corporate Governance Code for both Boards.

Information technology

Business processes in all areas at the Lufthansa Group are supported in all areas by IT systems. The use of IT is inseparable from risks to the availability and stability of business processes and the confidentiality of data. Our IT risk management process ensures that these risks are identified and evaluated and that the measures to reduce them are implemented as necessary. The IT systems are regularly assessed in terms of their security levels. The review is based on the criticality of the business processes as defined by those responsible for them. The assessment covers critical applications and joint infrastructures and takes a variety of potential threats into account, including system malfunctions, hacker attacks, and the theft and manipulation of data. The IT risk management process is organised on a cross-segment basis. The results are consolidated annually and discussed at Group level by the Risk Management Committee.

Any security vulnerabilities are addressed by organisational and technical measures. The Lufthansa Group's IT security policy is permanently adjusted to conform to the latest IT security standards. An IT security organisation has been established to implement the security regulations, consisting of a corporate information security officer for the Group and information security officers for the companies. They are responsible for implementing the IT security standards in the companies and for emphasising the necessity of IT security to all staff by means of specific awareness-raising and training courses. In this way, an adequate level of IT security can be maintained, making it possible to reduce risks in an economically reasonable manner. The risk and security management systems and selected other measures are regularly reviewed by the internal audit department.

In connection with IT risk management and IT security management, data protection should protect customers, shareholders, suppliers and staff of the Lufthansa Group from any infringement of their privacy due to incorrect handling of their personal data. On the one hand, Corporate Data Protection ensures that the Lufthansa Group complies with the provisions of the Federal Data Protection Act by informing staff of the relevant passages of the statute and carrying out data protection audits. On the other, the data protection experts advise the operating departments on the introduction of new systems and on designing or altering processes in order to optimise and coordinate data protection and economic concerns from an early stage.

Quality

Further volume growth in passenger numbers is expected for 2013. This constitutes corresponding demands of an adequate infrastructure. In certain cases, sites which do not yet have an appropriate end-to-end infrastructure may experience risks to the stability of flight handling. The Lufthansa Group has taken measures to simplify and expedite ground processes, such as increasing process automation by means of check-in machines and self-boarding, for instance. Here again, external influences cannot be ruled out, however.

Communications

Like any large company, the Lufthansa Group is also exposed to communications risks. For this reason, Corporate Communications and Capital Market Communications have for many years worked professionally to guarantee that the right information is given to the appropriate addressees in a timely manner. An Ad Hoc Committee, made up of the General Counsel and the heads of Investor Relations and Corporate Communications, also reviews all significant events to determine their relevance for ad hoc publication in accordance with the Securities Trading Act.

Accounting

Numerous national and European regulations and statutory provisions apply to the preparation of the Lufthansa Group's financial statements, as for all publicly listed companies in Germany. Risks could arise from the inadequate application of accounting regulations. The organisation of the Lufthansa Group's bookkeeping methods ensures that in accounting and the preparation of the financial statements the national and European regulations and statutory provisions are applied. Further information can be found in the chapter "Corporate governance" from p. 25 and in the Notes to the consolidated financial statements from p. 136.

German Accounting Law Modernisation Act (BilMoG) and Internal Control System (ICS)

An ICS unit was set up in the Lufthansa Groups in 2012 as a result of the Group project entitled "Implementing Governance following the German Accounting Law Modernisation Act (BilMoG)". The primary tasks of the ICS unit include ensuring uniform methodologies and reporting as well as harmonising and standardising the ICS across all Group companies. Each year, the unit defines which Group companies and which selected topics are to be included in the financial reporting for the purposes of documenting and evaluating the ICS. The relevance of the Group companies is decided on the basis of statutory requirements and qualitative criteria. They include the German companies that come within the scope of BilMoG as well as foreign companies that pass a certain materiality threshold. The risk-focused selection of topics takes place annually on the basis of qualitative and quantitative criteria for the items in the balance sheet and income statement.

Centralised target requirements (management controls) have been formulated for the companies' internal control systems for all identified topics. The existing management and monitoring instruments to cover the target requirements in the selected companies are documented and must be updated every year. The structure, functionality and therefore the effectiveness of the instruments is also assessed annually. This is carried out on a regular basis by the Internal Audit department or by means of self-assessment by the process owner.

Each company reports regularly to its supervisory board on the effectiveness of its internal control system. The Audit Committee of Deutsche Lufthansa AG's Supervisory Board also looks regularly at the effectiveness of the ICS for financial reporting at the overarching level.

Tax and other legal risks

Tax risks include the risks of a tax inspection. These mainly relate to impairment losses recognised before 2008 on shareholder loans to various foreign Group companies. Further topics for discussion with the tax authorities which contain an element of risk are individual leasing structures, the acquisition structure of a foreign subsidiary and various provisions.

Adequate provisions have been recognised in the interim financial statements for these risks. Adding foreign companies to the Lufthansa Group has meant that cross-border services are rendered within the Group, which in turn entails fiscal uncertainty about setting transfer prices and the place of taxation in light of the static interpretation of Art. 8 OECD Model Tax Convention (principle of home state taxation for airlines).

Furthermore, the Group is exposed to a number of legal risks in the course of its normal business. Appropriate provisions have been made for any financial losses that may be incurred as a result of litigation. More information on provisions for litigation risks and contingent liabilities can be found in the Notes to the consolidated financial statements, "Note 38" from p. 176.

Operational risks

The airlines in the Lufthansa Group are exposed to potential flight and technical operating risks. One of these is the risk of not being able to carry out regular flight operations for technical or external reasons. If flights do not take off or land on time, due to weather conditions for instance, this may have a negative influence on customer satisfaction and future purchase decisions. Airlines' liability for delays has also been broadened considerably, see "Regulatory and other factors" from p. 42.

Another flight and technical risk is the risk of an accident happening, with the possibility of damage to people and property. Dangers affecting accident risk are divided into four groups: environmental factors (for example weather, bird strike), technical factors (for example engine failure), organisational factors (such as errors in selecting staff, contradictory instructions), and especially important, the human factor. The Lufthansa Group airlines search for these dangers systematically in order to manage the resulting risk by means of suitable countermeasures and to increase the level of flight safety further. For example, every single Lufthansa Passenger Airlines 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 sources of information, e.g. accidents and hazardous situations which come to light around the world are also analysed and the results integrated into prevention measures, such as training courses, if relevant.

The safety management systems of the Lufthansa Group airlines can thereby reduce operational risk, for instance by specific steps as part of pilot training or by technical modifications such as retrofitting new types of warning system. This enables the safety management systems to be improved and refined continuously.

Financial risks and opportunities

As an international aviation company, the Lufthansa Group is faced with financial risks in the form of changes in fuel prices, interest rates and exchange rates. The principally conservative approach towards financial and commodity risks is reflected in systematic financial management. Suitable management and monitoring systems are used to measure, manage and monitor risks. The functions of trading, settlement and controlling of financial risk are strictly separated at an organisational level.

The Lufthansa Group 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 these 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 of risk. Detailed information on currency, interest rate and fuel hedges can be found in the Notes to the consolidated financial statements, “Note 47” from p. 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. Depending on the way it is put into practice, the planned regulation of OTC derivatives could create a significant liquidity risk for industrial companies and therefore also for the Lufthansa Group; see also “Regulatory and other factors” on p. 43.

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 aims to reduce interest expenses. All hedged items and hedging transactions are tracked in a treasury system so that they can be valued at any time. For this type of transaction, the Lufthansa Group only works with counterparties that have at least an investment grade rating equal to Standard & Poor’s “BBB” rating or a similar long-term rating.

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 central financial planning department over a timeframe of at least 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 80 currencies relevant for the Lufthansa Group, 20 are hedged. The main currencies are the US dollar, Japanese yen and Chinese renmimbi. Currencies highly correlated with the US dollar are also 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 the Notes to the consolidated financial statements, “Note 47” from p. 183.

Liquidity, financing and interest rate risks

Securing sufficient liquidity at all times is a vital task for the Lufthansa Group’s financial management. 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, the Lufthansa Group always holds minimum liquidity available at short notice of EUR 2.3bn, as defined in its financial strategy. As of 31 December 2012, the Group held total liquidity of EUR 5.0bn. At year-end, the Lufthansa Group also had undrawn bilateral credit lines for a further EUR 1.7bn.

The Lufthansa Group will continue to have a regular borrowing requirement in order to make the investments planned for the years ahead. Especially due to its financial strength and its position in the market, banks and investors still consider the Lufthansa Group to be a preferred partner. To ensure that this remains the case, it is necessary to strengthen the stable financial profile for the long term. The chapter “Financial strategy” from p. 35 describes the pillars of the financial strategy in detail.

Interest rate risks arise from financing our business. As of 31 December 2012, total outstanding financial liabilities came to EUR 6.9bn. To manage general interest rate risk, the Lufthansa Group uses the synchronous fluctuations in the operating result, which depends on the economic cycle, and short-term interest rates (natural hedge). As a rule, 85 per cent of financial liabilities are either at floating rates from the outset or are swapped into floating rates using derivatives. This also enables the Lufthansa Group to minimise average long-term interest expense at the same time. Foreign currency risks from financing are always hedged to 100 per cent. The derivatives used are cross currency swaps and interest rate swaps. Additional information can be found in the Notes to the consolidated financial statements, “Note 47”on p. 183.

Rating risks

The credit ratings given to the Lufthansa Group by the rating agencies have a particular role to play. The Lufthansa Group is rated by Standard & Poor's as investment grade and by Moody's as non-investment grade. If in future a rating agency were to downgrade the credit rating, in particular if Standard & Poor's were also to downgrade the credit rating to non-investment grade, this could lead to a distinct deterioration in funding terms and financial risk management and restrict access to new funding and hedging instruments.

In view of this, a 'Rating Task Force' was established in the reporting year, whose task is to continuously monitor the achievement of the rating agencies' requirements for an investment grade rating and, if necessary, to propose measures to stabilise the rating. The financial strategy to increase the debt repayment ratio has also been even more closely aligned with the objective of stabilising the investment grade rating.

Credit risks

The transactions completed in the course of financial management give rise to default risks. These are managed using a system of counterparty limits with which the Lufthansa Group constantly assess the risk of counterparty default. 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, a documented escalation procedure comes into play, requiring decisions to be taken on the action needed.

In times of high economic fluctuation, the default risk for trade receivables increases. Here, too, the performance of receivables is tracked 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 reviewed and partly secured by guarantees or similar instruments. Counterparty risks in connection with credit card companies are also monitored closely and incoming payments reviewed daily. Additional information and the credit risk positions existing at year-end 2012 can be found in the Notes to the consolidated financial statements, "Note 44" on p. 182.

Market risk from capital investments

Capital investments at the Lufthansa Group are managed as part of the operating and strategic liquidity. Investments are also made by the Lufthansa Pension Trust and other pension funds in the Group. The risks mainly consist of potential price changes for shares, fixed-income securities and interest rates, as well as credit risks.

Capital investments to ensure the Lufthansa Group's operating liquidity are made in accordance with the Group's financial guidelines. The duration of the investments is limited to twelve months, whereby at least EUR 300m must be in investments that can be liquidated on a daily basis. For its operating liquidity, the Lufthansa Group 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 30 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.

The investment structure of the strategic minimum liquidity for the Lufthansa Group has been determined using a stochastic allocation study. It was based on the Lufthansa Group's liquidity requirements and conservative investment principles. The majority of these investments are in products related to the money market. The strategic minimum liquidity is divided into various components with different investment horizons. They are managed by several external asset managers with separate mandates. One of the requirements is that the investments must be able to be liquidated within a maximum of four weeks. Each manager follows his or her own investment guidelines derived from the general Lufthansa Group investment principles. The asset allocation is reviewed regularly and adjusted as necessary. The experience from the financial crisis in particular has led to an even greater focus on liquidity and counterparty risks. Risk management with a defined stop-loss has also been implemented across all asset classes.

The Lufthansa Group is in permanent contact with the asset managers concerned and monitors their performance by means of daily and monthly performance and risk reports.

Investments by Lufthansa pension funds are made on the basis of regularly updated allocation studies. Specific investment guidelines for the individual asset managers follow the Group's conservative investment principles. The Lufthansa Group follows the principle of diversifying risk by dividing the investments across a broad range of assets classes and managers. A risk management system is also in place for the Lufthansa Pension Trust, which enables daily controlling on the basis of a strict risk budget.

Scheduled contributions to the pension fund were continued in 2012, see chapter "Financing" on p. 59.

Fuel price risks

In the reporting year, the Lufthansa Group consumed around 9 million tonnes of kerosene. It is a major item of expense, making up over 20 per cent of operating expenses for the Lufthansa Group. Severe fluctuations in fuel prices can therefore have a considerable effect on the operating result. A change in the fuel price of +10 per cent (–10 per cent) in 2013 would increase (reduce) fuel costs for the Lufthansa Group by EUR +302m (EUR –510m) after hedging.

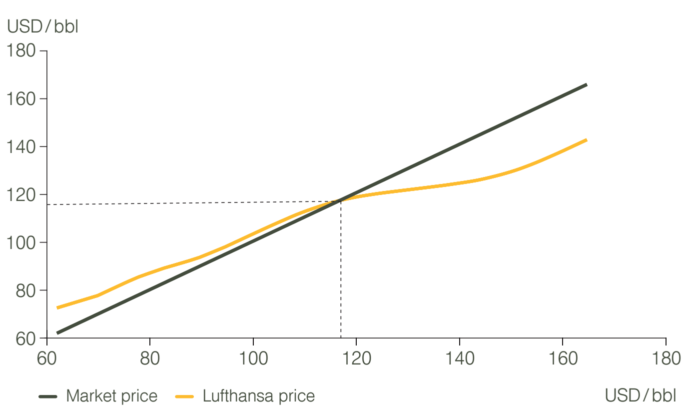
The Lufthansa Group therefore hedges fuel prices with a time horizon of up to 24 months. This is aimed at reducing fluctuations in fuel prices. Limited protection against higher prices is accepted in exchange for maximising the benefits derived from any fall in prices. The hedging level and the time horizon depend on the risk profile, which is derived from the business model of the Group company concerned. The hedging policy and structure shown in the graph are applied to Lufthansa Passenger Airlines, SWISS and the scheduled operations of Austrian Airlines.

The Lufthansa Group uses standard market instruments for fuel hedging and hedges fuel price risks with a lead time of up to 24 months, mostly by means of combined options. Hedges are mainly in crude oil for reasons of market liquidity. The hedging transactions are therefore based on fixed rules and map the average of crude oil prices over time. Depending on the company in the Group, the amounts hedged each month result in a hedging level of up to 85 per cent. For Lufthansa Passenger Airlines for instance, the six months following a given date are hedged to 85 per cent.

At the beginning of February 2013, there were crude oil and kerosene hedges for 78.1 per cent of the forecast fuel requirement for 2013, in the form of futures and options. For 2014 around 28.1 per cent of the forecast fuel requirement was hedged at that time.

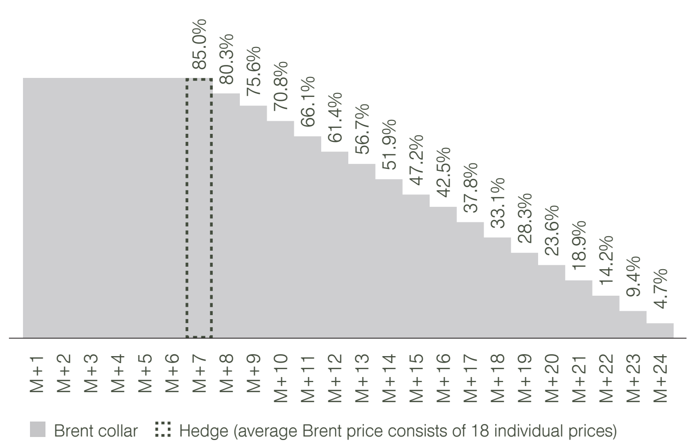
The fuel surcharge has established itself in the market as a further means of reducing risk. The extent to which it will continue to be possible to levy a surcharge is nevertheless uncertain. If fuel prices were to drop by 20 per cent below their level at the start of February 2013, expenses for the Lufthansa Group would be reduced from the forecast EUR 7.3bn to around EUR 6.2bn. The earnings improvement that this would bring could be offset by lower fuel surcharges, however. 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.

Oil price scenario for the Lufthansa Group 2013*



* As of 1.2.2013.

Lufthansa's hedging policy Medium-term crude oil hedging



Overall statement on the risk situation of the Lufthansa Group

The risks and opportunities for the Lufthansa Group will be defined very largely by macroeconomic factors and their subsequent effects on global air traffic markets and competition. Developments in external parameters are subject to great uncertainty, particularly given the ongoing influence of the sovereign debt crisis in Europe. Growth rates are therefore expected to contract further in 2013. In the future greater volatility is expected than has been previously observed.

After a temporary decline in the first quarter of 2012, fuel prices returned to a high level compared with the state of the economy and were not greatly influenced by the lower growth prospects. In contrast to previous years, however, the hedging results fell sharply. On the basis of current futures prices, we are no longer expecting positive market values for the fuel hedging transactions in 2013. Other expenses stem from including air traffic in Europe in emissions trading, although purchasing the necessary certificates was much cheaper than originally assumed. Restricting emissions trading to flights within the European Union, as recently announced by the EU for 2013, also reduces the costs considerably.

In this environment, the Lufthansa Group is continuing to rely on its ability to adjust its capacities and resources flexibly to changing market conditions and to cut costs. The Group SCORE programme also contributes to cutting costs on the basis of revised structures and to making sustainable and structural improvements to profitability.

Despite the tense earnings situation and higher capital expenditure, the Group expects to retain its investment grade rating.

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

Description of the internal control and risk management system in accordance with Section 289 Paragraph 5 and Section 315 Paragraph 2 No. 5 HGB

Principles of the accounting-related internal control and risk management system

The Lufthansa Group's internal control system covers all the principles, procedures and steps intended to ensure effective, economical and accurate accounting and compliance with the relevant legal regulations. It is based on the COSO model (Committee of the Sponsoring Organizations of the Treadway Commission). There have been no significant changes since the reporting date.

Overall responsibility for the internal control system required to manage risk lies with the Executive Board of Deutsche Lufthansa AG, which defines the scope and the format of the systems in place based on the specific requirements of the Lufthansa Group.

The internal monitoring system consists of monitoring procedures both integrated into and independent of business processes. In addition to manual process controls – such as the need for dual signatures – automatic IT process controls form a vital part of the integrated monitoring procedures.

The Supervisory Board, particularly the Audit Committee and the Corporate Audit department of Deutsche Lufthansa AG as well as the decentralised internal audit departments at Group companies are embedded in the internal monitoring system for the Lufthansa Group and act independently of business processes.

The Audit Committee of Deutsche Lufthansa AG monitors the effectiveness of the internal control and risk management system on the basis of Section 107 Paragraph 3 German Stock Corporation Act (AktG).

The auditors of the consolidated financial statements and other instances, such as tax audits, exercise a wider control function, independently of business processes, for the Lufthansa Group. In particular, the audit of the consolidated financial statements and the review of the accounts presented by the Group companies constitute the main independent monitoring steps in relation to consolidated accounting procedures.

The internal control system is a component of the risk management system and in terms of financial reporting is directed at the risk of misstatements in the consolidated accounting and in external reporting.

The objective of the internal control system for accounting processes is by making checks to provide a reasonable degree of certainty that the consolidated financial statements conform to regulations, despite the risks identified.

Further comments on the Lufthansa Group's risk management system can be found in the "Risk and opportunity management" section of the Risk and opportunities report from S. 104.

Principle structures, processes and controls
The Lufthansa Group accounting guidelines govern uniform accounting standards for the domestic and foreign companies included in the Lufthansa consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In addition to general accounting principles and methods this relates above all to rules for the balance sheet, income statement, notes, cash flow statement and segment reporting in accordance with the legal situation in the EU. For the domestic German companies in the Group, a guideline defines rules for drawing up individual financial statements in line with the German Commercial Code (HGB).

The elements of the internal control system are aimed at ensuring the accuracy and reliability of consolidated financial reporting and guarantee that business transactions are recognised in full and at the proper time in accordance with statutory regulations and Lufthansa's Articles of Association. Furthermore, they ensure that inventories are carried out correctly and that assets and liabilities are accurately recognised, measured and disclosed in the consolidated financial statements. The regulations also ensure that the accounting documents provide reliable, comprehensible information.

The controlling activities to ensure the accuracy and reliability of the accounting include analytical reviews using specific performance indicators as well as the execution and control of important and complex transactions by different people. The separation of administrative, executive, accounting and authorisation functions and their performance by different individuals (dual signatures) reduce the risk of fraud.

Internal guidelines also govern specific formal requirements made of the consolidated financial statements. Establishing the group of consolidated companies is defined in detail, as are the components of the reports to be drawn up by the Group companies and their transmission to the central consolidation system. The formal requirements relate to the mandatory use of a standardised and complete set of reporting forms and a uniform account framework for the Group. The internal guidelines also include concrete instructions on presenting and carrying out netting procedures within the Group and confirming the resulting account balances. Confirmation of account balances for the entire Group takes place via an internet-based platform.

At Group level the specific control activities to ensure the accuracy and reliability of consolidated financial reporting include the analysis and if necessary restatement of separate financial statements prepared by Group companies, taking into account the auditors' reports and meetings held to discuss them. The accuracy and completeness of the reporting packages presented by the individual companies in the Group are confirmed by the respective auditors in their report. Individual financial statements that contain errors are selected and restated as necessary at Group level on the basis of control mechanisms already defined in the consolidation software SAP SEM-BCS system and/or by systematic plausibility checks. The consolidation system dictates the different deadlines for various elements of the reporting packages and verifies centrally that they are adhered to during the preparation process. Changes to sections of the accounts that have already been closed can then only be made following authorisation in the system by the department responsible for the consolidated financial statements. The centralised controlling of impairment tests for the specific cash-generating units from the Group perspective ensures that uniform, standardised measurement criteria are applied.

The scope of regulations at Group level extends to the centralised definition of the parameters to be used for measuring pension provisions. Expert opinions for determining the amount of pension provisions are prepared by external consultants. Furthermore, the data used to prepare external information in the Notes to the financial statements and the management report are prepared and aggregated centrally. The accounting-based internal control system also aims to ensure that the financial statements for Deutsche Lufthansa AG are prepared in accordance with the provisions of commercial law laid down in the German Commercial Code (HGB).

The accounting-related processes are examined independently and regularly by the Corporate Audit department and by the internal auditing departments of the Group companies.

Use of IT systems
Bookkeeping for the individual financial statements of subsidiaries of Deutsche Lufthansa AG generally takes place in local bookkeeping systems from SAP, either locally or using the Group's own shared service centres.

To prepare the consolidated financial statements for Deutsche Lufthansa AG, the individual financial statements of the Group companies are supplemented by additional information to form standardised reporting packages, which are then entered into the consolidation software SAP SEM-BCS by the companies, either automatically via transfer interfaces or by means of a data capture module. The Group auditors put SAP SEM-BCS through a specific system test when it was introduced. Any adjustments made to the system are subject to regular reviews by the auditors.

The SAP SEM-BCS system generates and documents all the steps taken to prepare the consolidated financial statements for Deutsche Lufthansa AG, such as capital consolidation, consolidation of liabilities, the elimination of intra-Group expenses and profits, and the equity valuation. Consolidation takes place simultaneously.

All elements of the consolidated financial statements for Deutsche Lufthansa AG, including the disclosures in the Notes, are compiled from the SAP SEM-BCS consolidation system.

The IT systems used for accounting are protected against unauthorised access by special security precautions.

Qualifying remarks

By means of the organisational, control and monitoring structures defined for the Lufthansa Group, the internal control and risk management system enables all matters affecting the Company to be captured, processed and evaluated and to be presented adequately in the Group's financial reporting.

The effectiveness and reliability of the control and risk management systems deployed can be restricted by the use of individual discretion, faulty checks, criminal acts by related persons and other factors, so that even the application of these systems throughout the Group cannot guarantee complete certainty regarding the accuracy, completeness and timeliness with which matters are recognised in consolidated financial reporting.

These statements only relate to Deutsche Lufthansa AG and the significant subsidiaries included in the consolidated financial statements of Deutsche Lufthansa AG that are under the legal or effective control of Deutsche Lufthansa AG.

Supplementary report

Lufthansa Group invests in modern fleet

In February 2013, the Executive Board of Deutsche Lufthansa AG made a recommendation to the Supervisory Board to purchase a total of 108 new aircraft for the Group. Altogether, eight long-haul aircraft and 100 short- and medium-haul aircraft are from Airbus and Boeing to be purchased for the Lufthansa Group. Which aircraft types will be selected is the subject of ongoing negotiations with the respective manufacturers. The list price of the order is around EUR 9bn. Deliveries are to take place in the period 2015 to 2025. This means that by the end of 2025, the Lufthansa Group is expecting to take delivery of 239 aircraft with an order volume totalling EUR 23bn at list prices.

Lufthansa Group decides on structural changes

Also in February 2013 additional measures, which will have an impact on employees and the structure of the Company, were adopted as part of the SCORE programme. Several sites are to be closed. They include the head office in Cologne with 365 staff and the offices of Lufthansa Revenue Services GmbH (LRS) in Norderstedt. The latter will also mean the loss of around 350 jobs. Both measures are to be implemented by 2017. Of some 200 administrative posts in Financial Services at the Hamburg site, 80 per cent are to be transferred to a specialised service centre. The planned measures are to be discussed with employee representatives in the first quarter.

As part of the restructuring of the Lufthansa Passenger Airlines regional segment, Lufthansa CityLine is examining plans to move its head office from Cologne to Munich. The reasoning behind the possible move is to bring the administrative headquarters of Lufthansa CityLine closer to its operational main base in Munich. Around 300 employees would be affected. A final decision on this specific measure has not yet been taken.

Strikes at regional airports disrupt flight operations

The first two months of 2013 saw an unusually large number of strikes by employees outside the Group, which disrupted operations at some Group companies. The trade union ver.di called repeatedly for strikes as part of collective bargaining for the employees of private security services. As a result, several hundred flights were cancelled at various times at the airports in Hamburg, Dusseldorf and Cologne.

Forecast

↗ Global economic growth is expected to be subdued in 2013. ↗ European airlines are forecast to break even. ↗ The restructuring of the Lufthansa Group with the aim of improving its future viability is to be continued. ↗ The aim is to achieve structurally higher profitability. ↗ The operating result for 2013 is expected to be higher than the previous year's. ↗ Fuel and exchange rates remain the crucial factors. ↗ Financial profile remains stable.

Macroeconomic outlook

GDP development
Forecast 2012 to 2016 compared with previous year

in %	2012*	2013*	2014*	2015*	2016*
World	2.6	2.5	3.4	4.0	4.0
Europe	0.0	0.3	0.9	1.9	2.3
Germany	1.0	0.9	1.1	1.5	1.6
North America	2.2	1.7	2.7	3.4	3.1
South America	2.6	3.3	4.4	4.0	4.2
Asia/Pacific	4.8	4.5	5.5	6.0	5.7
China	7.7	8.0	8.3	8.6	8.1
Middle East	3.3	2.2	3.6	4.0	4.4
Africa	5.0	4.4	4.8	5.0	5.0

Source: Global Insight World Overview as of 15.1.2013.
* Forecast.

Global economic developments remain subject to a high degree of uncertainty

The outlook for the global economy is still very bleak, particularly in view of the unresolved difficulties regarding public-sector debt and great uncertainty on the part of consumers and investors. These topics will continue to determine the pace of global growth. Very modest global economic growth is forecast for 2013. A further condition for any upturn, however, is that the USA quickly clarifies the course of its future budget consolidation.

Given the subdued pace of global economic growth, only a modest increase in world trade can be expected. Growth in emerging markets is likely to remain much stronger than in the more advanced economies. The momentum that this group of countries generates for the global economy is nevertheless expected to be weaker than in previous years. The emerging markets are expected to see their expansion accelerate slightly over the next year. Overall, the global economy is forecast to grow by 2.5 per cent in 2013, rising again the year after.

The decisive factor for the performance of the US economy in 2013 is whether a growth-friendly budget consolidation is initiated in the course of the year or whether massive, automatic spending restrictions, dubbed the "fiscal cliff" will materialise, which could lead to a recession. A solution to the budget crisis and subsequent growth of around 1.7 per cent are expected for 2013, rising again in 2014.

In Japan, the economy is expected to stagnate in 2013. Growth is only expected in 2014. Economic expansion in the emerging markets of Asia is predicted to pick up slightly in 2013. In China in particular, it can be assumed that the government will keep up its economic policy measures until the economy picks up significantly. Altogether, economic growth of 4.5 per cent is forecast for the Asia-Pacific region in 2013, trending higher the following year. The revival of the global economy over the course of the year and the government's monetary and fiscal policies suggest that Chinese GDP growth will pick up again in 2013.

In the euro area, the efforts to balance public and private-sector budgets are likely to continue over the year ahead. Although negative growth is forecast for private and public-sector demand, external trade is expected to receive a boost from the persistent weakness of the euro.

Another decline in gross national product is likely in the euro area in 2013. The expectation is therefore that the European economy as a whole will only expand slightly during the year (+0.3 per cent). Higher growth is predicted for the following year. The German economy is expected to put in a subdued performance (+0.9 per cent) in 2013. In 2014, it should increase again more strongly as the situation in the euro area gradually improves and the remainder of the world economy picks up speed.

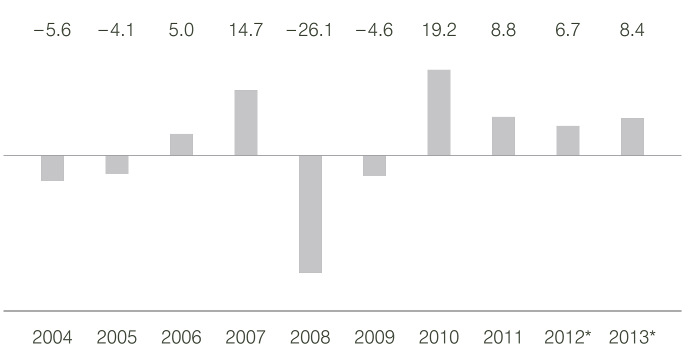
Interest and currency rates to remain volatile
Subdued growth in the industrialised nations and the effects of the euro crisis mean that fluctuations in interest and exchange rates again have to be expected in 2013.

Lower oil prices forecast in the medium term
Given the restrained economic outlook, market participants are expecting oil prices to fall in the medium term. As of 1 February 2013, futures contracts for delivery in December 2013 were trading at USD 108.90/barrel and for December 2014 at USD 102.05/barrel.

Sector outlook

Future sector performance will be uneven
In connection with global economic growth, IATA's forecast for 2013 is for growth of 3.9 per cent in total worldwide passenger numbers (previous year: 4.6 per cent) and of 4.7 per cent for purely international passenger traffic (previous year: 5.4 per cent). Average growth in international air traffic is predicted to go up to 5.3 per cent p.a. by 2016, which would put it slightly above the long-term mean. Developments in air transport markets will nonetheless continue to differ from region to region.

Development of sector net result in USD billion



Source: IATA Financial Forecast (12/2012). * Forecast.

According to IATA, the fastest growth in international passenger traffic in the period 2012 to 2016 is expected in Africa, with an average annual rate of 6.8 per cent. Substantial growth is also forecast for international passenger traffic in the Asia-Pacific and the Middle East regions. The resurgence of its local economies will make Asia in particular an important driver of passenger traffic in the years to come. Comparatively moderate growth rates are still projected for European and North American markets.

Airfreight traffic returns to growth
After coming to a virtual standstill with an increase of just 0.6 per cent in 2012, growth in airfreight traffic should pick up again, driven by the emerging markets. IATA is forecasting freight growth of 2.8 per cent for 2013. On this forecast, international airfreight demand should rise to an average of 4.0 per cent per year by 2016. In airfreight, the fastest growth between 2012 and 2016 will be in the Middle East, Latin America and Africa, whereas forecast growth rates for other markets are only modest.

Earnings for the airline industry should improve
Despite the uncertain outlook for the further development of the global economy, IATA is expecting profits for the airline industry to increase to USD 8.4bn in 2013 after reaching USD 6.7bn in 2012. The airlines in the Asia/Pacific region are forecast to contribute earnings of USD 3.2bn to the total, with EUR 2.9bn coming from North American carriers. In absolute terms, profits are predicted to rise slightly year on year for the airlines in South America and the Middle East. European and African airlines are expected to break even in 2013.

Changes in business and organisation

The Lufthansa Group regularly reviews its organisational structure and adapts it as necessary to changes in the business environment. Faced with increasing competition and cost pressure, the Company set up a separate project department at the beginning of 2012 to guide and monitor the implementation of the SCORE programme in all of the Group's business segments. The project department reports directly to the CEO. The portfolios in the segments were stripped of their persistently loss-making companies and structural adjustments were made at the same time. The sale of British airline bmi to IAG as agreed in December 2011 was closed in April 2012.

In the Logistics segment, an application was made in June for the liquidation of Lufthansa Cargo's equity investment in Jade Cargo. Also in June, the responsibilities of the Executive Board of Lufthansa Passenger Airlines were reorganised and a new board seat was created for Human Resources and Infrastructure Services. Flight operations at Austrian Airlines were transferred to its subsidiary Tyrolean Airways as of 1 July 2012 as part of a wide-ranging restructuring programme. Another change to the organisational structure was adopted in the third quarter. In early 2013, decentralised European traffic at Lufthansa Passenger Airlines and Germanwings is to be merged in commercial and organisational respects under the Germanwings brand. Details of the organisational developments in the individual segments can be found in the respective chapters.

Outlook for the Lufthansa Group

The restructuring of the Lufthansa Group is to be continued
In the first half of 2012, the efforts made in the course of the SCORE programme were essentially devoted to building a suitable organisational structure for the earnings improvement programme and agreeing individual and collective targets per segment and for the group. 2013 will now see the implementation of many projects that have already been prepared and adopted. Following the sale, closure and initial restructuring of loss-making subsidiaries in 2011 and 2012, the focus will now turn to the core business of the Passenger Airline Group and the main service companies.

The planned activities mainly amount to reorganisation, in most cases by transferring expertise from individual companies to the service centres or central departments, as well as restructuring certain business segments and generally streamlining administrative functions. Many of the projects involve job losses.

For 2013, there is therefore a continued risk that negotiations on wages and staff reductions break down and that strikes are called, which may disrupt the business operations of companies in the Lufthansa Group. Collective bargaining will therefore continue to concentrate on the need for structural adjustments to pay agreements across all the companies in the Lufthansa Group. The agreement reached with flight attendants at Lufthansa Passenger Airlines is an example of the structural changes that are required in the operating areas of this core business segment.

In addition to talks with existing collective bargaining partners, a fundamental review of bargaining structures across the entire Lufthansa Group is an important part of the reorganisation of certain segments. The dialogue required to explain the transformation process will be intensified in 2013 and expanded from internal to external stakeholders.

Monopolistic suppliers will also have to make contributions
Fair competition with European and non-European players is of great importance for the future viability of the Lufthansa Group's core business. In the future, the companies will therefore campaign even more intensely for a level playing field for all market participants. This includes new rules on the European Emissions Trading Scheme (ETS), comparable taxation of passengers and airlines in all markets and for all market players, as well as a reasonable progression of fees and charges for air traffic control and airports.

Profitability has to rise in order to compensate for fluctuations in the operating environment
Notwithstanding these improvements, the Lufthansa Group will remain particularly exposed to highly volatile market conditions in its core business segment, which the Company is only partially able to influence. They include wide swings in the oil price and exchange rates as well as political and economic developments. In addition, the Lufthansa Group is also vulnerable to other developments beyond its control, such as the increasing tendency for small trade unions to go on strike, as occurred with the apron controllers in Frankfurt in 2012 or with the strikes by security staff at airports in Dusseldorf and Cologne in early 2013.

Given these uncertainties, it is even more important to keep improving the structural profitability of the Lufthansa Group. Next year, too, the SCORE programme will therefore remain top priority and will strongly impact the course of the financial year.

A good starting position was established in 2012 for further change in 2013. Thanks, in particular, to the positive performance by the service companies, the Lufthansa Group can report much better results than most of its competitors. Its financial stability is also exceptionally good compared with the competition. Despite this, the operating result was down on the previous year, largely due to the higher cost of fuel and net expenses caused by interest rate movements.

The forecast for the operating result is positive, but can only be roughly quantified
General market sentiment suggests that the oil price will decline in the medium term during the year. However, in particular the exchange rate of the Euro against the US dollar and the Japanese yen is currently subject to strong fluctuations. Both the oil price and exchange rates may continue to have a severe impact on the Lufthansa Group's result in the coming year. The depreciation of the yen for example depressed revenue significantly at the start of the year.

If conditions otherwise remain stable, the Lufthansa Group is nonetheless currently assuming that revenue for 2013 will be up on the previous year and that the operating result will be higher than the reported result for the financial year 2012.

The main factors influencing earnings will again be the oil price and the jet fuel crack, as well as exchange rates, and, in particular, market developments, including the continuation of general capacity discipline in European competition.

Furthermore, earnings in 2013 will be significantly affected by restructuring expenses and project costs in connection with the implementation of SCORE and the ongoing programme of investment in the fleet and the product. SCORE activities should make a substantial gross contribution to earnings in 2013. At the same time, expenses and costs as described above will depress the result significantly.

In 2013, we expect to generate the larger part of the operating result for the year with the airlines, i.e. the Passenger Airline Group and Lufthansa Cargo.

The accuracy of forecasting for 2014 is even more limited. Should the market conditions remain stable, we are currently forecasting a further increase in revenue and operating profit. In addition to the market factors, this depends to a very great extent on the successfull implementation of the measures set out in the SCORE programme, however.

Fall in net profit expected
Net profit for 2012 was boosted significantly by book gains on the sale and transfer of Amadeus shares to the pension fund. In view of this non-recurring effect, we expect net profit for the year to go down in 2013.

Financial stability to remain in focus
Given the substantial gross capital expenditure of EUR 2.9bn planned, it is not certain whether a free cash flow can be generated in either 2013 or 2014.

The financial profile of the Lufthansa Group will remain stable, however. Defined minimum liquidity of EUR 2.3bn will be maintained and the fleet will still largely be owned and unencumbered. The amendments to IAS 19 described above will mean that both the equity ratio and the debt repayment ratio will deteriorate sharply compared with 2012, however, and will remain exposed to strong fluctuations in the future. The revised target for the equity ratio of 25 per cent will not be achievable in the short term without a sharp increase in interest rates, but is intended as a medium term goal. The new minimum figure of 35 per cent for the debt repayment ratio is meant to be achieved in the short term, however.

Overall statement on the expected development of the Lufthansa Group

Shaping the future together
In spite of the challenging market and the upcoming restructuring work needed to implement the SCORE programme, overall, the Executive Board of Deutsche Lufthansa AG remains optimistic regarding the development of the Lufthansa Group and its companies.

The Executive Board believes that the broad diversification of the Lufthansa Group puts it in a good position to meet the present and future demands of the market. Diversification around the core business segment is just as important in this context as the solid financial profile of the Lufthansa Group. These two features enable the airlines and the service companies to initiate, finance and implement the necessary processes of structural change from a position of strength. The structural increase in profitability across all companies remains vitally important. Notwithstanding persistent cost pressure from fuel prices and shifting competitive structures, this is the fundamental requirement for the Lufthansa Group's sustainable development. The pillars of the company strategy – future viability and company value, market leadership, customer satisfaction and sustainability – are the guidelines for this development.

Important decisions were made last year for the structural improvements to the profitability of the Lufthansa Group and thus for a sustainable increase in company value. Now, an intensive phase of far-reaching changes lies ahead of the Company with the implementation of the necessary steps. The Executive Board is confident that by acting together, staff and managers will be able to take the steps required to reach these targets as partners, and in this spirit to shape the future together.

Disclosures in accordance with Section 315 Paragraph 4 HGB

Composition of subscribed capital, types of shares, rights and duties
Deutsche Lufthansa AG's issued capital amounts to EUR 1,177,464,320 and is divided into 459,947,000 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 share 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 empowered under Section 4 Paragraph 1 German Aviation Compliance Documentation Act (LuftNaSiG) together with Section 71 Paragraph 1 No. 1 German Stock Corporation Act (AktG), to buy back its own shares to prevent 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 issued capital by up to 10 per cent by issuing new shares for payment in cash without subscription rights for existing shareholders (Section 4 Paragraph 2 and 3 LuftNaSiG together with Section 4 Paragraph 6 of the 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 (Section 5 Paragraph 1 of the 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 (Section 5 LuftNaSiG).

On 31 December 2012, foreign shareholders held 34.0 per cent of the shares in the shareholders' register of Deutsche Lufthansa AG. Detailed information on the German Aviation Compliance Documentation Act (LuftNaSiG) and the quarterly update on our shareholder structure can be found on our website i www.lufthansagroup.com/investor-relations.

Employee performance programmes contain time-based restrictions on trading in shares, in particular lock-up periods of three and four years.

Direct or indirect shareholdings with more than 10 per cent of voting rights
As of 31 December 2012, Deutsche Lufthansa AG had received no notification of direct or indirect shareholdings with more than 10 per cent of voting rights.

Holders of shares with special rights
Deutsche Lufthansa AG has no shares with special rights.

Control of voting rights for employee shares when control rights are exercised indirectly
This rule 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 issuance)
Deutsche Lufthansa AG has authorised capital of EUR 581,015,956.32:

A resolution passed at the Annual General Meeting on 29 April 2010 authorised the Executive Board until 28 April 2015, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 561,160,092 by issuing new registered shares on one or more occasions for payment in cash or in kind (Authorised Capital A). As a matter of principle, existing shareholders are to be granted subscription rights.

A resolution passed by the Annual General Meeting on 24 April 2009 authorised the Executive Board until 23 April 2014, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 25,000,000 by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded. In 2012, the Company used EUR 5,144,135.68 of this authorised amount to issue 2,009,428 new shares to employees. This reduced Authorised Capital B still available under the authorisation to EUR 19,855,864.32.

Contingent capital has been increased by up to EUR 234,464,035.80 by issuing up to 91,587,514 new registered shares. The contingent capital increase will only be carried out to the extent that the holders or creditors of conversion rights or options attached to convertible bonds and/or warrants or profit-sharing rights of any kind (or any combination of these instruments) issued by the Company or its affiliated companies for cash pursuant to the authorisation given at the Annual General Meeting for the period 3 May 2011 to 2 May 2016 exercise their conversion or option rights or that the holders or creditors of convertible bonds issued by the Company or its affiliated companies pursuant to the authorisation given at the Annual General Meeting for the period 3 May 2011 to 2 May 2016 (or of profit-sharing rights or other forms of mezzanine capital with obligatory conversion) meet their conversion obligations and to the extent that the debt is not settled using treasury shares or other rights. The new shares are entitled to share in profits from the beginning of the financial year in which they are issued by the exercise of conversion or option rights or by meeting a conversion obligation. The Executive Board is authorised to determine the further details of the way in which the contingent capital increase is to be carried out.

In addition, the Company is authorised by resolution of the Annual General Meeting on 29 April 2010 to buy back its own shares until 28 April 2015. 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 the Notes to the consolidated financial statements, "Note 34" from p. 168.

Change of control agreements relating to the parent company
Deutsche Lufthansa AG has no agreements of this kind.

Compensation agreements with Executive Board members 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 members 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, see the Notes to the consolidated financial statements, "Note 50" from p. 193.

Notes to the individual financial statements for Deutsche Lufthansa AG (HGB)

↗ Deutsche Lufthansa AG reports an increase in revenue. ↗ Performance indicators show a significant improvement. ↗ The net profit for the year was EUR 592m. ↗ Fast growing result from equity investments is driving earnings. ↗ Cash flow improved significantly. ↗ Total assets grew.

The financial statements for Deutsche Lufthansa AG have been prepared in accordance with the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG) as well as the transitional provisions of the German Accounting Law Modernisation Act (BilMoG) that are still in force, and have been audited by Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf. They are published in the electronic Bundesanzeiger. The financial statements are permanently available on the internet at i http://investor-relations.lufthansagroup.com/en/finanzberichte.html and a printed copy can be ordered from Deutsche Lufthansa AG.

In this annual report the management report for Deutsche Lufthansa AG has been combined with the Group management report for the Lufthansa Group. Deutsche Lufthansa AG and its results also include the Group headquarters with the central functions for Corporate Development, Finance and Controlling, Communications, Public Affairs, Human Resources, Legal and Compliance, Data Security, Safety and Procurement. The economic environment for Deutsche Lufthansa AG is essentially the same as for the Group and is described in detail in the section “Economic environment and course of business” from p. 37.

Earnings position of Deutsche Lufthansa AG

67 million passengers transported

The number of passengers increased by 2.1 per cent in the financial year 2012 to 67 million. Capacities were roughly unchanged year on year, rising by just 0.1 per cent. As the growth in demand was somewhat stronger, sales rose by 1.2 per cent. The load factor improved by 0.8 percentage points to 78.1 per cent as a result.

Average yields again higher than previous year

In 2012, average yields rose by 4.0 per cent compared with the previous year’s figure. With sales up by 1.2 per cent the Company reported traffic revenue of EUR 16.0bn or 5.2 per cent more than in the previous year. Other revenue was also above last year’s level at EUR 314m. Overall revenue totalled EUR 16.3bn, an increase of 5.2 per cent year on year.

Revenue and earnings development

While operating income rose by 3.9 per cent overall, operating expenses increased disproportionately by 5.1 per cent, as was the case last year.

Trends in traffic regions of Deutsche Lufthansa AG

	Traffic revenue in €m external revenue		Number of passengers in thousand		Available seat-kilometres in millions		Revenue seat-kilometres in millions		Passengers load factor in %	
	2012	Change in %	**2012**	Change in %	**2012**	Change in %	**2012**	Change in %	**2012**	Change in pts
Europe	6,713	5.9	51,883	2.8	56,865	3.0	40,186	4.3	70.7	0.9
America	4,589	8.8	7,057	−0.7	62,506	−2.0	53,007	0.3	84.8	2.0
Asia / Pacific	3,241	−0.9	4,609	−1.9	44,463	−0.7	35,895	−1.3	80.7	−0.5
Middle East / Africa	1,405	4.8	3,146	3.3	18,628	0.0	13,324	1.3	71.5	0.9
Total scheduled services	**15,948**	**5.2**	**66,695**	**2.1**	**182,462**	**0.1**	**142,412**	**1.1**	**78.1**	0.8
Charter	16	17.4	136	27.4	323	47.9	275	60.4	85.2	6.6
Total	**15,964**	**5.2**	**66,831**	**2.1**	**182,785**	**0.1**	**142,687**	**1.2**	**78.1**	0.8

Income statement for Deutsche Lufthansa AG in accordance with HGB

in €m	2012	2011
Traffic revenue	15,964	15,179
Other revenue	314	300
Total revenue	**16,278**	**15,479**
Other operating income	1,721	1,842
Cost of materials and services	–12,178	–11,100
Staff costs	–2,638	–2,669
Depreciation, amortisation and impairment	–520	–489
Other operating expenses	–3,043	–3,232
Result from operating activities	**–380**	**–169**
Result of other equity investments	1,758	901
Net interest	–184	–416
Impairment on investments and current securities	–138	–353
Financial result	**1,436**	**132**
Result from ordinary activities	**1,056**	**–37**
Extraordinary result	–396	–35
Taxes	–68	–44
Net profit / loss for the year	**592**	**–116**
Transfers from retained earnings	–	230
Transfers to retained earnings	–296	–
Distributable earnings	**296**	**114**

That is why the result from operating activities shown in the income statement fell year on year by EUR 211m to EUR –380m (previous year: EUR –169m). Adjusted for various and highly extraordinary variable effects – mainly from the recognition of provisions for restructuring Group companies in 2012 as part of SCORE, as well as the results of fuel hedging, additions to financial investments, write-backs of provisions and other non-recurring effects – the result would have been even worse (EUR –452m).

Total revenue went up by 5.2 per cent to EUR 16.3bn. The reason for the increase was higher traffic revenue, which rose by 5.2 per cent to EUR 16.0bn. Other operating income reported a decline to EUR 1.7bn (previous year: EUR 1.8bn).

This stems from a smaller write-up on the carrying amount for LSG Lufthansa Service Holding AG, lower currency gains from changes in exchange rates between origination and realisation and the rates applied at the reporting date, as well as the absence of one-off effects such as the reimbursement of air traffic control charges in the previous year.

The decline was offset primarily by higher write-backs of provisions and book gains from the disposal of aircraft.

Operating expenses totalled EUR 18.4bn and were 5.1 per cent up on the year. This was, again, primarily due to the increase of 9.7 per cent, or EUR 1.1bn, in the cost of materials and services.

The **cost of materials and services** reached EUR 12.2bn and now accounts for 66.3 per cent of total operating expenses (previous year: 63.4 per cent). The increase in the cost of materials and services by EUR 1.1bn stemmed mainly from fuel expenses, which went up by 20.6 per cent to EUR 4.9bn. Adjusted for the amortisation of fuel surcharges, fuel expenses rose by 19.2 per cent. Of the adjusted rise in costs, 12.9 per cent stemmed from higher fuel prices in US dollars (including the hedging result). On average over the year, USD exchange rate movements also increased expenses. A slight decline in volumes of 3.2 per cent had the opposite effect. Without the positive hedging result of EUR 37m, fuel costs would have been even higher.

In the reporting year, **costs of services purchased** only climbed slightly on the previous year (+3.4 per cent) to EUR 7.1bn.

Fees and charges, at EUR 3.2bn, still constitute the largest expense item under services purchased. Air traffic control charges rose by 2.2 per cent, in line with higher passenger numbers, whereas landing fees and passenger fees went up more sharply at 5.4 per cent and 4.6 per cent respectively. Compared with the previous year, handling charges even fell slightly by 1.5 per cent and the fees and charges for airport infrastructure were down by 7.6 per cent. Overall fees and charges went up by 2.3 per cent. Costs for purchased MRO services were roughly unchanged compared with the previous year at EUR 1.4bn. Charter expenses, largely payable to the regional partners as part of the Lufthansa Regional concept, rose considerably year on year by 11.4 per cent to EUR 920m. Expenses for operating leases again went up sharply by 14.3 per cent to EUR 528m. This was due to further aircraft financed by means of various sale-and-lease-back models in the financial year.

In the financial year 2012, Lufthansa's **staff costs** totalled EUR 2.6bn, which was 1.2 per cent down on the year. With average annual staff numbers slightly higher, wage and salary costs rose by 2.0 per cent. Social security contributions also increased by 2.5 per cent to EUR 286m. Staff costs include additions to restructuring provisions of EUR 22m. By contrast, expenses for retirement benefits fell by 23.8 per cent to EUR 254m. This is largely due to the still unresolved wage settlement for cockpit staff.

Depreciation and amortisation rose by EUR 31m or 6.3 per cent to EUR 520m in the 2012 financial year. A total of 29 new aircraft which were delivered in the reporting period were behind the increase.

Other operating expenses totalled EUR 3.0bn and were 5.9 per cent or EUR 189m down on the year. Non-recurring factors from the previous year (provision for impending losses from the disposal of bmi and currency-related book losses from the disposal of down payments in US dollars for three Airbus A380s to Lufthansa Malta Aircraft Leasing Ltd.) were only matched by one main item in 2012: the recognition of provisions for restructuring Group companies as part of SCORE (EUR 78m).

The **financial result** of EUR 1.4bn was well above the previous year's figure of EUR 132m. In 2012, it is made up of a result from equity investments of nearly EUR 1.8bn (previous year: EUR 901m), negative net interest of EUR 184m (previous year: EUR –416m) and other financial items of EUR –138m (previous year: EUR –353m).

Compared with the previous year the **result from equity investments** nearly doubled. All companies with a profit and loss transfer agreement generated positive earnings in the reporting year. The largest contribution to the result from equity investments came from Lufthansa Commercial Holding GmbH (EUR 691m), thanks to the sale of shares in Amadeus Holding IT S.A. Lufthansa Technik AG (EUR 325m), Lufthansa CityLine GmbH (EUR 12m), Lufthansa Systems AG (EUR 44m), LSG Lufthansa Service Holding AG (EUR 51m), Delvag Luftversicherungs-AG (EUR 20m) and Eurowings GmbH (EUR 10m), which operated under a profit and loss transfer agreement for the first time, all improved their year-on-year result, in some cases by a considerable margin. Only Lufthansa Cargo AG (EUR 147m) and Lufthansa Flight Training GmbH (EUR 17m) delivered lower earnings contributions than in the previous year. The sharp fall in the dividend from Air Trust (EUR 183m) was more than offset by the significant increase in the dividend from Lufthansa SICAV-FIS (EUR 172m) and the 20 Austrian leasing companies (EUR 65m). This also includes dividends paid by Eurowings GmbH in the year 2011 (EUR 13m).

In the financial year, **net interest** came to EUR –184m (previous year: EUR –416m). The main reason for the sharp improvement is the much higher market valuation of the assets used to fund retirement benefit obligations (EUR +378m) compared with the previous year. This positive effect is partly mitigated by higher accrued interest on pension provisions (EUR –114m).

Impairments on investments and current securities were EUR 215m lower than the previous year at EUR –138m. The financial year 2011 saw considerable write-downs on current financial investments totalling EUR –353m, which were followed in 2012 by further impairment losses on the carrying amounts for Eurowings GmbH (EUR –63m) and Air Dolomiti S.p.A. Linee Aeree Regionali Europee (EUR –66m). This item is completed by a discount on the loan to Brussels Airlines SA/NV (EUR –8m).

Balance sheet for Deutsche Lufthansa AG in accordance with HGB

in €m	31.12.2012	31.12.2011
Assets		
Intangible assets	155	157
Aircraft	5,076	4,573
Property, plant and other equipement	120	107
Financial investments	9,837	9,367
Non-current assets	**15,188**	**14,204**
Inventories	63	44
Trade receivables	502	537
Other receivables	2,666	1,754
Securities	1,443	1,199
Liquid funds	821	210
Current assets	**5,495**	**3,744**
Prepaid expenses	**47**	**66**
Excess of plan assets over provisions for pensions	**17**	**0**
Total assets	**20,747**	**18,014**
Shareholders' equity and liabilities		
Issued capital	1,177	1,172
Capital reserve	872	857
Retained earnings	1,634	1,337
Distributable earnings	296	114
Shareholders' equity	**3,979**	**3,480**
Provisions	**6,726**	**6,684**
Bonds	2,100	2,107
Liabilities to banks	1,169	1,007
Payables to affiliated companies	3,102	1,713
Other liabilities	3,652	2,999
Liabilities	**10,023**	**7,826**
Deferred income	**19**	**24**
Total shareholders' equity and liabilities	**20,747**	**18,014**

Extraordinary result

As part of its application of the transitional BilMoG provisions, Deutsche Lufthansa AG made use of the option to transfer the entire remaining difference from the revaluation of pension obligations as of 1 January 2010 to pension provisions.

The ensuing expenses for 2012 of EUR 396m are included in the extraordinary result mentioned above. The extraordinary result, financial result and operating result combine to make up a pre-tax profit of EUR 660m (previous year: pre-tax loss of EUR 72m).

Positive net result

Deducting taxes of EUR 68m resulted in a net profit for the year of EUR 592m. After transferral to other retained earnings, this leaves a distributable profit of EUR 296m. The Executive Board and Supervisory Board will propose the transfer of the entire distributable profit to other retained earnings at the Annual General Meeting to be held on 7 May 2013.

Asset and financial position of Deutsche Lufthansa AG

Sharp increase in cash flow from operating activities

Cash flow from operating activities came to EUR 715m, which was a considerable improvement on the previous year's figure (EUR 474m). In the reporting year, Lufthansa invested EUR 1.3bn (previous year: EUR 1.2bn) in new aircraft and advance payments for new aircraft. Of the total, EUR 310m was for advance payments. To finance future payment obligations arising from staff pension entitlements, Deutsche Lufthansa AG transferred a total of EUR 444m to the Lufthansa Pension Trust on a long-term basis for investment in various fixed income and share funds. EUR 326m of the total was transferred in the form of shares in Amadeus IT Holding S.A. Altogether, investments, income from asset disposals and sales of securities resulted in a cash outflow of EUR 76m. Financial liabilities went up by EUR 471m as a result.

With cash flow from operating activities of EUR 715m and gross capital expenditure of EUR 2.3bn, the internal financing ratio improved to 31.5 per cent (previous year: 17.0 per cent).

Total assets rose to more than EUR 20bn

Total assets rose by 15.2 per cent or EUR 2,733m to EUR 20.7bn. Non-current assets were up by nearly EUR 1.0bn, whereas current assets, including prepaid expenses, increased by EUR 1.7bn.

The increase in property, plant and equipment is largely due to the delivery of 29 new aircraft in the reporting period. The rise of EUR 470m in financial investments stems primarily from the retained dividend at Lufthansa SICAV-FIS (EUR 113m) as well as increased or renewed internal lending, including to Lufthansa Cargo AG, Lufthansa Technik AG, Germanwings GmbH and Österreichische Luftverkehrs-Beteiligungs GmbH. In addition, seven more Austrian leasing companies were established by contributions in kind in the form of aircraft (EUR 239m).

Write-ups on the carrying amounts for LSG Lufthansa Service Holding AG (EUR 67m) and Lufthansa Systems AG (EUR 10m) also increased the amount of shares in affiliated companies. The opposite effect resulted from write-downs on the carrying amounts for LHBD Holding Limited (EUR 63m), Eurowings GmbH (EUR 63m) and Air Dolomiti S.p.A. Linee Aeree Regionali Europee (EUR 66m).

The rise in other receivables and other assets to nearly EUR 2.7bn (previous year: EUR 1.7bn) is primarily due to the higher level of receivables from affiliated companies, which in turn stems from profits subject to profit and loss transfer agreements at these subsidiaries.

Cash and securities went up by EUR 855m compared with a year ago, to nearly EUR 2.3bn. They were principally invested in money market funds (EUR 1,045m) and in other securities (EUR 398m). Cash-in-hand also came to EUR 821m (previous year: EUR 210m).

As a result, the balance sheet structure showed a slight shift away from non-current assets, which now make up 73.2 per cent of total assets (previous year: 78.9 per cent).

Shareholders' equity rose by EUR 499m as a result of the distributable profit, totalling EUR 4.0bn as of the reporting date. As total assets were also higher, the equity ratio remained roughly the same as in the previous year (19.2 per cent). Non-current borrowing rose by EUR 327m in the period under review.

Because of additional current capital, the proportion of non-current funding in the balance sheet total sank slightly by 3.7 percentage points and now amounts to 54.8 per cent (previous year: 58.5 per cent). Non-current assets are now 74.8 per cent (previous year: 74.2 per cent) covered by non-current funding.

Net indebtedness improved to EUR 1.3bn (previous year: EUR 1.8bn).

Declaration on corporate governance in accordance with Section 289a HGB

The declaration on corporate governance required under Section 289a HBG has been issued and made publicly available on the Company's website at i http://investor-relations.lufthansagroup.com/en/corporate-governance/corporate-governance-declaration-section-289a-hgb.html.

Risk report

Business at Deutsche Lufthansa AG is subject to essentially the same risks and opportunities as business at the Passenger Airline Group segment as presented in the consolidated financial statements. Deutsche Lufthansa AG is exposed to the risks of its equity investments and subsidiaries in proportion to its respective equity stakes. For further information, see "Passenger Airline Group business segment" on p. 60–71.

Supplementary report

The main events taking place after the reporting date are those described in the consolidated financial statements pertaining to the Passenger Airline Group business segment.

Forecast

Future business performance at Deutsche Lufthansa AG is subject to essentially the same factors as "Lufthansa Passenger Airlines" as presented in the combined management report on p. 68.

Further information on anticipated macroeconomic developments and the performance of the business segments, as well as the assumptions on which the Group forecast is based, can be found in the chapter "Forecast" on p. 118–121.

Consolidated financial statements

Consolidated income statement
for the financial year 2012

in €m	Notes	**2012**	2011
Traffic revenue	3	24,793	23,779
Other revenue	4	5,342	4,955
Total revenue		**30,135**	**28,734**
Changes in inventories and work performed by entity and capitalised	5	113	139
Other operating income	6	2,785	2,324
Cost of materials and services	7	–17,946	–16,731
Staff costs	8	–7,052	–6,678
Depreciation, amortisation and impairment	9	–1,839	–1,722
Other operating expenses	10	–4,885	–5,293
Profit / loss from operating activities		**1,311**	**773**
Result of equity investments accounted for using the equity method	11	31	–20
Result of other equity investments	11	63	91
Interest income	12	168	190
Interest expenses	12	–486	–478
Other financial items	13	–48	–110
Financial result		**–272**	**–327**
Profit / loss before income taxes		**1,039**	**446**
Income taxes	14	–72	–157
Profit / loss from continuing operations		**967**	**289**
Profit / loss from discontinued operations	15	36	–285
Profit / loss after income taxes		**1,003**	**4**
Profit / loss attributable to minority interests		–13	–17
Net profit / loss attributable to shareholders of Deutsche Lufthansa AG		**990**	**–13**
Basic / diluted earnings per share in €	16	**2.16**	**–0.03**
of which from continuing operations	16	2.08	0.59
of which from discontinued operations	16	0.08	–0.62

Statement of comprehensive income
for the financial year 2012

in €m	**2012**	2011
Profit / loss after income taxes	**1,003**	**4**
Other comprehensive income		
Differences from currency translation	–5	81
Subsequent measurement of available-for-sale financial assets	–370	–164
Subsequent measurement of cash flow hedges	–322	109
Other comprehensive income from investments accounted for using the equity method	–10	2
Other expenses and income recognised directly in equity	–1	1
Income taxes on items in other comprehensive income	95	–35
Other comprehensive income after income taxes	**–613**	**–6**
Total comprehensive income	**390**	**–2**
Comprehensive income attributable to minority interests	–13	–16
Comprehensive income attributable to shareholders of Deutsche Lufthansa AG	**377**	**–18**

Consolidated balance sheet
as of 31 December 2012

Assets

in €m	Notes	**31.12.2012**	31.12.2011
Intangible assets with an indefinite useful life*	17	1,193	1,191
Other intangible assets	18	375	384
Aircraft and reserve engines	19 22	11,838	11,592
Repairable spare parts for aircraft		899	840
Property, plant and other equipment	20 22	2,081	2,118
Investment property	21	–	–
Investments accounted for using the equity method	23	400	394
Other equity investments	24 25	413	898
Non-current securities	24 25	19	134
Loans and receivables	24 26	1,052	616
Derivative financial instruments	24 27	268	343
Deferred charges and prepaid expenses	30	25	24
Effective income tax receivables	14	52	60
Deferred tax assets	14	44	33
Non-current assets		**18,659**	**18,627**
Inventories	28	639	620
Trade receivables and other receivables	24 29	3,578	3,437
Derivative financial instruments	24 27	215	414
Deferred charges and prepaid expenses	30	151	171
Effective income tax receivables		101	128
Securities	24 31	3,530	3,111
Cash and cash equivalents	24 32	1,436	887
Assets held for sale	33	110	686
Current assets		**9,760**	**9,454**
Total assets		**28,419**	**28,081**

* Including goodwill.

Shareholders' equity and liabilities

in €m	Notes	31.12.2012	31.12.2011
Issued capital	34 35	1,177	1,172
Capital reserve	36	1,382	1,366
Retained earnings	36	3,635	3,800
Other neutral reserves	36	1,054	1,624
Net profit/loss		990	–13
Equity attributable to shareholders of Deutsche Lufthansa AG		**8,238**	**7,949**
Minority interests		60	95
Shareholders' equity		**8,298**	**8,044**
Pension provisions	37	2,076	2,165
Other provisions	38	586	578
Borrowings	39 40	5,947	5,808
Other financial liabilities	41	198	128
Advance payments received, deferred income and other non-financial liabilities	42	1,163	1,156
Derivative financial instruments	27 39	150	55
Deferred tax liabilities	14	242	364
Non-current provisions and liabilities		**10,362**	**10,254**
Other provisions	38	911	818
Borrowings	39 40	963	616
Trade payables and other financial liabilities	39 43	4,231	4,227
Liabilities from unused flight documents		2,612	2,359
Advance payments received, deferred income and other non-financial liabilities	44	933	939
Derivative financial instruments	27 39	2	37
Effective income tax obligations		107	71
Liabilities related to assets held for sale	33	–	716
Current provisions and liabilities		**9,759**	**9,783**
Total shareholders' equity and liabilities		**28,419**	**28,081**

Consolidated statement of changes in shareholders' equity
as of 31 December 2012

in €m	Issued capital	Capital reserve	Fair value measurement of financial instruments	Currency differences	Revaluation reserve (due to business combinations)	Other neutral reserves	**Total other neutral reserves**	Retained earnings	Net profit/loss	**Equity attributable to shareholders of Deutsche Lufthansa AG**	Minority interests	**Total shareholders' equity**
As of 31.12.2010	**1,172**	**1,366**	**856**	**241**	**193**	**339**	**1,629**	**2,944**	**1,131**	**8,242**	**98**	**8,340**
Capital increases/reductions	–	–	–	–	–	–	–	–	–	–	5	5
Reclassifications	–	–	–	–	–	–	–	856	–856	–	–	–
Dividends to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	–275	–275	–21	–296
Transactions with minority interests	–	–	–	–	–	–	–	–	–	–	–3	–3
Consolidated net profit/loss attribt. to minority interests	–	–	–	–	–	–	–	–	–13	–13	17	4
Other expenses and income recognised directly in equity*	–	–	–90	81	–	4	–5	–	–	–5	–1	–6
As of 31.12.2011	**1,172**	**1,366**	**766**	**322**	**193**	**343**	**1,624**	**3,800**	**–13**	**7,949**	**95**	**8,044**
Capital increases/reductions	5	16	–	–	–	–	–	–	–	21	–	21
Reclassifications	–	–	–	–	43	–	43	–170	127	–	–	–
Dividends to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	–114	–114	–17	–131
Transactions with minority interests	–	–	–	–	–	–	–	5	–	5	–31	–26
Consolidated net profit/loss attribt. to minority interest	–	–	–	–	–	–	–	–	990	990	13	1,003
Other expenses and income recognised directly in equity*	–	–	–597	–5	–	–11	–613	–	–	–613	–	–613
As of 31.12.2012	**1,177**	**1,382**	**169**	**317**	**236**	**332**	**1,054**	**3,635**	**990**	**8,238**	**60**	**8,298**

* Please refer to "Note 36" starting on p. 172, for more information on other comprehensive income.

Consolidated cash flow statement for the financial year 2012

in €m	Notes	2012	2011
Cash and cash equivalents 1.1.		**887**	**1,097**
Net profit / loss before income taxes		1,039	446
Depreciation, amortisation and impairment losses on non-current assets (net of reversals)	9 13	1,867	1,755
Depreciation, amortisation and impairment losses on current assets (net of reversals)		58	25
Net proceeds on disposal of non-current assets	6	–739	–25
Result of equity investments	11	–94	–71
Net interest	12	318	288
Income tax payments / reimbursements		–34	–265
Measurement of financial derivatives through profit or loss		19	73
Change in working capital [1]		490	291
Cash flow from continuing operations		**2,924**	**2,517**
Cash flow from discontinued operations		–82	–161
Cash flow from operating activities		**2,842**	**2,356**
Capital expenditure for property, plant and equipment and intangible assets	17 – 21	–2,292	–2,445
Capital expenditure for financial investments	25 26	–67	–87
Additions / loss to repairable spare parts for aircraft		–120	4
Proceeds from disposal of non-consolidated equity investments		404	7
Proceeds from disposal of consolidated equity investments		–176	–
Cash outflows for acquisitions of non-consolidated equity investments	23 – 25	–	–28
Cash outflows for acquisitions of consolidated equity investments	1	–	–6
Proceeds from disposal of intangible assets, property, plant and equipment and other financial investments		418	458
Interest income		296	336
Dividends received		92	118
Net cash from / used in investing activities		**–1,445**	**–1,643**
of which from discontinued operations		–138	65
Purchase of securities / fund investments [2]		–1,316	–1,367
Disposal of securities / fund investments		571	1,902
Net cash from / used in investing and cash management activities		**–2,190**	**–1,108**
of which from discontinued operations		–138	80
Capital increase [3]	34 – 36	–	5
Non-current borrowing		1,106	740
Repayment of non-current borrowing		–637	–1,421
Dividends paid		–131	–296
Interest paid		–449	–449
Net cash from / used in financing activities		**–111**	**–1,421**
of which from discontinued operations		–5	–43
Net increase / decrease in cash and cash equivalents		**541**	**–173**
Changes due to currency translation differences		8	9
Cash included in assets held for sale		–	–46
Cash and cash equivalents 31.12.	32	**1,436**	**887**
Securities	31	3,530	3,111
Total liquidity		**4,966**	**3,998**
Net increase / decrease in total liquidity		968	–1,382

[1] Working capital consists of inventories, receivables, liabilities and provisions.
[2] Including transfer to LH Pension Trust of EUR 261m.
[3] Capital increase from minority interests.

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 cash flows are divided into cash flows from operating activities, from investing activities and 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 2012

Notes to the consolidation and accounting policies

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

The consolidated financial statements of Deutsche Lufthansa AG, Cologne, 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 (IFRS IC) as applicable in the European Union (EU).

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

These consolidated financial statements for 2012 are to be examined and approved by the Supervisory Board of Deutsche Lufthansa AG in its meeting on 13 March 2013 and are then authorised for publication.

Application of the following standard was mandatory as of 1 January 2012:

The **amendment to IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets** establishes additional quantitative and qualitative disclosures for transactions involving the transfer of certain financial assets, such as the sale of trade receivables (factoring). Even when financial assets are fully derecognised, disclosures are now also required if rights and obligations remain with the transferring entity or are acquired in the course of the transfer (continuing involvement). New disclosures relate to this continuing involvement, the maximum exposure to loss and the timing and amount of payments. No comparable figures are required for the year of first-time application. The application of the amendment to IFRS 7 had no effect on the consolidated financial statements.

IFRS pronouncement	Adopted	EU endorsement	Published in the Official Journal of the EU	Effective date in EU
Amendment to IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets	7.10.2010	22.11.2011	23.11.2011	1.7.2011

Published International Financial Reporting Standards (IFRS) and Interpretations (IFRIC), not yet applied/applicable
The following standards and amendments have already been endorsed by the European Union. Mandatory application is planned for a later date, however.

IFRS pronouncement	Adopted	EU endorsement	Published in the Official Journal of the EU	Effective date in EU
Application in the 2013 financial year				
Amendment to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	16.6.2011	5.6.2012	6.6.2012	1.7.2012
Revised IAS 19 Employee Benefits	16.6.2011	5.6.2012	6.6.2012	1.1.2013
Amendments to IFRS 1 First-time Adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	20.12.2010	11.12.2012	29.12.2012	1.1.2013
Amendment to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets	20.12.2010	11.12.2012	29.12.2012	1.1.2013
IFRS 13 Fair Value Measurement	12.5.2011	11.12.2012	29.12.2012	1.1.2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	19.10.2011	11.12.2012	29.12.2012	1.1.2013
Amendment to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	16.12.2011	13.12.2012	29.12.2012	1.1.2013
Application in the 2014 financial year				
IFRS 10 Consolidated Financial Statements	12.5.2011	11.12.2012	29.12.2012	1.1.2014
IFRS 11 Joint Arrangements	12.5.2011	11.12.2012	29.12.2012	1.1.2014
IFRS 12 Disclosures of Interests in Other Entities	12.5.2011	11.12.2012	29.12.2012	1.1.2014
Revised IAS 27 Separate Financial Statements	12.5.2011	11.12.2012	29.12.2012	1.1.2014
Revised IAS 28 Investments in Associates and Joint Ventures	12.5.2011	11.12.2012	29.12.2012	1.1.2014
Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities	16.12.2011	13.12.2012	29.12.2012	1.1.2014

The **amendments to IAS 1 Presentation of Financial Statements** mainly relate to changes in the recognition of items of other comprehensive income. In future these must be presented separately as items which may be “recycled” in subsequent periods to profit or loss and those which will not be reclassified in this way. This amendment is applicable for financial years beginning on or after 1 January 2013. It only affects the presentation of the statement of comprehensive income.

The **revised version of IAS 19 Employee Benefits (revised 2011, IAS 19R)** includes new rules on the recognition, measurement and presentation of expenses for defined benefit pension plans and termination benefits. Actuarial gains and losses are to be recognised as revaluations directly in equity in the future taking deferred taxes into account. The 10 per cent corridor rule previously used in the Lufthansa Group to avoid annual fluctuations in the balance sheet will then no longer be allowed. Changes in the discount rate used to measure pension obligations and for funded pension plans, fluctuations in the market value of plan assets, can in particular result in considerable, unpredictable fluctuations in the balance sheet and shifts between equity and liabilities. For funded pension plans, the same interest rate chosen to determine interest expenses and measure pension obligations is also to be used to calculate interest income from plan assets. Defining a uniform interest rate will alter the net interest expense for pension obligations. Furthermore, the revised IAS 19 amends the meaning of “short-term” and “other long-term benefits”.

These amendments can have an effect on the timing of the recognition in profit or loss of obligations under partial retirement and similar programmes. It also requires more extensive disclosures in connection with employee benefits. The amendments are applicable for financial years beginning on or after 1 January 2013. One important effect will be that the balance of actuarial losses previously carried off-balance-sheet will be offset against equity at one stroke. As of 31 December 2012, the off-balance-sheet actuarial losses amounted to EUR 4.5bn. Offsetting this sum will reduce Group equity by EUR 3.5bn as of 1 January 2013, after accounting for deferred taxes. For 2012, the elimination of deferred recognition of actuarial losses would have meant that past service costs would have been lower and income from plan cuts/settlements would have been higher, so that profit before tax for 2012 would have been around EUR 300m higher overall. This is offset by an increase of around EUR 50m in net interest expense as a result of harmonising forecast plan income with the discount rate used at the beginning of the year. The first-time application of IAS 19R is expected to reduce staff costs in 2013 by around EUR 200m, as the deferred recognition of actuarial losses no longer applies. This is offset by an increase of around EUR 140m in interest expense as a result of harmonising forecast plan income. Irrespective of these effects from the first-time application of IAS 19R, staff costs will also rise in 2013 due to interest rates.

The change in the timing of recognition in profit or loss of obligations under partial retirement and similar programmes as a result of applying IAS 19R increases Group equity as of 1 January 2013 by EUR 32m, after accounting for deferred taxes.

The provisions of **IFRS 1** and the amendment to **IAS 12** are not relevant for the Lufthansa Group.

IFRS 13 Fair Value Measurement describes how fair value is to be measured for all IFRS reporting standards and extends the disclosures to be made on fair value measurement, but does not stipulate in which cases fair value is to be used. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value of a liability therefore reflects its default risk, i.e. the entity's own credit risk. IFRS 13 stipulates the market conditions under which fair value measurement is possible or restricted and explains that measurement is made with reference to specific markets and not to specific companies. For non-financial assets, fair value is to be measured on the basis of the "highest and best use" of the asset from the perspective of a market participant. The rules are applicable prospectively for financial years beginning on or after 1 January 2013. The application of IFRS 13 will result in additional disclosures in the Notes.

The **IFRIC 20** interpretation is not relevant to the Lufthansa Group.

The amendments to **IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities,** extend the existing quantitative disclosures on recognised financial instruments offset against one another in the balance sheet. In addition, they contain further disclosure obligations for financial instruments subject to netting agreements, irrespective of whether they are actually offset in accordance with IAS 32. The amendments are applicable for financial years beginning on or after 1 January 2013.

IFRS 10 Consolidated Financial Statements replaces the guidelines on control and consolidation included in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation: Special Purpose Vehicles. In future, IAS 27 will only contain rules on IFRS individual financial statements. IFRS 10 changes the definition of control so that the same criteria are applied to all companies to determine a controlling relationship. This definition is supported by wide-ranging application guidelines illustrating the various criteria that can lead to the control of a company by the reporting company. In this definition, control requires power over the investee and variable returns.

IFRS 11 Joint Arrangements governs the classification of and accounting for joint operations and joint ventures, replacing the previous IAS 31. A joint arrangement is defined as an agreement by which two or more parties exercise joint control. Joint control means that decisions on activities that have a significant effect on the returns from an agreement require the unanimous approval of the parties sharing control. If a joint agreement has been identified, the further classification as a joint operation or a joint venture depends on the rights and obligations of the partners. Accounting for assets under joint control is covered by the rules on joint operations and so still takes place according to the parties' respective equity interests. However, IFRS 11 has eliminated the previously permitted pro-rata consolidation of joint ventures, which must now be accounted for using the equity method only.

To comply with **IFRS 12 Disclosure of Interests in Other Entities,** companies must disclose information that enables users of financial statements to assess the nature, risks and financial effects associated with their investment in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities).

IFRS 10, 11, 12 and the subsequent amendments to IAS 27 and IAS 28 are applicable for financial years beginning on or after 1 January 2014. They are not expected to have a significant effect on the net assets, financial and earnings position or on the disclosures in the Notes.

The amendment to **IAS 32 Financial Instruments: Presentation** clarifies the conditions for offsetting financial assets and financial liabilities in the balance sheet. It states that an entitlement to offset assets and liabilities must exist for all the parties involved as of the reporting date and must be legally enforceable both in the normal course of business and in an insolvency. Furthermore, it defines which gross settlement systems can be considered as net settlement within the meaning of the standard.

The IASB and the IFRS IC adopted other standards and interpretations in 2012 and in previous years whose application is not mandatory for the financial year 2012. The application of these IFRS and IFRIC is subject to their endorsement by the EU, which is still pending.

IFRS pronouncement	Adopted	EU endorsement	Published in the Official Journal of the EU	Effective date in EU
Application expected in the 2014 financial year or later				
IFRS 9 Financial Instruments: Classification and Measurement: Financial Assets	12.11.2009	Pending	Pending	Expected: 1.1.2015
IFRS 9 Financial Instruments: Classification and Measurement: Financial Liabilities	28.10.2010	Pending	Pending	Expected: 1.1.2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosures	16.12.2011	Pending	Pending	Expected: 1.1.2015
Amendment to IFRS 1: First-time Adoption of International Financial Reporting Standards: Government Loans	13.12.2012	Pending	Pending	Expected: 1.1.2014
Improvements to International Financial Reporting Standards (2009–2011)	17.5.2012	Pending	Pending	Expected: 1.1.2014
Amendments to the transitional provisions of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Agreements and IFRS 12 Disclosure of Interests in Other Entities	28.6.2012	Pending	Pending	Expected: 1.1.2014
Investment companies – Amendments to IFRS 10, IFRS 12 and IAS 27	31.10.2012	Pending	Pending	Expected: 1.1.2014

In November 2009, the IASB adopted **IFRS 9 Financial Instruments: Classification and Measurement – Financial Assets.** The new standard governs the classification and measurement of financial assets and thereby concludes the first of three phases, at the end of which the existing IAS 39 is to be abolished. Phases II (Impairment) and III (Hedge Accounting) had not yet been adopted at the time these financial statements were prepared. Furthermore, on 28 October 2010, the IASB also issued **IFRS 9 Financial Instruments: Classification and Measurement – Financial Liabilities.** The rules are expected to apply retrospectively in the EU for financial years beginning on or after 1 January 2015. Early application is allowed. The amendments have not yet been adopted as European law. The effects on the Group of those parts of IFRS 9 that have already been adopted are under review.

The **amendments to the transitional provisions of IFRS 10, IFRS 11 and IFRS 12** clarify that the effective date of these standards corresponds to the beginning of the financial year in which they are first applied. No retrospective adjustments in line with IFRS 10 are to be made for subsidiaries sold during the comparable period. Adjusted comparable figures only have to be provided for the comparable period immediately preceding the effective date. IFRS 11 and IFRS 12 contain similar clarifications and exemptions; IFRS 12 also removes the need to present comparable figures for non-consolidated structured entities (special purpose entities). Although the IASB provides for an effective date of 1 January 2013, endorsement by the European Union will probably mean that the amendments are only applied as of 1 January 2014.

At the present time, the other new or amended IFRS pronouncements listed in the table are not considered to be of great relevance to the Lufthansa Group.

The Group has not voluntarily applied any of the new or amended regulations mentioned above before their binding date of application. If the effective dates of the standards and interpretations mentioned above fall within the year, they are applied as of 1 January of the following financial year. This is subject to the endorsement of the standards by the EU.

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 p. 203–213. The list of shareholdings is attached at the end of these notes.

LSG Lufthansa Service Hong Kong Ltd. is classified as a fully consolidated associated company in spite of a 47.9 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.

In addition to Deutsche Lufthansa AG as the parent company, the group of consolidated companies includes 63 domestic and 183 foreign companies, including special purpose entities (previous year: 60 domestic and 168 foreign companies).

Changes in the group of consolidated companies during the 2012 financial year are shown in the following table:

Changes in the group of consolidated companies

Name, registered office	Additions	Disposals	Reason
Passenger Airline Group segment			
Lufthansa Leasing Austria GmbH & Co. OG Nr. 15, Salzburg, Austria	10.8.2012		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 16, Salzburg, Austria	10.8.2012		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 17, Salzburg, Austria	10.8.2012		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 18, Salzburg, Austria	10.8.2012		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 19, Salzburg, Austria	10.8.2012		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 20, Salzburg, Austria	10.8.2012		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 21, Salzburg, Austria	10.8.2012		Established
Heike LH8 Kumiai Ltd., Tokyo, Japan	28.3.2012		Established
Empyrée S.A.S., Paris, France	25.4.2012		Established
Gabriela Finance 2012 Limited, Dublin, Ireland	27.9.2012		Established
NBB Koblenz Lease Co., Ltd., Tokyo, Japan	26.10.2012		Established
NBB Rhine Valley Lease LLC, Tokyo, Japan	26.10.2012		Established
British Midland Airways Ltd., Donington Hall, UK		19.4.2012	Sale
British Midland Ltd., Donington Hall, UK		19.4.2012	Sale
Lauda Air Luftfahrt GmbH, Vienna, Austria		20.9.2012	Merger
Catering segment			
LSG Sky Chefs Spain, S.A., Madrid, Spain	15.2.2012		Established
LSG Sky Chefs Finland Oy, Vantaa, Finland	1.8.2012		Acquisition of control
LSG Sky Chefs TAAG Angola S.A., Luanda, Angola	1.11.2012		Acquisition of control
IT Services segment			
Lufthansa Technik Component Services LLC, Dallas, USA	1.1.2012		Consolidated for the first time
Lufthansa Technik Logistik Services GmbH, Hamburg, Germany	1.1.2012		Consolidated for the first time
Other			
Lufthansa Malta Blues LP, St. Julians, Malta	29.3.2012		Established
Lufthansa Asset Management GmbH, Frankfurt/M., Germany	27.4.2012		Established
Lufthansa Leasing Austria 1. Beteiligungs GmbH, Salzburg, Austria	1.6.2012		Increased shareholding
Lufthansa AITH Beteiligungs GmbH, Cologne, Germany	23.8.2012		Consolidated for the first time

With effect from 1 August 2012, a contract was signed between LSG Lufthansa Service Europa/Afrika GmbH and Finnair Oyj on the purchase of a put option exercisable at any time. The option gives the right to purchase 100 per cent of the shares in LSG Sky Chefs Finland Oy and is valid for up to five years. A signing bonus of EUR 2.2m and deferred compensation of EUR 0.4m were paid. An annual fee of EUR 2.5m and leasing payments of EUR 0.5m are payable for the duration of the option. The annual payments will be offset against the purchase price when the option is exercised. If the shares had been acquired directly, the purchase price would have been EUR 22m. The company is included in Lufthansa's consolidated financial statements as the option enables all the shares to be acquired at any time. Following the fair value measurement of the company's assets and liabilities, customer contracts to the amount of EUR 2.6m were capitalised. No goodwill was recognised, as all the shares in the company are to be shown as non-controlling interests.

In 2012, the shareholders in LSG Sky Chefs TAAG Angola S.A. made a loan to the company, in principle in proportion to their equity interests, for a total of USD 3.5m (EUR 2.6m). In addition to the amount corresponding to its 40 per cent equity stake, LSG Lufthansa Service Europa/Afrika GmbH also lent an additional 20 per cent of the total amount (EUR 0.5m). In exchange, LSG Lufthansa Service Europa/Afrika GmbH was given another seat on the board. On the basis of the current situation, LSG Lufthansa Service Europa/Afrika GmbH now has the majority of seats on the board and therefore has the opportunity to determine the business activities of LSG Sky Chefs TAAG Angola S.A. LSG Sky Chefs TAAG Angola S.A. was subsequently included in Lufthansa's consolidated financial statements with effect from 1 November 2012. The company's assets and liabilities were measured at fair value and recognised in the consolidated balance sheet. Goodwill has not been recognised.

The following table provides a summary of the two companies' main assets and liabilities immediately before and after the acquisition date:

in €m	Before acquisition	After acquisition
Non-current assets	9	12
Current assets	15	15
thereof cash and cash equivalents	3	3
thereof other current assets	12	12
Total assets	**24**	**27**
Shareholders' equity	1	3
Non-current liabilities	9	10
Current liabilities	14	14
Total equity and liabilities	**24**	**27**

The following fully consolidated German Group companies made use of the exemption provisions in Section 264 Paragraph 3 and Section 264b German Commercial Code (HGB) in 2012.

Company name	Registered office
Germanwings GmbH	Cologne
Eurowings GmbH	Dusseldorf
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 Düsseldorf GmbH	Neu-Isenburg
LSG Sky Chefs Frankfurt International GmbH	Neu-Isenburg
LSG Sky Chefs Frankfurt ZD GmbH	Neu-Isenburg
LSG Sky Chefs München GmbH	Neu-Isenburg
LSG Sky Chefs Verwaltungsgesellschaft mbH	Neu-Isenburg
LSG Sky Chefs Lounge GmbH	Neu-Isenburg
LSG-Sky Food GmbH	Alzey
LSG South America GmbH	Neu-Isenburg
Lufthansa Technik AERO Alzey GmbH	Alzey
Lufthansa Cargo AG	Kelsterbach
Lufthansa Cargo Charter Agency GmbH	Kelsterbach
Jettainer GmbH	Raunheim
Lufthansa CityLine GmbH	Cologne
Lufthansa Commercial Holding GmbH	Cologne
Lufthansa Flight Training Berlin GmbH	Berlin
Lufthansa Flight Training GmbH	Frankfurt/M.
Lufthansa Leasing GmbH & Co Echo-Zulu oHG	Grünwald
Lufthansa Systems Aktiengesellschaft	Kelsterbach
Lufthansa Systems AS GmbH	Norderstedt
Lufthansa Systems Business Solutions GmbH	Raunheim
Lufthansa Process Management GmbH	Neu-Isenburg
Lufthansa Technik AG	Hamburg
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Technik Logistik GmbH	Hamburg
Lufthansa Technik Maintenance International GmbH	Frankfurt/M.
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Training & Conference Center GmbH	Seeheim-Jugenheim
Lufthansa WorldShop GmbH	Frankfurt/M.
MARDU Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG	Grünwald
Miles & More International GmbH	Neu-Isenburg
Lufthansa AITH Beteiligungs GmbH	Cologne
Lufthansa Asset Management GmbH	Frankfurt/M.
Lufthansa Technik Logistik Services	Hamburg

The consolidated financial statements include equity stakes in 39 joint ventures and 40 associated companies (previous year: 58 joint ventures and 41 associated companies), of which 9 joint ventures (previous year: 10) and 18 associated companies (previous year: 15) 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:

	2012			2011		
in €m	**Joint Ventures**	**Associated companies**	**Associated companies not accounted for using the equity method**	Joint Ventures	Associated companies	Associated companies not accounted for using the equity method
Non-current assets	290	559	16	238	236	345
Current assets	338	151	25	245	121	53
Shareholders' equity	184	130	23	141	144	40
Non-current liabilities	170	391	2	130	137	329
Current liabilities	274	189	16	212	76	29
Income	965	297	28	723	252	61
Expenses	936	316	22	688	230	51

2 Summary of significant accounting policies and valuation methods and estimates used as a basis for measurement

The application of the accounting policies 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 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 from the Passenger Airline Group 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 2012 came to EUR 50m (previous year: EUR 50m).

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.

Discontinued operations

The British Midland Group represented a separate cash-generating unit within the Passenger Airline Group segment of the Lufthansa Group. It was therefore a separate line of business within the meaning of IFRS 5, to which clearly defined cash flows are attributed for operating and accounting purposes. As a result of the contract for the sale of British Midland Ltd. (bmi) to International Consolidated Airlines Group, S.A. (IAG) signed by Deutsche Lufthansa AG and IAG on 22 December 2011, bmi is to be presented in the Group's income statement as a discontinued operation in line with IFRS 5. bmi was deconsolidated when the sale transaction was completed on 19 April 2012. The proceeds from the discontinued operation include the after-tax result recorded for bmi until its disposal and changes in the valuation or proceeds of disposal for the discontinued operation compared with the 2011 financial statements, which in this case are the proceeds of the aforementioned contractual agreement. For details of the result of the discontinued operation we refer to the Notes to the consolidated financial statements, "Note 15" on p. 153.

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. Incidental acquisition costs are recognised as expenses.

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 are 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 the individual premises on which impairment tests were based in the financial year 2012, see "Note 17" starting on p. 154.

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 since 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:

	2012		2011	
	Balance sheet exchange rate	**Income statement average rate**	Balance sheet exchange rate	Income statement average rate
USD	0.75418	0.77605	0.77235	0.71033
JPY	0.00880	0.00974	0.00999	0.00894
GBP	1.21801	1.23256	1.19838	1.14345
CAD	0.75996	0.77568	0.75669	0.72085
HKD	0.09730	0.10005	0.09943	0.09121
THB	0.02460	0.02495	0.02442	0.02326
SEK	0.11591	0.11481	0.11218	0.11067
NOK	0.13526	0.13362	0.12886	0.12821
DKK	0.13405	0.13436	0.13453	0.13421
CHF	0.82717	0.83056	0.82269	0.80974
KRW	0.00071	0.00069	0.00067	0.00064

The effects of intra-Group transactions are completely eliminated in the course of consolidation. Receivables and liabilities between consolidated companies are netted and intra-Group profits and losses in non-current assets and inventories are eliminated. 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, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overhead.

Intangible assets with an indefinite useful life are not amortised 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 in close connection with the financing of the purchase or production of a qualifying asset are also capitalised. In the reporting period borrowing costs of EUR 14m (previous year: EUR 8m) were 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 of 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.

Assets acquired second-hand are depreciated over their expected remaining useful life.

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 lower of the present value of the leasing instalments and the asset's fair value, 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 (value in use).

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 investment property and recognised at amortised cost.

Equity investments accounted for using the equity method

Equity investments 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 is only carried out in subsequent periods if there are indications of a potential impairment in the entire investment valuation. Inter-Group 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, including borrowing costs in accordance with IAS 23, 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 they 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.

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 effective and 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 the hedging policy defined by the Executive Board and monitored by a committee. In some cases the counterparties for interest and exchange rate hedges are also 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, the fluctuations in market value will not affect the result for the period during the term of the derivative. They are recognised without effect on profit and loss in the corresponding reserve. However, following the amendment to IAS 39 Financial Instruments: Recognition and Measurement, from the financial year 2010 onwards it has no longer been possible to recognise the change in total market value of an option used as a hedge (full fair value method) in equity as part of hedge accounting, but only the change in the “intrinsic value” of the option. The change in the time value of the option is recognised in the financial result.

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, the changes in the market 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, all changes in market 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 market 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.

The Group's hedging policy, see "Note 47" starting on p. 183, is to use only 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 generally do not, however, satisfy the qualifying criteria for effectiveness as defined in IAS 39. Changes in the fair value of 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 production costs. The cost of production includes all costs directly attributable to the production process, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overheads. Average capacity utilisation of 94 per cent is assumed in determining the costs of production. Measurement on the balance sheet date is at the lower of cost and realisable value less costs to sell. 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.

On the basis of the aforementioned agreement between Deutsche Lufthansa AG and International Consolidated Airlines Group, S.A. (IAG) for the sale of British Midland Ltd. (bmi) to IAG, the assets and liabilities attributable to bmi were shown separately in the balance sheet as of 31 December 2011 as "Assets held for sale" and "Liabilities included within a disposal group" in accordance with IFRS 5. For details we refer to the Notes to the consolidated financial statements, "Note 33" starting on p. 167.

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 cash investments with a comparable risk profile and 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 2012 amount to EUR 4,464m (previous year: EUR 2,839m). In the 2012 financial year EUR 104m (previous year: EUR 40m) 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 most likely to arise.

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.

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" starting on p. 179.

Liabilities from unused flight documents

Until they are used, sold flight documents are recognised as an obligation 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.

Obligations under bonus mile programmes

Calculation of the obligations arising from bonus miles programmes is based on several estimates and assumptions.

In accordance with IFRIC 13 Customer Loyalty Programmes, accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on flights by airlines in the Lufthansa Group. The fair value of miles accumulated on the Group's own flights is recognised under deferred revenue and the points collected from third parties are shown under other non-financial liabilities. Fair value is determined as the value for which the miles could be sold separately, i.e. the average yield, taking booking class and traffic region into account.

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.

A total of 205 billion miles were to be measured as of 31 December 2012. EUR 638m (previous year: EUR 620m) of the resulting obligations were recognised in other non-financial liabilities and EUR 1,022m (previous year: EUR 987m) in deferred revenue, see "Note 42" starting on p. 179 and "Note 44" on p. 182.

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 2012 was EUR 498m (previous year: EUR 633m).

Deferred foreign tax rates in the 2012 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	2012	2011
Passenger	21,766	20,534
Freight and mail	3,027	3,245
	24,793	**23,779**

Of total freight and mail revenue EUR 2,577m was generated in the Logistics segment (previous year: EUR 2,821m). Freight and mail revenue at SWISS and at Germanwings from marketing cargo space on passenger flights amounted to EUR 450m (previous year: EUR 424m), and is shown in the segment reporting as other revenue from the Passenger Airline Group segment.

4 Other revenue

Revenue by sector

in €m	2012	2011
MRO services	2,240	2,095
Catering services	1,721	1,548
Travel services (commissions)	194	171
IT services	278	247
Ground services	108	107
Other services	801	787
	5,342	**4,955**

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, is 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 267m (previous year: EUR 286m) from work in progress 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 previous years, amounted to EUR 280m (previous year: EUR 296m). Profits of EUR 50m were set off against them (previous year: EUR 50m). Advance payments by customers amounted to EUR 322m (previous year: EUR 330m). Unfinished contracts with a net credit balance – less any write-downs – are disclosed in trade receivables, see “Note 29” on p. 167. Unfinished contracts for which advance payments by customers exceed the costs plus any offset pro rata profit are recognised as advance payments, see “Note 44” on p. 182. No monies were withheld by customers.

5 Changes in inventories and work performed by entity and capitalised

Changes in inventories and work performed by entity and capitalised

in €m	2012	2011
Increase / decrease in finished goods and work in progress	2	4
Other internally produced and capitalised assets	111	135
	113	**139**

6 Other operating income

Other operating income

in €m	2012	2011
Income from the disposal of non-current assets	67	47
Income from the disposal of non-current available-for-sale financial assets	686	1
Income from the reversal of impairment losses on fixed assets	9	6
Foreign exchange gains	860	963
Income from the reversal of provisions and accruals	162	163
Commission income	239	222
Re-invoicing of charges for computerised distribution systems	0*	0*
Reversal of write-downs on receivables	27	32
Income from staff secondment	45	51
Compensation received for damages	40	58
Rental income	27	26
Income from sub-leasing aircraft	26	30
Income from the disposal of current available-for-sale financial assets	24	12
Negative goodwill	–	2
Miscellaneous other operating income	573	711
	2,785	**2,324**

* Rounded below EUR 1m.

Income from the disposal of non-current financial assets includes in particular the realised gains on the transfer of 4.0 per cent of the shares in Amadeus IT Holding S.A. to the Lufthansa Pension Trust and on the sale of 3.61 per cent of the shares in Amadeus IT Holding S.A. for a total of EUR 631m. Other book gains of EUR 27m were realised on the sale of 1.45 per cent of the shares in Fraport. The income from the disposal of property, plant and equipment comes from sales of aircraft and reserve engines.

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, see “Note 10” on p. 150.

Income from the reversal of provisions relate to a number of provisions recognised in previous years which have not been fully used. In contrast, expenses from insufficient provisions recognised in previous years are recognised together with the primary expense item to which they relate.

Compensation for damages in the previous year included income of EUR 16m for the reimbursement of selling fees paid in previous years in connection with an out-of-court settlement between Lufthansa and Amadeus IT Holding S.A.

The earn-out clause agreed as part of the Austrian acquisition gave rise to income of EUR 2m in the previous year. In 2012, the earn-out agreement resulted in income of EUR 6m. This corresponds to the market value of the liability recognised for the earn-out in the consolidated balance sheet as of 31 December 2011.

Miscellaneous other operating income includes items not attributable to any of the aforementioned categories, such as income from training, travel management and other services provided by the Group.

7 Cost of materials and services

Cost of materials and services

in €m	**2012**	2011
Aircraft fuel and lubricants	7,392	6,276
Other raw materials, consumables and supplies	2,157	2,127
Purchased goods	455	432
Total cost of raw materials, consumables and supplies and of purchased goods	**10,004**	**8,835**
Fees and charges	5,167	5,000
Charter expenses	568	617
External MRO services	997	1,105
In-flight services	339	342
Operating lease payments	113	136
External IT services	141	129
Other services	617	567
Total cost of purchased services	**7,942**	**7,896**
	17,946	**16,731**

8 Staff costs

Staff costs

in €m	**2012**	2011
Wages and salaries	5,735	5,380
Social security contributions	793	766
Expenses for pension plans and other employee benefits	524	532
	7,052	**6,678**

Expenses for retirement benefits principally consist of additions to the pension provisions, see “Note 37” starting on p. 173.

Employees

	Average for the year 2012	Average for the year 2011	**As of 31.12.2012**	As of 31.12.2011
Ground staff	81,651	81,907	80,774	82,297
Flight staff	35,188	35,735	34,551	36,142
Trainees	1,529	1,442	1,632	1,616
	118,368	**119,084**	**116,957**	**120,055**

The annual average is calculated pro rata temporis from the time companies are consolidated or deconsolidated.

The staff costs do not include the expenses for bmi staff because the company was sold in the reporting year and the results from discontinued operations are shown separately in accordance with IFRS 5. To facilitate comparison, the following table therefore shows Group employees without the bmi staff.

Employees (without bmi)

	Average for the year 2012	Average for the year 2011	**As of 31.12.2012**	As of 31.12.2011
Ground staff	81,148	79,876	80,774	80,263
Flight staff	34,766	34,017	34,551	34,486
Trainees	1,529	1,442	1,632	1,616
	117,443	**115,335**	**116,957**	**116,365**

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 1,839m (previous year: EUR 1,722m).

Impairment losses of EUR 117m were recognised in the financial year 2012. EUR 102m of the total was recognised for a total of 21 aircraft either held for sale or to be decommissioned successively in line with current corporate plans and which were written down to fair value less costs to sell or the present value of the forecast net cash proceeds. Other operating expenses included additional write-downs of EUR 27m on aircraft and repairable spare parts for aircraft, which are shown in the balance sheet under assets held for sale. In addition, an impairment charge of EUR 2m was recognised for the Lauda brand, which is no longer in use.

In the financial year 2011 the impairment losses came to EUR 59m in total, of which EUR 57m was recognised for 18 aircraft held for sale or rather to be decommissioned successively in line with corporate plans at the time and which were written down to fair value less costs to sell or the present value of the forecast net cash proceeds. Other operating expenses included additional write-downs of EUR 21m on aircraft and repairable spare parts for aircraft, which are shown in the balance sheet under assets held for sale.

Annual impairment testing in 2012 and 2011 did not result in any impairment losses on goodwill.

Further information on impairment testing can be found in "Note 17" starting on p. 154.

10 Other operating expenses

Other operating expenses

in €m	**2012**	2011
Sales commission paid to agencies	405	417
Rental and maintenance expenses	760	757
Staff-related expenses	883	868
Expenses for computerised distribution systems	348	344
Advertising and sales promotions	308	325
Foreign exchange losses	817	1,194
Auditing, consulting and legal expenses	157	172
Other services	137	137
Insurance premiums for flight operations	66	57
Write-downs on receivables	142	86
Communications costs	53	54
Other taxes	63	63
Losses on disposal of non-current assets	14	24
Losses on current available-for-sale financial assets	23	63
Consultancy fees in connection with financial transactions	4	3
Losses on disposal of other current assets	0*	0*
Miscellaneous other operating expenses	705	729
	4,885	**5,293**

* 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" starting on p. 148.

Losses from current financial investments include realised losses on the disposal of current securities (EUR 11m) and write-downs on current securities (EUR 12m) recognised in profit or loss.

EUR 2m of the losses incurred on the disposal of property, plant and equipment related to the sale of two Boeing B737-700s.

11 Result from equity investments

Result from equity investments

in €m	2012	2011
Result of joint ventures accounted for using the equity method	27	34
Result of associated companies accounted for using the equity method	4	–54
Result of equity investments accounted for using the equity method	**31**	**–20**
Dividends from other joint ventures	2	3
Dividends from other associated companies	4	9
Income from profit transfer agreements	30	56
Expenses from loss transfer agreements	–8	–5
Dividends from other equity investments	35	28
Result of other equity investments	**63**	**91**
	94	**71**

Income and expenses from profit and loss transfer agreements are shown including tax contributions.

The result from the portfolio companies accounted for using the equity method improved thanks to Terminal 2 Gesellschaft mbH & CO OHG (EUR 21m), which was valued using the equity method for the first time, and lower losses at Jade Cargo (EUR –6m; previous year: EUR –38m).

12 Net interest

Net interest

in €m	2012	2011
Income from other securities and non-current financial loans	5	5
Other interest and similar income	163	185
Interest income	**168**	**190**
Interest expenses on pensions obligations	–136	–147
Interest expenses on other provisions	–29	–37
Interest and other similar expenses	–321	–294
Interest expenses	**–486**	**–478**
	–318	**–288**

Net interest from financial instruments calculated under the effective interest method of EUR –153m (previous year: EUR –104m) comes solely from financial instruments not held at fair value through profit or loss.

13 Other financial items

Other financial items

in €m	2012	2011
Write-downs on held-for-sale financial assets	–9	–26
Write-downs on loans	–20	–11
Gains/losses on fair value changes of hedged items	–24	14
Gains/losses on fair value changes of derivatives used as fair value hedges	24	–14
Result of derivatives held for trading classified as at fair value through profit or loss	–101	23
Ineffective portion of derivatives used as cash flow hedges	82	–96
	–48	**–110**

14 Income taxes

Income taxes

in €m	2012	2011
Current income taxes	104	72
Deferred income taxes	–32	85
	72	**157**

Current income taxes for 2012 include corporation tax, solidarity surcharge, trade tax and other income taxes paid outside Germany totalling EUR 81m (previous year: EUR 119m). EUR 23m in taxes was paid for prior years (previous year: tax income of EUR 47m).

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: 25 per cent). This is made up of 15 per cent for corporation tax (previous year: 15 per cent) and 10 per cent for trade tax and solidarity surcharge together (previous year: 10 per cent).

in €m	2012 Basis of assessment	2012 Tax expenses	2011 Basis of assessment	2011 Tax expenses
Expected income tax expense / refund	1,039	260	446	111
Tax-free income, other allowances and permanent differences	–	–185	–	49
Profits from equity investments without deferred taxes	–	–12	–	–5
Difference between local taxes and the deferred tax rates of the parent company*	–	18	–	–13
Unrecognised tax loss carry-forwards and deferred tax assets on losses	–	–8	–	14
Other	–	–1	–	1
Recognised income tax expenses	**–**	**72**	**–**	**157**

* Including 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 10m (previous year: EUR 15m) 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 101m (previous year: EUR 38m) were recognised without effect on profit and loss in the 2012 financial year.

Deferred tax assets and liabilities in 2012 and 2011 are attributable to the following categories:

in €m	31.12.2012 Assets	31.12.2012 Liabilities	31.12.2011 Assets	31.12.2011 Liabilities
Tax loss carry-forwards, non deductible interest carry-forwards and tax credits	134	–	60	–
Pension provisions	470	–	337	–
Finance leases for aircraft	–	–	–	26
Intangible assets, property, plant and equipment	–	673	–	618
Non-current financial assets	–	28	–	34
Fair value measurement of financial instruments	56	–	–	66
Provisions for contingent losses	39	–	48	–
Receivables / liabilities / other provisions	–	289	–	135
Offset amounts	–748	–748	–515	–515
Other	93	–	103	–
	44	**242**	**33**	**364**

The deferred tax assets and liabilities in the category receivables/liabilities/other provisions are expected to reverse within twelve months of the reporting date.

A deferred tax receivable of EUR 118m was recognised for companies incurring a net loss in the reporting year or in the previous year, because on the basis of tax and earnings planning there is a high probability that the tax receivable will be realised.

In addition to recognised deferred tax assets from tax loss carry-forwards, non-deductible interest carry-forwards and tax credits, further tax loss carry-forwards and temporary differences totalling EUR 2,586m (previous year: EUR 3,130m) exist for which no deferred tax assets could be recognised.

Of the unrecognised tax loss carry-forwards, EUR 25m can only be used until 2013, EUR 7m only until 2014, EUR 2m until 2016, EUR 3m until 2018, EUR 5m until 2019, EUR 6m until 2021 and EUR 1,849m can also be used after 2021. A total of EUR 498m (previous year: EUR 633m) in deferred tax assets were not recognised.

15 Result from discontinued operations

The following table shows the result of the discontinued operations at British Midland Group:

in €m	2012	2011
Income	237	911
Expenses	–330	–1,092
Current result from discontinued operations before taxes	**–93**	**–181**
Taxes on income and earnings for discontinued operations	13	26
Current result from discontinued operations after taxes	**–80**	**–155**
Valuation/disposal proceeds from discontinued operations	135	–157
Taxes on valuation/disposal proceeds	–19	27
Valuation/disposal proceeds from discontinued operations after taxes	**116**	**–130**
Result from discontinued operations	**36**	**–285**

The result from discontinued operations in the financial year 2012 was mainly due to price adjustments made as a result of bmi's better than expected liquidity position.

Assets of EUR 576m and liabilities of EUR 690m attributable to bmi were shown separately in the balance sheet as of 31 December 2011 in accordance with IFRS 5. These were derecognised in conjunction with the deconsolidation completed on 19 April 2012.

16 Earnings per share

Basic 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 employee share programmes are included pro rata temporis.

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, the net profit or loss for the period is increased by the costs incurred for the convertible bond. The convertible bond was redeemed in full on 4 January 2012. The maximum number of shares that could have been created by a conversion (previous year: 336,404) was recognised pro rata temporis for 2012.

		2012	2011
Basic earnings per share	€	**2.16**	**–0.03**
Consolidated net profit/loss	€m	990	–13
Weighted average number of shares		458,397,300	457,907,886
Diluted earnings per share	€	**2.16**	**–0.03**
Consolidated net profit/loss	€m	990	–13
+ Interest expenses on the convertible bond	€m	+0*	+0*
– Current and deferred taxes	€m	–0*	–0*
Adjusted net profit/loss for the period	€m	990	–13
Weighted average number of shares		458,401,038	458,244,290

* Rounded below EUR 1m.

Earnings per share from continuing operations (basic and diluted) came to EUR 2.08 per share (previous year: EUR 0.59), whereas earnings per share from discontinued operations (basic and diluted) came to EUR 0.08 per share (previous year: EUR –0.62).

As the parent company of the Group, Deutsche Lufthansa AG reported distributable earnings of EUR 296m for the 2012 financial year. The Executive Board and Supervisory Board will propose the transfer of the entire distributable profit to other retained earnings at the Annual General Meeting to be held on 7 May 2013.

In 2012 EUR 0.25 per share was distributed as a dividend from the net profit for 2011.

Notes to the consolidated balance sheet

ASSETS

17 Goodwill and intangible assets with an indefinite useful life

in €m	Goodwill from consolidation	Intangible assets with an indefinite useful life	Total
Cost as of 1.1.2011	906	977	1,883
Accumulated impairment losses	–301	–	–301
Carrying amount 1.1.2011	**605**	**977**	**1,582**
Currency translation differences	0*	18	18
Additions due to changes in consolidation	8	–	8
Additions	–	0*	0*
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–	–
Disposals	–	–35	–35
Reclassifications to assets held for sale	–	–382	–382
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2011	**613**	**578**	**1,191**
Cost as of 1.1.2012	914	578	1,492
Accumulated impairment losses	–301	–	–301
Carrying amount 1.1.2012	**613**	**578**	**1,191**
Currency translation differences	3	2	5
Additions due to changes in consolidation	–	3	3
Additions	–	–	–
Reclassifications	–	–3	–3
Disposals due to changes in consolidation	–	–	–
Disposals	–1	–	–1
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–2	–2
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2012	**615**	**578**	**1,193**
Cost as of 31.12.2012	916	580	1,496
Accumulated impairment losses	–301	–2	–303

* Rounded below EUR 1m.

All goodwill and intangible assets with an indefinite useful life were subjected to a regular impairment test in accordance with IAS 36 in the 2012 financial year, as was the case in the previous year. An exception in 2011 was the goodwill of EUR 8m for Constance Food Group, Inc. acquired in November 2011. Acquired brands and slots have an indefinite useful life due to their sustainably legal and economic significance. The tests were performed at the level of the smallest cash generating unit (CGU) on the basis of fair value less costs to sell or value in use. Goodwill originating from the acquisition of Air Dolomiti S.p.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	Deutsche Lufthansa AG and regional partners	SWISS Aviation Training Ltd.	LSG Sky Chefs USA Group	LSG Sky Chefs Korea	LSG Sky Chefs Havacilik Hizmetleri A.S.	ZAO AeroMEAL	Constance Food	Various LSG companies*
Segment	Passenger Airline Group	Passenger Airline Group	Catering	Catering	Catering	Catering	Catering	Catering
Carrying amount of goodwill	EUR 249m	EUR 3m	EUR 277m	EUR 54m	EUR 6m	EUR 6m	EUR 9m	EUR 11m
Impairment losses	–	–	–	–	–	–	–	–
Revenue growth p.a. over planning period	4.4% to 5.7%	−3.5% to 6.2%	2.3% to 3.0%	3.0% to 10.4%	0.1% to 7.0%	0.8% to 3.4%	11.0% to 16.0%	−0.9% to 8.2%
EBITDA margin over planning period	6.3% to 10.0%	24.9% to 29.8%	5.2% to 7.0%	28.1% to 28.4%	14.9%	19.9% to 21.2%	7.7% to 9.8%	7.5% to 36.1%
Investment ratio over planning period	7.8% to 9.9%	12.1% to 28.5%	3.6% to 4.1%	1.9% to 8.6%	1.5% to 3.2%	0.0% to 15.8%	0.0% to 1.4%	0.0% to 60.7%
Duration of planning period	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	4.1%	1.0%	2.0%	3.0%	5.0%	3.0%	3.0%	3.0% to 4.0%
EBITDA margin after end of planning period	10.0%	24.3%	7.0%	28.4%	14.9%	21.2%	9.8%	9.9% to 33.0%
Investment ratio after end of planning period	8.6%	13.0%	3.4%	1.9%	3.4%	2.6%	3.3%	3.0% to 6.7%
Discount rate	6.9%***	7.0%**	6.8%**	6.5%**	6.0%**	6.5%**	6.5%**	6.3% to 6.5%**

* Goodwill of less than EUR 5m in any individual instance.
** Pre-tax rate.
*** After-tax rate.

The assumptions on revenue growth used for the impairment tests are based on external sources for the planning period. 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 4.1 per cent at the end of the planning period by Deutsche Lufthansa AG and its regional partners as described in the table, the recoverable amount would exceed the carrying amount by a considerable figure. Even if the assumptions for revenue growth and/or the discount rate were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

Assuming sustained revenue growth of 2.0 per cent at the end of the planning period by the LSG Sky Chefs USA Group as described in the table, the recoverable amount would exceed the carrying amount by a considerable sum. Even if the assumptions for revenue growth and/or the discount rate were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

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 lives consist of slots purchased and brand names acquired as part of company acquisitions.

The following table shows the assumptions made for regular impairment testing of the smallest cash-generating unit (CGU) in each case. The assumptions made for the CGU Deutsche Lufthansa AG and regional partners are the same as those made for the acquired goodwill.

Name of the CGU	SWISS	Austrian
Segment	Passenger Airline Group	Passenger Airline Group
Carrying amount of slots	EUR 119m	EUR 25m
Impairment losses	–	–
Revenue growth p.a. over planning period	1.6% to 2.8%	3.4% to 10.1%
EBITDA margin over planning period	12.5% to 13.6%	6.7% to 7.8%
Investment ratio over planning period	6.9% to 16.0%	0.5% to 2.7%
Duration of planning period	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	4.1%
EBITDA margin after end of planning period	13.6%	7.8%
Investment ratio after end of planning period	6.7%	5.9%
Discount rate	7.1%*	7.0%*

* After-tax rate.

Assuming sustained revenue growth by SWISS of 2.2 per cent at the end of the planning period as described in the table, the recoverable amount would exceed the carrying amount by a considerable figure. Even if the assumptions for revenue growth and/or the discount rate were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

Assuming sustained revenue growth by Austrian of 4.1 per cent at the end of the planning period as described in the table, the recoverable amount would exceed the carrying amount by a considerable figure. Even if the assumptions for revenue growth and/or the discount rate were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

The regular impairment test for the brands acquired was carried out on the basis of the revenue generated from each brand.

The following assumptions were used in the impairment test for the acquired brands:

Group company	SWISS	Austrian
Carrying amount of brand	EUR 214m	EUR 107m
Impairment losses	–	EUR 2m
Revenue growth for brand p.a. over planning period	1.8% to 4.1%	3.5% to 10.6%
Duration of planning period	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	4.1%
Savings in hypothetical leasing payments before taxes (royalty rate)	0.6%	0.35%
Discount rate*	7.1%*	7.0%*

* After-tax rate.

Assuming sustained revenue growth associated with the brand after the end of the planning period of 2.2 per cent, the recoverable amount for the SWISS brand exceeds the carrying amount by EUR 289m. Even if the assumptions for brand-related revenue growth were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

Assuming sustained revenue growth associated with the brand after the end of the planning period of 4.1 per cent, the recoverable amount for the Austrian brands exceeds the carrying amount by EUR 134m. Even if the assumptions for brand-related revenue growth were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

Impairment losses of EUR 2m on the brands acquired with Austrian related to the Lauda brand, which is no longer used.

18 Other intangible assets

in €m	Concessions, industrial property rights and similar rights and licences to such rights and assets	Internally developed software	Advance payments	**Total**
Cost as of 1.1.2011	800	140	41	981
Accumulated amortisation	–533	–118	–1	–652
Carrying amount 1.1.2011	**267**	**22**	**40**	**329**
Currency translation differences	5	1	0*	6
Additions due to changes in consolidation	8	0*	–	8
Additions	89	15	31	135
Reclassifications	12	4	–13	3
Disposals due to changes in consolidation	–	–	–	–
Disposals	–4	0*	0*	–4
Reclassifications to assets held for sale	–2	–	–	–2
Amortisation	–79	–12	–	–91
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2011	**296**	**30**	**58**	**384**
Cost as of 1.1.2012	839	143	58	1,040
Accumulated amortisation	–543	–113	0*	–656
Carrying amount 1.1.2012	**296**	**30**	**58**	**384**
Currency translation differences	0*	0*	0*	0*
Additions due to changes in consolidation	0*	–	–	0*
Additions	39	1	40	80
Reclassifications	57	–1	–55	1
Disposals due to changes in consolidation	–	–	–	–
Disposals	–1	–1	–3	–5
Reclassifications to assets held for sale	0*	–	0*	0*
Amortisation	–75	–10	–	–85
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2012	**316**	**19**	**40**	**375**
Cost as of 31.12.2012	923	119	40	1,082
Accumulated amortisation	–607	–100	0*	–707

* Rounded below EUR 1m.

As in the previous year, intangible assets carried at less than EUR 1m were acquired by means of finance leases. Non-capitalised research and development expenses for intangible assets of EUR 10m (previous year: EUR 13m) were incurred in the period. Firm orders have been placed for intangible assets worth EUR 5m (previous year: EUR 11m), but they are not yet at the Group's economic disposal.

19 Aircraft and reserve engines

in €m	Aircraft and reserve engines	Advance payments for aircraft and reserve engines	**Total**
Cost as of 1.1.2011	21,699	1,153	22,852
Accumulated depreciation	–11,699	–	–11,699
Carrying amount 1.1.2011	**10,000**	**1,153**	**11,153**
Currency translation differences	62	16	78
Additions due to changes in consolidation	–	–	–
Additions	1,215	830	2,045
Reclassifications	652	–654	–2
Disposals due to changes in consolidation	–	–	–
Disposals	–42	–1	–43
Reclassifications to assets held for sale	–198	–	–198
Depreciation	–1,444	–	–1,444
Reversal of impairment losses	3	–	3
Carrying amount 31.12.2011	**10,248**	**1,344**	**11,592**
Cost as of 1.1.2012	22,486	1,344	23,830
Accumulated depreciation	–12,238	–	–12,238
Carrying amount 1.1.2012	**10,248**	**1,344**	**11,592**
Currency translation differences	18	4	22
Additions due to changes in consolidation	–	–	–
Additions	1,344	608	1,952
Reclassifications	759	–753	6
Disposals due to changes in consolidation	–	–	–
Disposals	–23	–36	–59
Reclassifications to assets held for sale	–178	–	–178
Depreciation	–1,497	–	–1,497
Reversal of impairment losses	0*	–	0*
Carrying amount 31.12.2012	**10,671**	**1,167**	**11,838**
Cost as of 31.12.2012	23,293	1,167	24,460
Accumulated depreciation	–12,622	–	–12,622

* Rounded below EUR 1m.

The item aircraft includes 16 aircraft (13 Boeing MD-11Fs and three Boeing B747-400s) at a carrying amount of EUR 221m (previous year: EUR 265m), 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 to 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 it 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 2012, as in the previous year, EUR 7m was recognised in other operating income.

The item also includes 44 aircraft carried at EUR 1,100m (previous year: 47 aircraft carried at EUR 1,308m), which have been sold to Japanese and British leasing companies, to leasing companies in the Bermudas and to a Swedish bank and leased back with the aim of obtaining favourable financing terms. The duration of these leasing agreements is between 10 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 under SIC 27 not treated as leased assets.

Operating constraints apply to two of these aircraft financed via leasing companies in the Bermudas. They may not be primarily deployed in American airspace.

Order commitments for aircraft and reserve engines amount to EUR 5.7bn (previous year: EUR 7.6bn).

Within this item, aircraft held at EUR 2,832m (previous year: EUR 2,807m) serve as collateral for current financing arrangements and aircraft held at EUR 261m (previous year: EUR 293m) were also acquired under finance leases, see "Note 22" starting on p. 160.

20 Property, plant and other equipment

in €m	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and plant under construction	**Total**
Cost as of 1.1.2011	2,372	1,015	1,265	44	4,696
Accumulated depreciation	–944	–722	–910	–	–2,576
Carrying amount 1.1.2011	**1,428**	**293**	**355**	**44**	**2,120**
Currency translation differences	2	1	1	0*	4
Additions due to changes in consolidation	0*	1	1	–	2
Additions	39	45	121	60	265
Reclassifications	12	12	9	–33	–
Disposals due to changes in consolidation	–	–	–	–	–
Disposals	–21	–2	–7	0*	–30
Reclassifications to assets held for sale	–13	–1	0*	–	–14
Depreciation	–75	–51	–103	–	–229
Reversal of impairment losses	0*	–	–	–	0*
Carrying amount 31.12.2011	**1,372**	**298**	**377**	**71**	**2,118**
Cost as of 1.1.2012	2,335	1,044	1,286	71	4,736
Accumulated depreciation	–963	–746	–909	–	–2,618
Carrying amount 1.1.2012	**1,372**	**298**	**377**	**71**	**2,118**
Currency translation differences	–	0*	–3	0*	–3
Additions due to changes in consolidation	6	4	2	–	12
Additions	40	33	115	56	244
Reclassifications	33	19	5	–62	–5
Disposals due to changes in consolidation	–	–	–	–	–
Disposals	–13	–3	–8	–6	–30
Reclassifications to assets held for sale	0*	0*	0*	0*	0*
Depreciation	–87	–58	–109	–1	–255
Reversal of impairment losses	–	–	–	–	–
Carrying amount 31.12.2012	**1,351**	**293**	**379**	**58**	**2,081**
Cost as of 31.12.2012	2,395	1,076	1,258	59	4,788
Accumulated depreciation	–1,044	–783	–879	–1	–2,707

* Rounded below EUR 1m.

As in the previous year, charges of EUR 4m exist over land and property. Pre-emption rights are registered for land held at EUR 235m (previous year: EUR 243m). Other property, plant and equipment carried at EUR 31m (previous year: EUR 29m) serves as collateral for existing financing arrangements. Other equipment carried at EUR 154m (previous year: EUR 157m) was acquired by means of finance leases, see "Note 22" starting on p. 160.

The following items of property, plant and equipment have been ordered, but are not yet at the Group's economic disposal:

in €m	**31.12.2012**	31.12.2011
Land and buildings	15	12
Technical equipment	5	12
Operating and office equipment	39	62
	59	**86**

21 Investment property

A plot of land held solely as investment property has a carrying amount of EUR 0.1m, as in the previous year. As in the previous year, its fair value is EUR 2m, as estimated by surveyors taking the relevant market circumstances into account.

22 Assets for which the Group is lessor or lessee

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	Lessor of aircraft and reserve engines	Lessee of aircraft and reserve engines	Lessee and sublessor of aircraft and reserve engines	Lessee of buildings	Lessee of intangible assets and technical equipment	Lessee of other equipment, operating and office equipment
Cost as of 1.1.2011	219	489	9	275	7	1
Accumulated depreciation	–116	–147	–1	–84	–1	–1
Carrying amount 1.1.2011	**103**	**342**	**8**	**191**	**6**	**0***
Currency translation differences	–	10	–	1	0*	0*
Additions due to changes in consolidation	–	–	–	–	–	–
Additions	–	32	–	2	0*	1
Reclassifications	0*	31	0*	0*	–4	–
Disposals due to changes in consolidation	–	–	–	–	–	–
Disposals	0*	–	–	–18	–1	–
Reclassifications to assets held for sale	–	–46	–	–5	–	–
Depreciation	–7	–76	–1	–14	–1	0*
Reversal of impairment losses	–	–	–	–	–	–
Carrying amount 31.12.2011	**96**	**293**	**7**	**157**	**0***	**1**
Cost as of 1.1.2012	201	505	9	248	7	2
Accumulated depreciation	–105	–212	–2	–91	–7	–1
Carrying amount 1.1.2012	**96**	**293**	**7**	**157**	**0***	**1**
Currency translation differences	–	2	–	1	0*	0*
Additions due to changes in consolidation	–	–	–	–	–	0*
Additions	–	56	–	4	–	0*
Reclassifications	2	–	–2	6	–	1
Disposals due to changes in consolidation	–	–	–	–	–	–
Disposals	1	–	–	–2	–	–1
Reclassifications to assets held for sale	–2	–12	–	–	–	–
Depreciation	–13	–78	–1	–12	0*	0*
Reversal of impairment losses	–	–	–	–	–	–
Carrying amount 31.12.2012	**84**	**261**	**4**	**154**	**0***	**1**
Cost as of 31.12.2012	150	531	6	258	7	2
Accumulated depreciation	–66	–270	–2	–104	–7	–1

* Rounded below EUR 1m.

Finance leases

The carrying amount of leased assets attributed to the Group's economic ownership under IAS 17 is EUR 420m (previous year: EUR 458m), of which EUR 265m (previous year: EUR 300m) relates to aircraft (two Airbus A340s, four Airbus A321s, fifteen Airbus A320s, two Airbus A319s, two Boeing B767s and two Embraer 145s).

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 Euribor or 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 15 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 cancelled.

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	2013	2014–2017	from 2018
Lease payments	87	245	144
Interest portion	6	47	71
Present values	81	198	73
Payments from sub-leasing	2	0	0

In the previous year the following figures were given for finance leases:

in €m	2012	2013–2016	from 2017
Lease payments	79	251	136
Interest portion	10	36	36
Present values	69	215	100
Payments from sub-leasing	2	2	0

In the previous year, two aircraft legally owned by the Group had been let to third parties under finance leases until 2016 and 2019 respectively. The following figures were given for these leases in the previous year:

in €m	2012	2013–2016	from 2017
Lease payments	6	25	10
Interest portion	1	4	1
Present values	5	21	9

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 37 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	2013	2014–2017	from 2018
Aircraft	87	92	3 p.a.
Various buildings	264	989	225 p.a.
Other leases	78	277	67 p.a.
	429	**1,358**	**295 p.a.**
Payments from sub-leasing	10	12	3 p.a.

In the previous year the following figures were given for operating leases:

in €m	2012	2013–2016	from 2017
Aircraft	114	141	7 p.a.
Various buildings	227	848	195 p.a.
Other leases	64	226	49 p.a.
	405	**1,215**	**251 p.a.**
Payments from sub-leasing	19	25	2 p.a.

Eight aircraft and reserve engines, legally and economically the property of the Group at the end of 2012, have been leased to third parties under non-terminable operating leases. These leases, which run for up to 10 years, give rise to the following payments:

in €m	2013	2014–2017	from 2018
Payments received from operating leases	17	8	3 p.a.

Seven aircraft as well as reserve engines and intangible assets, legally and economically the property of the Group at the end of 2011, were leased to third parties under non-terminable operating leases. These leases gave rise to the following payments:

in €m	2012	2013–2016	from 2017
Payments received from operating leases	18	10	3 p.a.

23 Investments accounted for using the equity method

in €m	Investments in joint ventures	Investments in associated companies	Total
Cost as of 1.1.2011	196	194	390
Accumulated impairment losses	–	–5	–5
Carrying amount 1.1.2011	**196**	**189**	**385**
Currency translation differences	9	4	13
Additions due to changes in consolidation	–	–	–
Additions	1	11	12
Changes with and without an effect on profit and loss	36	–27	9
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–	–
Disposals	–	–1	–1
Dividends paid	–17	–7	–24
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2011	**225**	**169**	**394**
Cost as of 1.1.2012	225	174	399
Accumulated impairment losses	–	–5	–5
Carrying amount 1.1.2012	**225**	**169**	**394**
Currency translation differences	–3	–2	–5
Additions due to changes in consolidation	–	1	1
Additions	27	0*	27
Changes with and without an effect on profit and loss	28	–7	21
Reclassifications	–	10	10
Disposals due to changes in consolidation	–	–	–
Disposals	–12	–	–12
Dividends paid	–21	–8	–29
Reclassifications to assets held for sale	–	–1	–1
Impairment losses	–	–6	–6
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2012	**244**	**156**	**400**
Cost as of 31.12.2012	244	167	411
Accumulated impairment losses	–	–11	–11

* Rounded below EUR 1m.

In one case (previous year: one case) the carrying amounts for associated companies were not reduced below EUR 0m. Losses at associated companies of EUR 9m were not taken into account.

24 Financial assets by category

Financial assets in the balance sheet as of 31.12.2012

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	–	–	413	–
Non-current securities	–	–	19	–
Loans	186	–	–	–
Non-current receivables	847	–	–	–
Non-current derivative financial instruments	–	127	–	141
Trade receivables and other current receivables	3,527	–	–	–
Current derivative financial instruments	–	112	–	103
Current securities	–	–	3,530	–
Cash and cash equivalents	–	–	1,436	–
Total	**4,560**	**239**	**5,398**	**244**

Financial assets in the balance sheet as of 31.12.2011

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	–	–	898	–
Non-current securities	–	–	134	–
Loans	190	–	–	–
Non-current receivables	386	–	–	–
Non-current derivative financial instruments	–	155	–	188
Trade receivables and other current receivables	3,437	–	–	–
Current derivative financial instruments	–	144	–	270
Current securities	–	–	3,111	–
Cash and cash equivalents	–	–	887	–
Total	**4,013**	**299**	**5,030**	**458**

The financial assets in the category “at fair value through profit or loss” include assets held for trading and time values of options used for hedging of EUR 178m (previous year: EUR 174m) which following an amendment to IAS 39 are to be recognised in the financial result. 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:

2012

in €m	Other operating income	Other operating expenses	Result of equity investments	Other financial items	**Net result**
Loans and receivables	27	–142	–	–20	**–135**
Financial assets at fair value through profit or loss	–	–	–	–101	**–101**
Ineffective portion of derivatives used as cash flow hedges	–	–	–	82	**82**
Available-for-sale financial assets	710	–23	–	–9	**678**

2011

in €m	Other operating income	Other operating expenses	Result of equity investments	Other financial items	**Net result**
Loans and receivables	32	–86	–	–11	**–65**
Financial assets at fair value through profit or loss	–	–	–	23	**23**
Ineffective portion of derivatives used as cash flow hedges	–	–	–	–96	**–96**
Available-for-sale financial assets	12	–63	–	–26	**–77**

Financial assets held at fair value by level of fair value hierarchy

The following table shows financial assets held at fair value by level of fair value hierarchy. The levels are defined as follows:

Level 1:
- Financial instruments traded on active markets, the quoted (non-adjusted) prices for which are taken for measurement.

Level 2:
- Measurement is made by means of valuation methods with parameters derived directly or indirectly from observable market data.

Level 3:
- Measurement is made by means of valuation methods with parameters not based exclusively on observable market data.

Assets as of 31.12.2012

in €m	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial derivatives classified as held for trading	–	239	–	239
Current securities	–	0*	0*	0*
Total financial assets through profit and loss	**–**	**239**	**0***	**239**
Derivative financial instruments which are an effective part of a hedging relationship	**–**	**244**	**–**	**244**
Available-for-sale financial assets				
Equity instruments	560	–	–	560
Debt instruments	951	2,175	61	3,187
	1,511	**2,175**	**61**	**3,747**
Total assets	**1,511**	**2,658**	**61**	**4,230**

* Rounded below EUR 1m.

In the financial year 2011 the fair value hierarchy for assets held at fair value was as follows:

Assets as of 31.12.2011

in €m	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial derivatives classified as held for trading	–	299	–	299
Current securities	–	0*	0*	0*
Total financial assets through profit and loss	**–**	**299**	**0***	**299**
Derivative financial instruments which are an effective part of a hedging relationship	**–**	**458**	**–**	**458**
Available-for-sale financial assets				
Equity instruments	787	–	–	787
Debt instruments	662	2,396	6	3,064
	1,449	**2,396**	**6**	**3,851**
Total assets	**1,449**	**3,153**	**6**	**4,608**

* Rounded below EUR 1m.

Additional disclosures on financial assets in Level 3 as of 31.12.2012

in €m	1.1.2012	Recognised in result for the period	Change in market value recognised in equity	Additions/ Disposals	**31.12.2012**
Financial assets at fair value through profit or loss	0*	0*	–	0*	0*
Available-for-sale financial assets	6	0*	11	44	61
Total	**6**	**0***	**11**	**44**	**61**

* Rounded below EUR 1m.

Additional disclosures on financial assets in Level 3 as of 31.12.2011

in €m	1.1.2011	Recognised in result for the period	Change in market value recognised in equity	Additions/ Disposals	**31.12.2011**
Financial assets at fair value through profit or loss	4	4	–	–8	0*
Available-for-sale financial assets	20	3	0*	–17	6
Total	**24**	**7**	**0***	**–25**	**6**

* Rounded below EUR 1m.

25 Other equity investments and non-current securities

The following table shows changes in other equity investments and non-current securities in the years 2012 and 2011:

in €m	Investments in affiliated companies	Equity investments	Non-current securities	**Total**
Cost as of 1.1.2011	327	979	250	1,556
Accumulated impairment losses	–49	–129	0*	–178
Carrying amount 1.1.2011	**278**	**850**	**250**	**1,378**
Currency translation differences	1	0*	0*	1
Additions due to changes in consolidation	–	–	–	–
Additions	16	1	15	32
Reclassifications	0*	–	–	0*
Disposals due to changes in consolidation	–	–	–	–
Disposals	–5	–166	–131	–302
Reclassifications to assets held for sale	–51	–	–	–51
Impairment losses	–25	–1	0*	–26
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2011	**214**	**684**	**134**	**1,032**
Cost as of 1.1.2012	285	817	133	1,235
Accumulated impairment losses	–71	–133	1	–203
Carrying amount 1.1.2012	**214**	**684**	**134**	**1,032**
Currency translation differences	3	0*	0*	3
Additions due to changes in consolidation	–	–	–	–
Additions	–	225	0*	225
Reclassifications	–11	0*	–	–11
Disposals due to changes in consolidation	–	–	–	–
Disposals	–9	–684	–115	–808
Reclassifications to assets held for sale	–	–	–	–
Impairment losses	–9	–	–	–9
Reversal of impairment losses	–	–	0*	0*
Carrying amount 31.12.2012	**188**	**225**	**19**	**432**
Cost as of 31.12.2012	262	340	19	621
Accumulated impairment losses	–74	–115	0*	–189

* Rounded below EUR 1m.

Disposals of equity investments include EUR 634m in total on the transfer of 4.0 per cent of the shares in Amadeus IT Holding S.A. to the Lufthansa Pension Trust and on the sale of 3.61 per cent of the shares in Amadeus IT Holding S.A. via the capital market.

Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. For other equity investments held at EUR 21m (previous year: EUR 20m) and non-current securities held at EUR 4m (previous year: EUR 9m) there is no active market with publicly available market prices.

In the financial year 2012, other equity investments and securities held at EUR 5m 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 7m.

Securities held at EUR 10m (previous year: EUR 10m) were pledged as collateral for liabilities.

26 Non-current loans and receivables

Loans and receivables

in €m	31.12.2012	31.12.2011
Loans to and receivables from affiliated companies	104	51
Loans to and receivables from other equity investments	0*	0*
Other loans and receivables	928	524
Pre-financed rental property	1	1
Emissions certificates	19	40
	1,052	**616**

* 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.

For the impairment test for emissions certificates we refer to the disclosures on the cash-generating units (CGU) Deutsche Lufthansa AG (including regional partners), SWISS and Austrian in the Notes to the consolidated financial statements, "Note 17" starting on p. 154.

In the previous year, collateral received for other loans had a fair value of EUR 3m.

As in the previous year, other receivables include expected reimbursements of EUR 1m for obligations for which provisions have been made.

Of the non-current receivables, EUR 50m (previous year: EUR 60m) serves as collateral for liabilities.

27 Derivative financial instruments

Derivative financial instruments qualifying as effective hedging instruments within a hedging relationship have the following balances:

Derivative financial instruments

in €m	31.12.2012	31.12.2011
Positive market values – long-term	141	188
Positive market values – short-term	103	270
Negative market values – long-term	–57	–16
Negative market values – short-term	–3	–20
	184	**422**

They relate to the following hedged items:

in €m	31.12.2012	31.12.2011
Fuel price hedges	14	141
Exchange rate hedges	16	163
Interest rate hedges	154	118

Derivative financial instruments measured at fair value through profit or loss are shown in the following table:

Trading portion

in €m	31.12.2012	31.12.2011
Positive market values – long-term	127	155
Positive market values – short-term	112	144
Negative market values – long-term	–93	–39
Negative market values – short-term	1	–17
	147	**243**

The positive and negative market values shown are from derivatives that do not qualify under IAS 39 as effective hedging instruments within a hedging relationship as well as the time values of options used for hedging. Derivatives that do not qualify as effective hedging instruments within a hedging relationship include interest and exchange rate swaps. These instruments are used explicitly for hedging existing hedged items, in particular fixed-interest financial liabilities in foreign currencies. Solely on the basis of the effectiveness criteria defined in IAS 39, however, these interest and exchange rate swaps cannot be presented as effective hedging instruments.

Fair values are all calculated on the basis of recognised financial and mathematical methods, using publicly available market information.

28 Inventories

Inventories

in €m	31.12.2012	31.12.2011
Raw materials, consumables and supplies	527	512
Finished goods and work in progress	111	108
Advance payments	1	0*
	639	**620**

* Rounded below EUR 1m.

Inventories valued at EUR 16m (previous year: EUR 30m) are pledged as collateral.

The gross value of inventories as of 31 December 2012 was EUR 712m (previous year: EUR 681m). Of these, inventories at a carrying amount of EUR 505m (previous year: EUR 495m) were recognised at fair value less costs to sell (net realisable value). Write-downs of EUR 184m (previous year: EUR 174m) were made to net realisable value. In the reporting period new write-downs were made for EUR 35m (previous year: EUR 23m). Write-downs of EUR 12m made in previous years were reversed (previous year: EUR 11m).

29 Trade receivables and other receivables

in €m	31.12.2012	31.12.2011
Trade receivables		
Trade receivables from affiliated companies	76	92
Trade receivables from other equity investments	2	2
Trade receivables from third parties	2,670	2,744
	2,748	**2,838**
of which: from unfinished orders less advance payments received	(101)	(151)
Other receivables		
Receivables from affiliated companies	136	165
Receivables from other equity investments	0*	6
Other receivables	643	428
Emissions certificates	51	–
	830	**599**
Total	**3,578**	**3,437**

* Rounded below EUR 1m.

The carrying amount of these receivables corresponds to their fair value.

For the impairment test for emissions certificates we refer to the disclosures on the cash-generating units (CGU) Deutsche Lufthansa AG (including regional partners), SWISS and Austrian in the Notes to the consolidated financial statements, "Note 17" starting on p. 154.

Collateral received for trade receivables has a fair value of EUR 1m, as in the previous year.

In the previous year, EUR 8m of trade receivables was pledged as collateral.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 1m (previous year: EUR 2m).

30 Deferred charges and prepaid expenses

Deferred charges and prepaid expenses consist mainly of rents and insurance premiums 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 almost entirely from publicly available market prices in active markets.

32 Cash and cash equivalents

The bank balances denominated in euros with various banks mostly earned interest at a rate of 0.15 per cent (previous year: 0.4 to 1.5 per cent). USD balances were invested at an average interest rate of 0.15 per cent (previous year: 0.4 per cent) and balances in Swiss francs at an average rate of 0.16 per cent (previous year: 0.35 per cent).

EUR 5m of the bank balances (previous year: EUR 17m) 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

As of year-end 2012, assets held for sale included three Boeing B747-400s, one Airbus A340-300, five B737-800s, one Boeing B737-300 and two Airbus A319-100s, with a total carrying amount of EUR 105m. Impairment losses of EUR 144m in total were recognised on these assets as well as on other aircraft and other assets; see "Note 9" on p. 150.

In the previous year, this item consisted largely of the assets held for sale belonging to British Midland Ltd., which were made up as follows:

in €m	
Intangible assets	255
Aircraft and reserve engines	99
Repairable spare parts for aircraft	17
Property, plant and other equipment	8
Financial investments	47
Other assets	150
	576

Intangible assets consisted of EUR 239m for slots and EUR 15m for the bmi brand name. Financial investments included a 59.38 per cent stake in British Mediterranean Airways Ltd. held at EUR 37m.

Impairment losses of EUR 150m were recognised for intangible assets and property, plant and equipment in the financial year 2011 and formed part of the result from discontinued operations.

The following liabilities formed part of the same disposal group and were also shown separately in the balance sheet for the previous year:

in €m	
Other provisions	153
Borrowings	69
Other liabilities	403
Deferred income tax liabilities	65
	690

In the previous year, assets held for sale also included assets with a carrying amount of EUR 32m from the spin-off and sale of the private customer business of AirPlus Air Travel Card Vertriebsgesellschaft mbH. Liabilities of EUR 26m formed part of the same disposal group.

In the previous year, this item also included two Boeing B747-400s, two Airbus A340-300s, six Boeing B737-300s, one Airbus A330-300, three Canadair Regional Jet 200s and five Avro RJs with a total carrying amount of EUR 64m. Impairment losses of EUR 52m were recognised on these assets. Collateral received for the assets shown here had a fair value of EUR 8m in the previous year.

SHAREHOLDERS' EQUITY AND LIABILITIES

34 Issued capital

Deutsche Lufthansa AG's issued capital totals EUR 1,177.5m. Issued capital is divided into 459,947,000 registered shares, with each share representing EUR 2.56 of issued capital.

A resolution passed at the Annual General Meeting on 29 April 2010 authorised the Executive Board until 28 April 2015, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 561,160,092 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 against cash contributions to rule out, subject to approval by the Supervisory Board, a subscription right for existing shareholders on condition that the new shares so issued must not exceed 10 per cent of the 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 3 May 2011 authorised the Executive Board until 2 May 2016, subject to approval by the Supervisory Board, to issue bearer or registered convertible bonds, bond/warrant packages, profit sharing rights or participating bonds (or combinations of these instruments), on one or more occasions, for a total nominal value of up to EUR 1.5bn, with or without fixed term. To do so, contingent capital (Contingent Capital II) was created for a contingent capital increase of up to EUR 234,464,035.80, by issuing up to 91,587,514 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.

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 right of shareholders was excluded. A total of 750,000 rights of conversion were issued that after the 2004 capital increase entitled the holders to convert them into up to 37,764,350 Lufthansa AG shares at a price of EUR 19.86 each. Convertible bonds were converted early on 4 January 2006 for a total of EUR 699m, 309 conversion rights were exercised (15,558 shares) in 2006, a further 40 conversion rights (2,014 shares) were exercised in 2007 and as of 4 January 2008 convertible bonds amounting to EUR 205,000, and to EUR 43,458,000 on 4 January 2010, were redeemed.

As of 31 December 2011, there were therefore 6,681 conversion rights outstanding, convertible into up to 336,404 shares in Deutsche Lufthansa AG at a price of EUR 19.86. On 4 January 2012, the outstanding amount was redeemed in cash. There was subsequently 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 on 24 April 2009 authorised the Executive Board until 23 April 2014, 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. In order to issue new shares to employees of Deutsche Lufthansa AG and its affiliated companies, the Executive Board of Deutsche Lufthansa AG decided on 28 August 2012 and 6 November 2012, with the approval of the Supervisory Board being given on 19 September 2012, to make use of the authorisation voted at the Annual General Meeting on 24 April 2009 (Authorised Capital B) and increase the Company's issued capital by EUR 1,552,791.04, excluding shareholders' subscription rights, by issuing 606,559 new registered shares with transfer restrictions and profit entitlement from 1 January 2012 for payment in cash. The capital increase was entered in the Commercial Register of Cologne District Court (HRB 2168) on 8 November 2012. In order to issue additional new shares to employees of Deutsche Lufthansa AG and its affiliated companies, the Executive Board decided on 19 September 2012, with the approval of the Supervisory Board being given on 19 September 2012, to increase the Company's issued capital by EUR 3,591,344.64, excluding shareholders' subscription rights, by issuing 1,402,869 new registered shares with transfer restrictions and profit entitlement from 1 January 2012 for payment in cash. The capital increase was registered in the Commercial Register of the Cologne District Court (HRB 2168) on 24 September 2012. As of 31 December 2012, Authorised Capital B amounted to EUR 19,855,864.32.

A resolution passed at the Annual General Meeting held on 29 April 2010 authorised the Executive Board pursuant to Section 71 Paragraph 1 No. 8 Stock Corporation Act (AktG) to purchase treasury shares until 28 April 2015. 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.

In 2012, Deutsche Lufthansa AG bought back a total of 99,917 of its own shares at an average price of EUR 12.13. This is equivalent to 0.02 per cent of issued capital.

The shares purchased or created by means of the capital increase were used as follows:

- 1,402,869 shares were transferred to the staff of Lufthansa AG and 39 other affiliated companies and equity investments as part of the profit-sharing scheme for 2011, at a share price of EUR 9.65.
- 704,172 shares were transferred as part of performance-related variable remuneration in 2012 to managers and non-payscale staff of Deutsche Lufthansa AG and to 24 further affiliated companies and equity investments at a price of EUR 12.14.
- 1,152 shares were transferred to managers and non-payscale staff as part of performance-related remuneration for 2011 at a price of EUR 10.40.

1,152 shares were resold at a price of EUR 10.23.

On the balance sheet date, treasury shares were no longer held.

Additional information on changes in equity

The Lufthansa Group continues to aim 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 2012 and 2011, equity and total assets were as follows:

in €m	**31.12.2012**	31.12.2011
Shareholders' equity	8,298	8,044
in per cent of total assets	29.2	28.6
Liabilities	20,121	20,037
in per cent of total assets	70.8	71.4
Total capital	**28,419**	**28,081**

In the financial year 2012, the equity ratio rose again year on year by 0.6 percentage points to 29.2 per cent. This increase is largely due to the rise of EUR 254m in shareholders' equity to EUR 8.3bn and the fact that total assets only went up slightly by 1.2 per cent.

Lufthansa is not subject to any statute-like capital requirements. Until 4 January 2012, there was an obligation to issue shares in connection with rights associated with the convertible bond. The bond was redeemed in full on 4 January 2012. We refer to the comments on contingent capital for details.

35 Notifications on the shareholder structure

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 13 January 2012

On 11 January 2012, Templeton Global Advisors Limited, Nassau, Bahamas, notified us as follows:

The voting rights of Templeton Global Advisors Limited, Nassau, Bahamas, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 10 January 2012 and on this date came to 5.0001 per cent (22,897,430 voting shares). Of the total, 5.0001 per cent (22,897,430 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 15 May 2012

On 10 May 2012, BlackRock Investment Management (UK) Limited, London, UK, notified us on behalf and with the authorisation of the following company as follows:

The voting rights of BlackRock Advisors Holdings, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 4 May 2012 and on this date came to 3.10 per cent (14,208,087 voting shares). Of the total, 3.10 per cent (14,208,087 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 15 May 2012

On 10 May 2012, DekaBank Deutsche Girozentrale, Frankfurt/M., Germany, notified us as follows:

The voting rights of DekaBank Deutsche Girozentrale, Frankfurt/M., Germany, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 4 May 2012 and on this date came to 5.22 per cent (23,884,103 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG (correction) dated 16 May 2012

On 16 May 2012, DekaBank Deutsche Girozentrale, Frankfurt/M., Germany, sent us the following correction to its voting rights announcement in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act) dated 10 May 2012:

The voting rights of DekaBank Deutsche Girozentrale, Frankfurt/M., Germany, in Deutsche Lufthansa AG exceeded the thresholds of 3 per cent and 5 per cent on 4 May 2012 and on this date came to 5.71 per cent (26,154,103 voting shares). Of the total, 0.49 per cent (2,270,000 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 3 WpHG.

The correction related to the fact that the 3 per cent threshold had also been exceeded as well as to an increase in the total number of voting rights due to shares attributed in accordance with Section 22 Paragraph 1 No. 3 WpHG (Securities Trading Act).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 16 May 2012

On 11 May 2012, DekaBank Deutsche Girozentrale, Frankfurt/M., Germany, notified us as follows in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act):

The voting rights of DekaBank Deutsche Girozentrale, Frankfurt/M., Germany, in Deutsche Lufthansa AG fell below the threshold of 5 per cent on 7 May 2012 and on this date came to 0.00 per cent (0 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 29 May 2012

On 23 May 2012, BlackRock Investment Management (UK) Limited, London, UK, notified us on behalf and with the authorisation of the following companies in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act) as follows:

The voting rights of BlackRock, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 17 May 2012 and on this date came to 5.43 per cent (24,867,830 voting shares). Of the total, 5.43 per cent (24,867,830 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BlackRock Holdco 2, Inc., Wilmington, Delaware, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 17 May 2012 and on this date came to 5.38 per cent (24,650,289 voting shares). Of the total, 5.38 per cent (24,650,289 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BlackRock Financial Management, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 17 May 2012 and on this date came to 5.38 per cent (24,650,289 voting shares). Of the total, 5.38 per cent (24,650,289 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BlackRock International Holdings, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 17 May 2012 and on this date came to 3.40 per cent (15,559,272 voting shares). Of the total, 3.40 per cent (15,559,272 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BR Jersey International Holdings, L.P., St Helier, Jersey, Channel Islands, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 17 May 2012 and on this date came to 3.40 per cent (15,559,272 voting shares). Of the total, 3.40 per cent (15,559,272 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BlackRock Group Limited, London, UK, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 17 May 2012 and on this date came to 3.26 per cent (14,914,270 voting shares). Of the total, 3.26 per cent (14,914,270 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG (correction) dated 30 May 2012

On 29 May 2012, DekaBank Deutsche Girozentrale, Frankfurt/M., Germany, sent us the following correction to its voting rights announcement in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act) dated 11 May 2012:

The voting rights of DekaBank Deutsche Girozentrale, Frankfurt/M., Germany, in Deutsche Lufthansa AG fell below the thresholds of 3 per cent and 5 per cent on 7 May 2012 and on this date came to 0.00 per cent (0 voting shares).

The correction related to the fact that its voting rights also fell below the 3 per cent threshold.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 29 June 2012

On 27 June 2012, BlackRock Investment Management (UK) Limited, London, UK, notified us on behalf and with the authorisation of the following company as follows:

The voting rights of BlackRock Group Limited, London, UK, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 20 June 2012 and on this date came to 2.78 per cent (12,724,789 voting shares). Of the total, 2.78 per cent (12,724,789 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 31 July 2012

On 30 July 2012, BlackRock Investment Management (UK) Limited, London, UK, notified us on behalf and with the authorisation of BlackRock Group Limited, London, UK, as follows:

The voting rights of BlackRock Group Limited, London, UK, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 24 July 2012 and on this date came to 3.13 per cent (14,349,331 voting shares). Of the total, 3.13 per cent (14,349,331 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 20 August 2012

On 16 August 2012, Mackenzie Financial Corporation, Toronto, Canada, notified us as follows in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act):

The voting rights of Mackenzie Financial Corporation, Toronto, Canada, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 14 August 2012 and on this date came to 3.01 per cent (13,782,984 voting shares). Of the total, 3.01 per cent (13,782,984 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 31 August 2012

On 30 August 2012, Templeton Growth Fund, Inc., Maryland, USA, notified us as follows in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act):

The voting rights of Templeton Growth Fund, Inc., Maryland, USA, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 28 August 2012 and on this date came to 3.0855 per cent (14,129,602 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 21 November 2012

On 16 November 2012, Capital Research and Management Company, Los Angeles, USA, notified us as follows in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act):

The voting rights of Capital Research and Management Company, Los Angeles, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 12 November 2012 and on this date came to 5.12 per cent (23,540,259 voting shares). Of the total, 5.12 per cent (23,540,259 voting shares) is attributable to it in accordance with

Section 22 Paragraph 1 Sentence 1 No. 6 WpHG. These 23,540,259 voting shares include voting rights attributed by EuroPacific Growth Fund, Los Angeles, USA, a shareholder with 3 per cent or more of the voting rights in Deutsche Lufthansa AG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 21 November 2012

On 19 November 2012, The Capital Group Companies, Inc., Los Angeles, USA, notified us as follows in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act):

The voting rights of The Capital Group Companies, Inc., Los Angeles, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 12 November 2012 and on this date came to 5.12 per cent (23,540,259 voting shares). Of the total, 5.12 per cent (23,540,259 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentences 2 and 3 WpHG. These 23,540,259 voting shares include voting rights attributed by EuroPacific Growth Fund, Los Angeles, USA, a shareholder with 3 per cent or more of the voting rights in Deutsche Lufthansa AG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 28 November 2012

On 27 November 2012, EuroPacific Growth Fund ("EUPAC"), Los Angeles, USA, notified us as follows in accordance with Section 21 Paragraph 1 WpHG (Securities Trading Act):

The voting rights of EuroPacific Growth Fund ("EUPAC"), Los Angeles, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 22 November 2012 and on this date came to 5.13 per cent (23,601,839 voting shares).

The EuroPacific Growth Fund is an investment fund managed by The Capital Group Companies, Inc.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) and on voting rights in accordance with Section 21 Paragraph 1 WpHG dated 7 January 2013

On 3 January 2013, BlackRock Investment Management (UK) Limited, London, UK, notified us as follows:

The voting rights of BlackRock Investment Management (UK), London, UK, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 28 December 2012 and on this date came to 3.05 per cent (14,016,411 voting shares). Of the total, 3.05 per cent (14,016,411 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

36 Reserves

Capital reserves only include the share premium paid on capital increases and a convertible bond. No conversion rights were exercised in 2012, as in the previous year. The convertible bond was redeemed in full in cash on 4 January 2012. The legal reserve contained in retained earnings is unchanged at EUR 26m; other reserves consist of other retained earnings.

The following table shows changes in other neutral reserves in 2012:

Notes on other comprehensive income

in €m	2012	2011
Other comprehensive income after income taxes		
Currency translation differences		
Profit/loss for the period	−7	81
Reclassification adjustments recognised in profit or loss	2	–
Subsequent measurement of available-for-sale financial assets		
Profit/loss for the period	286	−176
Reclassification adjustments recognised in profit or loss	−656	12
Subsequent measurement of cash flow hedges		
Profit/loss for the period	38	766
Reclassification adjustments recognised in profit or loss	−291	−720
Transfer to cost of hedged items	−69	63
Other comprehensive income from investments accounted for using the equity method		
Profit/loss for the period	−5	2
Reclassification adjustments recognised in profit or loss	−5	–
Other expenses and income recognised directly in equity	−1	1
Income taxes on items in other comprehensive income	95	−35
Other comprehensive income after income taxes	**−613**	**−6**

Note on income taxes recognised for other comprehensive income

in €m	2012 Amount before income taxes	2012 Tax expenses / income	2012 Amount after income taxes	2011 Amount before income taxes	2011 Tax expenses / income	2011 Amount after income taxes
Currency translation differences	−5	–	−5	81	–	81
Subsequent measurement of available-for-sale financial assets	−370	3	−367	−164	3	−161
Subsequent measurement of cash flow hedges	−322	92	−230	109	−38	71
Other comprehensive income from investments accounted for using the equity method	−10	–	−10	2	–	2
Other expenses and income recognised directly in equity	−1	–	−1	1	–	1
Other comprehensive income	**−708**	**95**	**−613**	**29**	**−35**	**−6**

The overall change in equity is shown in the consolidated statement of changes in Lufthansa 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 as well as for cockpit staff under the terms of the 4 December 2004 wage settlement were also converted to an average salary plan. The retirement benefit commitment is now equal to that for staff who joined the Company after 1994. One pension component is earned every year based on an employee's pay and age; retirement benefit is defined as the sum of accumulated pension components. Under IAS 19 these pension obligations are regarded as defined-benefit commitments 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 bears no financial or actuarial risks from these obligations. In 2012, contributions toward defined-contribution pension plans amounted to EUR 397m (previous year: EUR 376m).

Company pension schemes and transitional pension arrangements for Germany are funded by plan assets and the additional amounts 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 was to outsource the pension obligations in full within 10 to 15 years. In 2012, a further EUR 588m were transferred for the benefit of staff, taking the total transferred to the pension trust to EUR 5,458m.

Additional external plan assets of EUR 140m exist to fund defined benefit obligations in Germany as of the reporting date. A total of EUR 25m was contributed to these plan assets in 2012.

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 in 2007, pension obligations, mainly statutory obligations, were also taken on. The retirement benefits are funded via pension funds known as collective foundations.

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:

Actuarial parameters

in %	**31.12.2012**	31.12.2011	31.12.2010
Interest rate in Germany	3.5	4.5	5.0
Projected salary increase in Germany	2.75	2.75	2.75
Projected pension increase in Germany	1.0 to 2.75	1.0 to 2.75	1.0 to 2.75
Interest rate abroad	2.0 to 4.25	2.5 to 5.0	2.75 to 5.75
Projected salary increase abroad	1.0 to 4.0	1.0 to 4.0	1.5 to 5.0
Projected pension increase abroad	0.0 to 3.0	0.0 to 3.5	0.0 to 3.7
Healthcare cost trend for pensioners abroad	5.0 to 6.0	5.0 to 7.0	7.5
Expected return on external plan assets in Germany*	5.2	5.2	5.2
Expected return on external plan assets abroad	2.0 to 7.5	2.5 to 8.3	2.4 to 8.3

* 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 structure 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 healthcare costs for pensioners by 1 per cent would have the following effects:

in € thousands	Increase by 1 per cent	Decrease by 1 per cent
Service costs and interest expenses	+18	−17
Healthcare commitments	+456	−449

On the balance sheet date the present value of pension obligations and the fair values of plan assets were as follows:

in €m	**31.12.2012**	31.12.2011	31.12.2010	31.12.209	31.12.2008
Present value of funded pension obligations in Germany	11,180	8,850	5,485	4,730	4,081
Plan assets in Germany	6,499	5,363	4,805	3,921	3,445
Deficit (+) / surplus (–)	**4,681**	**3,487**	**680**	**809**	**636**
Present value of funded pension obligations abroad	3,456	3,768	3,266	2,726	1,712
Plan assets abroad	2,678	2,823	2,682	2,212	1,476
Deficit (+) / surplus (–)	**778**	**945**	**584**	**514**	**236**
Present value of unfunded pension obligations	**421**	**323**	**2,411**	**2,157**	**1,961**

On the balance sheet date for 2012 the portfolio of external plan assets was made up as follows:

	Plan assets Germany		Plan assets abroad	
	in €m	in %	in €m	in %
Shares	2,073	31.9	934	34.9
Fixed-income instruments, bonds	2,931	45.1	1,051	39.2
Property	–	–	450	16.8
Other	1,495	23.0	243	9.1
	6,499	**100.0**	**2,678**	**100.0**

In 2012, the effective gain on plan assets came to EUR 758m (previous year: loss of EUR 85m).

Change in present value of pension obligations

in €m	2012	2011
Carried forward 1.1.	12,941	11,162
Currency translation differences	9	92
Additions from company acquisitions	–	1
Current service costs	474	400
Past service costs	3	27
Interest costs	515	514
Contributions by plan participants	61	34
Actuarial gains/losses	2,318	994
Pension payments	−435	−319
Plan curtailments/settlements	−873	−2
Other*	44	38
Balance on 31.12.	**15,057**	**12,941**

Change in fair value of plan assets

in €m	2012	2011
Carried forward 1.1.	8,186	7,487
Currency translation differences	9	73
Expected return on plan assets	380	367
Actuarial gains/losses	378	−452
Contributions by plan participants	61	34
Employer contributions	730	736
Pension payments	−82	−95
Plan curtailments/settlements	−522	–
Other*	37	36
Balance on 31.12.	**9,177**	**8,186**

* The amounts are for benefit obligations which were measured in accordance with IAS 19 for the first time.

The considerable volume of plan curtailments/settlements reported within the present value of pension obligations and the fair value of plan assets results largely from the settlement of pension obligations at bmi and the adjustments to retirement benefits for flight staff at Austrian Airlines, which were agreed as part of the transfer of flight operations from Austrian Airlines to Tyrolean Airways. The increase in pension payments of EUR 129m, net of payments from plan assets, is almost exclusively due to payments in connection with the settlement of pension obligations at bmi.

Funding status

in €m	2012	2011
Present value of unfunded pension obligations	421	323
Present value of funded pension obligations abroad	3,456	3,768
Present value of funded pension obligations Germany	11,180	8,850
External plan assets abroad	−2,678	−2,823
External plan assets in Germany	−6,499	−5,363
Unrecognised actuarial losses	−4,464	−2,839
Unrecognised past service costs	68	73
"Unrealised" asset surpluses	592	176
	2,076	**2,165**

The year-on-year change in funding status results largely from the net effect of transfers to plan assets in Germany and abroad, but also from the reduction in the interest rate on domestic pension obligations.

In the financial years 2012 and 2011 pension provisions developed as follows:

Pension provisions

in €m	2012	2011
Carried forward 1.1.	2,165	2,571
Currency translation differences	1	6
Changes in the group of consolidated companies	6	1
Pensions payments	−353	−224
Additions	575	609
Contribution to plan assets/staff changes	−318	−798
Year-end total	**2,076**	**2,165**

In addition to recognised contributions that reduce the amount of provisions, further plan assets totalling EUR 592m (previous year: EUR 176m) are also shown under consolidated assets as an "unrealised" surplus in accordance with IAS 19.

The expenses recognised in the income statement for allocations to the pension provisions are made up as follows:

in €m	2012	2011
Current service costs	474	400
Recognised actuarial losses	104	40
Recognised actuarial gains	–	–
Past service costs	–0*	24
Plan curtailments/settlements	–138	–2
Interest effect of projected pension obligations	515	514
Expected return on external plan assets	–380	–367
Net effect of adjustment for asset ceiling	–	–
	575	**609**

* 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:

Experience adjustments

in €m	2012	2011	2010	2009	2008
Pension obligations	–20	+22	–111	–139	+122
Plan assets	+382	–452	+111	+132	–1,006
Total	**+402**	**–474**	**+222**	**+271**	**–1,128**

A minus sign before pension obligations in the table means a reduction in the commitment and, therefore, a gain. A plus sign before plan assets also means a gain. For the total amount a plus sign signifies an overall gain.

In 2013, an estimated EUR 983m will be transferred to pension 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:

		31.12.2012			31.12.2011	
in €m	**Total**	**Non-current**	**Current**	Total	Non-current	Current
Obligations under partial retirement contracts	25	8	17	23	4	19
Other staff costs	302	249	53	311	250	61
Obligation to return emissions certificates	52	–	52	–	–	–
Onerous contracts	160	88	72	207	130	77
Environmental restoration	30	26	4	30	26	4
Legal proceedings	109	12	97	117	24	93
Restructuring/severance payments	116	39	77	24	1	23
Fixed-price customer maintenance contracts	106	25	81	94	23	71
Maintenance of operating lease aircraft	264	82	182	261	63	198
Warranties	27	–	27	38	0*	38
Other provisions	306	57	249	291	57	234
Total	**1,497**	**586**	**911**	**1,396**	**578**	**818**

* Rounded below EUR 1m.

Provisions for staff costs mainly relate to staff anniversary bonuses, variable payment portions and other current obligations. Provisions for restructuring and severance pay include expenses from the measures planned as part of the SCORE programme. Expected losses from onerous contracts 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. Provisions for legal proceedings are based on an assessment of the likely outcome of the proceedings.

Changes in groups of individual provisions in 2012 were as follows:

in €m	Obligations under partial retirement contracts	Other staff costs	Obligation to return emissions certificates	Onerous contracts	Environmental restoration	Legal proceedings	Restructuring/ severance payments
As of 1.1.2012	23	311	–	207	30	117	24
Changes in the group of consolidated companies	1	0*	–	1	–	–	0*
Currency translation differences	–	–2	0*	0*	0*	–1	0*
Utilisation	–52	–72	–	–70	–1	–31	–16
Increase/addition	59	39	52	20	0*	31	109
Interest added back	–6	25	–	4	1	1	0*
Reversal	0*	–3	–	–1	–	–20	–1
Transfers	0*	4	–	–1	–	12	0*
As of 31.12.2012	**25**	**302**	**52**	**160**	**30**	**109**	**116**

* Rounded below EUR 1m.

in €m	Fixed-price customer maintenance contracts	Maintenance of operating lease aircraft	Warranties	Other provisions	**Total**
As of 1.1.2012	94	261	38	291	**1,396**
Changes in the group of consolidated companies	–	–	0*	0*	**2**
Currency translation differences	0*	–4	0*	0*	**–7**
Utilisation	–53	–99	–17	–86	**–497**
Increase/addition	62	96	7	107	**582**
Interest added back	1	2	–	1	**29**
Reversal	–3	–2	–1	–23	**–54**
Transfers	5	10	–	16	**46**
As of 31.12.2012	**106**	**264**	**27**	**306**	**1,497**

* Rounded below EUR 1m.

The funding status for provisions for obligations to staff under partial retirement agreements is as follows:

Funding status

in €m	**2012**	2011
Present value of funded obligations under partial retirement agreements	167	165
External plan assets	–142	–142
	25	**23**

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 and 2009, a further EUR 39m and EUR 2m were transferred respectively. 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:

Assumptions

in %	**2012**	2011	2010	2009
Interest rate	1.26	2.5	2.2	5.5
Exprected return on external plan assets	2.0	2.2	3.1	3.2

The following cash outflows are estimated for the non-current portion of the other groups of provisions:

in €m	2014	2015	2016	2017 and thereafter
Onerous contracts	27	25	20	20
Environmental restoration	4	4	4	16
Restructuring/ severance payments	15	18	6	0*
Fixed-price customer maintenance contracts	22	2	2	–
Maintenance of operating lease aircraft	45	16	3	18
Other provisions	38	37	5	43

* Rounded below EUR 1m.

At the end of 2011, the corresponding cash outflows were estimated as follows:

in €m	2013	2014	2015	2016 and thereafter
Onerous contracts	54	12	27	51
Environmental restoration	4	4	4	19
Restructuring/ severance payments	0*	7	7	0*
Fixed-price customer maintenance contracts	17	5	1	1
Maintenance of operating lease aircraft	41	20	4	1
Other provisions	51	38	9	45

* Rounded below EUR 1m.

39 Financial liabilities by category

Financial liabilities in the balance sheet as of 31.12.2012

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
Borrowings	–	–	6,910
Derivative financial instruments	92	60	–
Trade payables	–	–	2,784
Other financial liabilities	–	–	1,645
Total	**92**	**60**	**11,339**

Financial liabilities in the balance sheet as of 31.12.2011

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
Borrowings	–	–	6,424
Derivative financial instruments	56	36	–
Trade payables	–	–	2,805
Other financial liabilities	–	–	1,550
Total	**56**	**36**	**10,779**

The measurement of derivative financial instruments held at fair value was made on the basis of observable market data.

40 Borrowings

Borrowings consist of a non-current portion with a residual term of more than one year and a current portion of less than one year which is shown under current liabilities. The following table shows the total amount of borrowings:

Borrowings 31.12.2012

in €m	**Total**	Non-current	Current
Bonds	2,312	1,819	493
Liabilities to banks	1,507	1,340	167
Leasing liabilities and other loans	3,091	2,788	303
	6,910	**5,947**	**963**

Borrowings 31.12.2011

in €m	**Total**	Non-current	Current
Bonds	2,119	2,112	7
Liabilities to banks	1,456	1,171	285
Leasing liabilities and other loans	2,849	2,525	324
	6,424	**5,808**	**616**

The following table shows the carrying amounts and market values for individual classes 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).

Borrowings	31.12.2012		31.12.2011	
in €m	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	2,312	2,563	2,119	2,383
Liabilities to banks	1,507	1,555	1,456	1,492
Leasing liabilities and other loans	3,091	3,372	2,849	3,098
	6,910	**7,490**	**6,424**	**6,973**

Collateral was provided for EUR 529m of the liabilities to banks (previous year: EUR 709m).

There were no delays or defaults on payment obligations under these loan agreements in either 2012 or 2011.

Leasing liabilities and other loans relate exclusively to finance leases described in "Note 22" starting on p. 160 and aircraft financing arrangements described in "Note 19" on p. 158.

41 Other non-current financial liabilities

Other non-current financial liabilities		
in €m	**31.12.2012**	31.12.2011
Liabilities due to affiliated companies	2	0*
Liabilities due to other equity investments	–	–
Other financial liabilities	196	128
	198	**128**

* 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

Non-current advance payments received, deferred income and other non-financial liabilities		
in €m	**31.12.2012**	31.12.2011
Advance payments received	5	7
Deferred income	722	718
Other non-financial liabilities	436	431
	1,163	**1,156**

Deferred income includes EUR 703m (previous year: EUR 695m) of deferred income for obligations under bonus miles programmes. Other non-financial liabilities include EUR 421m (previous year: EUR 418m) in obligations under bonus miles programmes.

Other non-financial liabilities include obligations to return material valued at EUR 4m (previous year: EUR 4m) and the EUR 8m (previous year: EUR 5m) 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-payscale staff. A further EUR 10m (previous year: EUR 8m) is included in current other non-financial liabilities.

As part of the share-based remuneration agreements, Lufthansa and other participating Group companies offer a 50 per cent discount on staff investment in Lufthansa shares to Executive Board members, managers and non-payscale staff. The option packages granted in 2010, 2011 and 2012 consist of an outperformance option and a performance option. As the duration of the 2011 programme was extended from three to four years, a performance/outperformance option after three years and a performance/outperformance option after four years were included in the option package for 2011.

The outperformance option is linked to the performance of the Lufthansa share compared with a fictitious index composed of European competitors' shares, whereas the performance option is linked to the absolute performance of the Lufthansa share. With the outperformance option the holder receives a cash payment for each percentage point of outperformance on exercising the option. The cash payment is capped at an outperformance of 20 per cent.

The performance option for 2010 and the three-year performance option for 2011 result in a cash payment if the share price goes up by more than 29 per cent. For the performance option 2010 this is capped for share price increases of more than 45 per cent (44 per cent for non-payscale staff). For the three-year performance option 2011 it is capped for share price increases of more than 43 per cent (44 per cent for non-payscale staff). The four-year performance option for 2011 results in a cash payment if the share price goes up by more than 38 per cent. The bonus is capped for Executive Board members at 58 per cent, for managers at 56 per cent and for non-payscale staff at 57 per cent. The four-year performance option for 2012 results in a cash payment if the share price goes up by more than 35 per cent. This is capped at a share price increase of more than 53 per cent.

2010, 2011 and 2012 programmes outperformance option

	€ per percentage point from 1%	Maximum per tranche in €
Executive Board	1,000	20,000
Managers	400	8,000
Non-payscale staff (per 5 pts)	200	1,000

2010 and 2011 programmes performance option (after three years)

	€ per performance unit from 29% performance	Maximum per tranche in €
Executive Board	10,000 + 1,000 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

2011 programme performance option (after four years)

	€ per performance unit from 38% performance	Maximum per tranche in €
Executive Board	10,000 + 1,000 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

2012 programme performance option (after four years)

	€ per performance unit from 35% performance	Maximum per tranche in €
Executive Board	10,000 + 1,250 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

The 2010 programme runs for three years. The 2011 programme has two exercise dates, after three and four years respectively. The 2012 programme is scheduled to run for four 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 invested in personally may not be sold until the option is exercised.

The 2009 outperformance option for Executive Board members, managers and non-payscale staff matured in 2012. A total of EUR 6m was paid out on the 2009 outperformance option. No payment was made on the performance option for 2009 as the 33 per cent hurdle was not reached.

Over the financial years 2012/2011 the number of options changed as follows:

	2012		2011	
	Number of options/ option packages	**Cash settlement in € thousands**	Number of options/ option packages	Cash settlement in € thousands
Outstanding options on 1.1.	16,009	–	10,329	–
Options issued	4,183	–	8,881	–
Expired or unused options	197	–	6	–
Options exercised	3,408	6,367	3,195	4,764
Outstanding options on 31.12.	16,587	–	16,009	–

On 1 January 2012, members of the Executive Board, managers and non-payscale staff held 2,954,982 shares under the various programmes, and on 31 December 2012 they held 2,998,331 shares.

The fair values of the nine options programmes still running were calculated using Monte Carlo simulations. This involves simulating the future returns of the shares in the index and of Deutsche Lufthansa AG and calculating the value of the option rights as the forecast amount of a dividend.

The following fair values were measured in total:

in € per option	Own investment	Fair value
Executive Board		
Options 2010	2,000	15,486
Options 2011 (after three years)	2,000	12,005
Options 2011 (after four years)	–	11,768
Options 2012	2,000	11,933
Managers		
Options 2010	2,000	6,195
Options 2011 (after three years)	2,000	4,799
Options 2011 (after four years)	–	4,717
Options 2012	2,000	4,848
Non-payscale staff		
Options 2010	1,000	780
Options 2011 (after three years)	1,000	603
Options 2011 (after four years)	–	592
Options 2012	1,000	590

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 50-day averages for the shares of Deutsche 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:

Reference price

in EUR / GBP	Options 2010	Options 2011 (three years)
Lufthansa	13.74	10.27
Air France-KLM	11.60	5.77
British Airways (IAG)	246.88	160.13
Iberia (IAG)	2.90	160.13
Ryanair	4.19	3.16
easyJet	400.87	340.33
Air Berlin	3.27	2.66

Projected volatilities for

in %	Options 2010	Options 2011 (three years)
Lufthansa	29.69	33.34
Air France-KLM	50.10	48.87
British Airways (IAG)	33.29	36.65
Iberia (IAG)	34.13	36.65
Ryanair	24.22	26.84
easyJet	25.85	33.90
Air Berlin	34.57	38.17
Risk-free interest rate	0.02 to 0.03 for euro zone, 0.30 to 0.35 for UK	
Fluctuation	4.9	

Reference price

in EUR / GBP	Options 2011 (four years)	Options 2012
Lufthansa	10.27	10.61
Air France-KLM	5.77	5.00
IAG	160.13	154.41
Ryanair	3.16	4.40
easyJet	340.33	582.27
Air Berlin	2.66	1.64

Projected volatilities for

in %	Options 2011 (four years)	Options 2012
Lufthansa	31.74	33.52
Air France-KLM	45.19	46.69
IAG	36.33	42.23
Ryanair	28.88	33.72
easyJet	32.92	36.15
Air Berlin	35.78	39.41
Risk-free interest rate	0.08 to 0.24 for euro zone, 0.42 to 0.60 for UK	
Fluctuation	4.9	

Staff costs include total expenses of EUR 20m (previous year: EUR 9m) for options programmes.

43 Trade payables and other current financial liabilities

in €m	31.12.2012	31.12.2011
Trade payables		
Trade payables to affiliated companies	55	50
Trade payables to other equity investments	36	19
Trade payables to third parties	2,693	2,736
	2,784	**2,805**
Other liabilities		
Liabilities to banks	9	16
Other liabilities to affiliated companies	229	274
Other liabilities to equity investments	0*	0*
Other financial liabilities	1,209	1,132
	1,447	**1,422**
Total	**4,231**	**4,227**

* Rounded below EUR 1m.

The carrying amount of these liabilities corresponds to their fair value.

44 Current advance payments received, deferred income and other non-financial liabilities

in €m	31.12.2012	31.12.2011
Advance payments received	32	32
Net debit balance of advance payments received and receivables from unfinished contracts	101	150
Deferred income	352	329
Other non-financial liabilities	448	428
	933	**939**

Obligations under bonus miles programmes, see "Note 42" starting on p. 179, are recognised in deferred income with EUR 319m (previous year: EUR 292m) and in other non-financial liabilities with EUR 217m (previous year: EUR 202m).

In addition, deferred income includes EUR 10m (previous year: EUR 8m) for grants and subsidies received for capital expenditure, which are realised over the useful life of the assets.

Other liabilities include deferrals of EUR 219m (previous year: EUR 217m) for outstanding holiday allowance and overtime and EUR 10m (previous year: EUR 8m) for the current portion of fair value obligations under share-based remuneration agreements, "Note 42" starting on p. 179.

Other disclosures

45 Contingencies and events after the balance sheet date

Contingent liabilities

in €m	31.12.2012	31.12.2011
From guarantees, bills of exchange and cheque guarantees	922	874
From warranty contracts	925	977
From providing collateral for third-party liabilities	43	35
Legal risks	73	54
Other contingent liabilities	76	107
	2,039	**2,047**

In the previous year, guarantees included EUR 867m and warranty agreements included EUR 280m (previous year: EUR 295m) in contingent liabilities toward creditors of joint ventures. A total of EUR 1,191m (previous year: EUR 1,156m) relates to joint and several guarantees and warranties. This amount is offset by compensatory claims against the co-debtors for EUR 1,099m (previous year: EUR 1,059m). Insofar as annual financial statements have yet to be published, these figures are preliminary.

The Group is exposed to a number of legal risks in the course of its normal business. Based on current knowledge, the assumption is that these will not have any major, lasting effects on net assets, financial and earnings position, beyond those for which provisions for litigation risks have been made, see "Note 38" starting on p. 176. Several additional provisions for other risks 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 76m (previous year: EUR 107m) for subsequent years.

Contracts signed the previous year for the sale of one Boeing B747-400, three Canadair Regional Jet 200s and one Avro RJ 85 yielded total cash inflows of EUR 14m, including profits of EUR 1m, in the financial year 2012.

Signed contracts for the sale of five Boeing B737-800s and two Avro RJ 85s are expected to yield cash receipts of EUR 75m and profits of EUR 4m in 2013.

Losses of up to EUR 40m are expected for the financial year 2013 as a result of marketing measures initiated after the reporting date for two Airbus A340-300s and eight Boeing B737-500s.

Lufthansa Group invests in modern fleet

In February 2013, the Executive Board of Deutsche Lufthansa AG made a recommendation to the Supervisory Board to purchase a total of 108 new aircraft for the Group. Altogether, eight long-haul aircraft and 100 short- and medium-haul aircraft are from Airbus and Boeing to be purchased for the Lufthansa Group. Which aircraft types will be selected is the subject of ongoing negotiations with the respective manufacturers. The list price of the order is around EUR 9bn. Deliveries are to take place in the period 2015 to 2025. This means that by the end of 2025, the Lufthansa Group is expecting to take delivery of 239 aircraft with an order volume totalling EUR 23bn at list prices.

Lufthansa Group decides on structural changes

Also in February 2013, additional measures, which will have an impact on employees and the structure of the company, were adopted as part of the SCORE programme. Several sites are to be closed. They include the head office in Cologne with 365 staff and the offices of Lufthansa Revenue Services GmbH (LRS) in Norderstedt. The latter will also mean the loss of around 350 jobs. Both measures are to be implemented by 2017. Of some 200 administrative posts in Financial Services at the Hamburg site, 80 per cent are to be transferred to a specialised service centre. The planned measures are to be discussed with employee representatives in the first quarter.

As part of the restructuring of the Lufthansa Passenger Airlines regional segment, Lufthansa CityLine is examining plans to move its head office from Cologne to Munich. The reasoning behind the possible move is to bring the administrative headquarters of Lufthansa CityLine closer to its operational main base in Munich. Around 300 employees would be affected. A final decision on this specific measure has not yet been taken.

Strikes at regional airports disrupt flight operations

The first two months of 2013 saw an unusually large number of strikes by employees outside the Group, which disrupted operations at some Group companies. The trade union ver.di called repeatedly for strikes as part of collective bargaining for the employees of private security services. As a result, several hundred flights were cancelled at various times at the airports in Hamburg, Dusseldorf and Cologne.

46 Other financial obligations

As of 31 December 2012, there were purchase commitments for EUR 5.7bn (previous year: EUR 7.7bn) for capital expenditure on property, plant and equipment and for intangible assets. There were also capital and shareholder loan commitments of EUR 76m towards equity investments (previous year: EUR 53m). Sales contracts and put options granted to third parties gave rise to purchase commitments for company shares amounting to EUR 6m in the previous year.

47 Hedging policy and financial derivatives

As an aviation group with worldwide operations, the Lufthansa Group is exposed to exchange rate, interest rate and fuel price movement risks, as well as to credit and liquidity risks. It is Group 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 crude oil and oil 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 as regards 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, the Swiss franc, the Japanese yen, the Chinese renminbi and the Indian rupee. Depending on market liquidity, currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts. The target hedging level is defined in the Group’s internal guidelines.

At the end of 2012 exposure from operations for the next 24 months was as follows:

in million	USD	CNY	JPY	GBP	INR
Exposure (currency)	−11,003	10,286	175,197	642	64,223
Exposure (EUR at spot rate)	−8,340	1,251	1,542	787	885
Hedges (currency)	4,198	−2,260	−91,522	−267	−14,512
Hedging level	38%	22%	52%	42%	23%

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 2012 exposure for capital expenditure was as follows:

in million	2013	2014	2015	2016
Exposure from net capital expenditure (USD)	−1,176	−981	−1,004	−362
Exposure from net capital expenditure (EUR at spot rate)	−891	−744	−761	−274
Hedges (USD)	1,086	896	930	315
Hedging level	92%	91%	93%	87%

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.

At the end of 2012 the ratio of floating to fixed interest rates for long-term borrowing was as follows:

Exposure

in €m	2013	2014	2015	2016	2017
Fixed	715	602	509	427	318
Floating	5,173	3,833	3,394	2,332	1,355
Floating / fixed ratio	88%	86%	87%	85%	81%

Exposure

in €m	2018	2019	2020	2021	2022
Fixed	276	210	138	69	60
Floating	993	669	525	373	272
Floating / fixed ratio	78%	76%	79%	84%	82%

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 almost exclusively as trading in accordance with IAS 39.

In 2012 fuel costs accounted for 23.3 per cent of the Lufthansa Group's operating expenses (previous year: 20.6 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 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:

Fuel exposure

		2013	2014
Fuel requirement	in 1,000 tonnes	8,343	8,715
Hedges	in 1,000 tonnes	6,512	2,449
Hedging level	in %	78.1	28.1

At the balance sheet date, exchange rate, interest and fuel price risks are hedged by means of the following hedging transactions:

	Fair value hedge		**Cash flow hedge**	
in €m	**Market value 31.12.2012**	Market value 31.12.2011	**Market value 31.12.2012**	Market value 31.12.2011
Interest rate swaps	154	119	–	–
Spread options for fuel hedging	–	–	–	1
Hedging combinations for fuel hedging	–	–	14	139
Futures contracts for currency hedging	–	−2	16	120
Spread options for currency hedging	–	–	–	45
Total	**154**	**117**	**30**	**305**

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 expected 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	Result for the period in €m	First-time measurement of acquisition costs** in €m	**Total** in €m
2013	52	30	82
2014	1	−11	−10
2015	0*	−15	−15
2016	0*	−27	−27
2017	0*	–	0*
2018	0*	–	0*
Total	**53**	**−23**	**30**

* Rounded below EUR 1m.
** Minus signs mean increased acquisition costs.

In the 2012 financial year, EUR 285m was transferred for maturing interest rate swaps from equity to fuel expenses, reducing these expenses. For currency hedges EUR 508m was transferred from equity to other operating income and EUR 502m to other operating expenses. A further EUR 69m was recognised by reducing acquisition costs for aircraft.

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 and in "Note 13" on p. 151.

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*
Fuel price		
+10%	+45	+137
−10%	−124	−15
Currency – USD		
+10%	−164	+468
−10%	+137	−383
Currency – JPY		
+10%	−5	−52
−10%	−14	+61
Currency – CHF		
+10%	−3	−87
−10%	−2	+82
Currency – GBP		
+10%	+5	−27
−10%	−4	+22
Currency – CNY		
+10%	+4	−23
−10%	−3	+19
Currency – INR		
+10%	+2	−16
−10%	−1	+13
Interest		
+100 basis points	−20	−31
−100 basis points	+21	+24

* All amounts after deferred tax effects; +/− signs relate to net profit and/or equity.

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 2.3bn that is available at short notice. In addition, as of 31 December 2012 the Lufthansa Group held confirmed unused lines of credit totalling EUR 1.7bn (previous year: EUR 2.1bn).

A maturity analysis for the borrowing stated in "Note 39" on p. 178 and the derivative financial instruments listed in "Note 27" on p. 166, based on undiscounted gross cash flows including the relevant interest payments, shows the following projected cash inflows and outflows from the perspective of the balance sheet date 31 December 2012. As a result of the hedges used there are generally direct connections between the cash inflows and outflows for the derivative financial instruments shown.

Derivative financial instruments

in €m	Inflows	Outflows	**Net**
1st quarter	4,296	−4,258	**38**
Up to 1 year*	6,129	−6,225	**−96**
1 – 5 years	6,438	−6,412	**26**
Later	450	-409	**41**

* Without payments in 1st quarter.

Non-derivative financial instruments

in €m	**Outflows**
1st quarter	**−232**
Up to 1 year*	**−884**
1 – 5 years	**−4,617**
Later	**−1,551**

* 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 an IATA clearing house, insofar as the contracts underlying services do not explicitly specify otherwise. Systematic settlement of weekly receivables and liability balances significantly reduces the default risk. Fidelity guarantee insurance also covers partial risks within a certain range. 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. Credit terms were tightened for some credit card issuers to reduce risks even further. In addition to the monitoring of receivables at company or segment level there is also counterparty monitoring at Group level, with individually assigned limits, in order to identify the accumulation of portfolio risks across the entire Group and take appropriate action if necessary.

If risks are identified receivables are written down accordingly.

As of 31 December 2012, the maximum credit risk from the potential insolvency of debtors for loans and receivables was EUR 4,560m, made up as follows:

in €m	**31.12.2012**	31.12.2011
Loans	186	190
Non-current receivables	847	386
Trade receivables and other current receivables	3,527	3,437
	4,560	**4,013**

Impairments on loans and receivables developed as follows:

in €m	**1.1.2012**
Gross amount	195
Impairment charges	−172
Carrying amount 1.1.2012	**23**

in €m	**31.12.2012**
Gross amount	225
Impairment charges	−211
Carrying amount 31.12.2012	**14**

A further EUR 141m (previous year: EUR 124m) was already overdue, but not yet written down.

The term structure of overdue receivables is as follows:

in €m	
Up to 90 days	107
Between 90 and 180 days	9
Over 180 days	25

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	**31.12.2012**
Debt instruments	3,191
Equity instruments	358
Total securities	**3,549**

Securities representing debt are rated as follows (Standard & Poor's):

in €m	
AAA	1,406
AA+	202
AA	50
AA–	250
A+	284
A	438
A–	293
BBB+	124
BBB	126
Below BBB or unrated	18
Total	**3,191**

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 2012, the credit risk from derivative financial instruments, which are an effective part of a hedging relationship, was EUR 244m (previous year: EUR 458m). 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–	10
A+	39
A	97
A–	40
BBB+	51
BBB	7
Total	**244**

The credit risk arising from financial derivatives shown at fair value through profit and loss amounted to EUR 239m as of 31 December 2012, and consisted of the total amount of business with contractual partners that on balance showed a positive market value. This figure includes EUR 178m (previous year: EUR 174m) for the time values of options used for hedging, changes in which must be recognised in the financial result as of 1 January 2010. The contractual partners have the following ratings (Standard & Poor's):

in €m	
AA–	4
A	114
A–	41
BBB+	36
BBB	43
Below BBB or unrated	1
Total	**239**

48 Segment reporting

The Lufthansa Group operates in five major business segments: scheduled passenger air traffic ("Passenger Airline Group") via Deutsche Lufthansa AG, Lufthansa CityLine GmbH, Swiss International Air Lines AG, Austrian Airlines 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 Sky Chefs group.

Income and expenses for Lufthansa Commercial Holding GmbH, Lufthansa AirPlus Servicekarten GmbH, Lufthansa Flight Training GmbH and other Group companies not assigned to a reporting segment are presented together with income and expenses for central Group functions in the "Other" column of the segment reporting.

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" on p. 148.

Segment information by operating segment for 2012

in €m	Passenger Airline Group	Logistics	MRO	IT Services	Catering	Total reportable operating segments	Other	Reconciliation Not allocated	Reconciliation Consolidation	Group
External revenue	22,855	2,662	2,429	256	1,933	30,135	–	–	–	30,135
of which traffic revenue	21,766	2,577	–	–	–	24,343	–	450	–	24,793
Inter-segment revenue	704	26	1,584	353	570	3,237	–	–	−3,237	
Total revenue	**23,559**	**2,688**	**4,013**	**609**	**2,503**	**33,372**	**–**	**–**	**−3,237**	**30,135**
Other operating income	927	67	224	19	110	1,347	1,310	–	−744	1,913
Total operating income	**24,486**	**2,755**	**4,237**	**628**	**2,613**	**34,719**	**1,310**	**–**	**−3,981**	**32,048**
Operating expenses	24,228	2,651	3,919	607	2,516	33,921	1,573	–	−3,970	31,524
of which cost of materials and services	15,749	1,953	1,966	98	1,124	20,890	96	–	−3,040	17,946
of which staff costs	3,945	358	1,237	241	918	6,699	361	–	−7	7,053
of which depreciation and amortisation	1,415	58	101	37	65	1,676	44	–	2	1,722
of which other operating expenses	3,119	282	615	231	409	4,656	1,072	–	−925	4,803
Operating result [1]	**258**	**104**	**318**	**21**	**97**	**798**	**−263**	**–**	**−11**	**524**
Other segment income	157	10	37	1	28	233	43	796	−87	985
Other segment expenses	138	3	3	2	12	158	29	22	−11	198
of which impairment losses	131	1	–	1	11	144	–	–	–	144
Result of investments accounted for using the equity method	−15	16	15	–	14	30	1	–	–	31
Segment result [2]	**262**	**127**	**367**	**20**	**127**	**903**	**−248**	**774**	**−87**	**1,342**
Other financial result										−303
Profit/loss before income taxes										1,039
Segment assets [3]	14,873	953	3,026	236	1,303	20,391	1,473	15,403	−8,848	28,419
of which from investments accounted for using the equity method	53	61	182	–	98	394	6	–	–	400
Segment liabilities [4]	8,886	396	1,268	125	532	11,207	1,624	11,421	−4,131	20,121
Segment capital expenditure [5]	1,868	198	129	24	46	2,265	21	757	−684	2,359
of which from investments accounted for using the equity method	–	–	–	–	–	–	–	–	–	–
Employees on balance sheet date	55,236	4,606	20,282	2,766	30,088	112,978	3,979	–	–	116,957
Average number of employees	55,649	4,609	20,368	2,777	30,007	113,410	4,033	925	–	118,368

[1] See page 51 of the management report for reconciliation between operating result and profit from operating activities.
[2] Profit from operating activities including result of investments measured at equity.
[3] Intangible assets, property, plant and equipment, investments accounted for using the equity method, inventories, trade receivables and other assets – total assets are presented under the heading "Group".
[4] All liabilities with the exception of financial debt, liabilities to Group companies, derivative financial instruments, other deferred income and tax obligations – total liabilities are presented under the heading "Group".
[5] Capital expenditure on intangible assets, property, plant and equipment, and investments accounted for using the equity method.

Segment information by operating segment for 2011

in €m	Passenger Airline Group	Logistics	MRO	IT Services	Catering	Total reportable operating segments	Other	Reconciliation		Group
								Not allocated	Consoli-dation	
External revenue	21,544	2,917	2,305	230	1,738	28,734	–	–	–	28,734
of which traffic revenue	20,534	2,821	–	–	–	23,355	–	424	–	23,779
Inter-segment revenue	746	26	1,788	369	561	3,490	–	–	−3,490	–
Total revenue	**22,290**	**2,943**	**4,093**	**599**	**2,299**	**32,224**	**–**	**–**	**−3,490**	**28,734**
Other operating income	1,105	78	232	18	58	1,491	1,354	–	−633	2,212
Total operating income	**23,395**	**3,021**	**4,325**	**617**	**2,357**	**33,715**	**1,354**	**–**	**−4,123**	**30,946**
Operating expenses	23,046	2,772	4,068	598	2,272	32,756	1,446	–	−4,076	30,126
of which cost of materials and services	14,542	2,043	2,123	84	1,030	19,822	97	–	−3,188	16,731
of which staff costs	3,874	347	1,095	229	799	6,344	318	–	−7	6,655
of which depreciation and amortisation	1,350	83	90	34	58	1,615	43	–	5	1,663
of which other operating expenses	3,280	299	760	251	385	4,975	988	–	−886	5,077
Operating result [1]	**349**	**249**	**257**	**19**	**85**	**959**	**−92**	**–**	**−47**	**820**
Other segment income	151	17	30	5	3	206	32	56	−43	251
Other segment expenses	111	1	2	3	5	122	64	154	−42	298
of which impairment losses	78	0*	0*	0*	1	79	–	–	1	80
Result of investments accounted for using the equity method	−34	−22	21	–	14	−21	1	–	–	−20
Segment result [2]	**355**	**243**	**306**	**21**	**97**	**1,022**	**−123**	**−98**	**−48**	**753**
Other financial result										−307
Profit/loss before income taxes										446
Segment assets [3]	15,212	777	3,017	233	1,268	20,507	1,521	13,690	−7,637	28,081
of which from investments accounted for using the equity method	76	55	176	–	81	388	6	–	–	394
Segment liabilities [4]	9,423	411	1,259	116	508	11,717	1,486	10,016	−3,182	20,037
Segment capital expenditure [5]	2,085	76	139	55	74	2,429	30	1,062	−946	2,575
of which from investments accounted for using the equity method	–	10	1	–	–	11	0*	–	–	11
Employees on balance sheet date	55,361	4,624	19,975	2,820	29,586	112,366	3,999	3,690	–	120,055
Average number of employees	54,946	4,572	19,822	2,855	29,226	111,421	3,914	3,749	–	119,084

* Rounded below EUR 1m.
[1] See page 51 of the management report for reconciliation between operating result and profit from operating activities.
[2] Profit from operating activities including result of investments measured at equity.
[3] Intangible assets, property, plant and equipment, investments accounted for using the equity method, inventories, trade receivables and other assets – total assets are presented under the heading "Group".
[4] All liabilities with the exception of financial debt, liabilities to Group companies, derivative financial instruments, other deferred income and tax obligations – total liabilities are presented under the heading "Group".
[5] Capital expenditure on intangible assets, property, plant and equipment, and investments accounted for using the equity method.

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 operating income). In the 2012 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 (reconciliation 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 book 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.

The result of the equity valuation for the segment's equity investments is part of its segment result, however from a Group perspective it is not attributed to the operating result but rather to the financial result.

Segment assets primarily include property, plant and equipment, intangible assets, 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. Segment assets and segment liabilities in the column "Other" also include the financial assets and liabilities of the Group companies aggregated here for which IFRS 8 does not require reporting as part of segment reporting.

Segment capital expenditure includes additions to property, plant and equipment and intangible assets, as well as capital expenditure on investments accounted for using the equity method.

Figures by region for 2012

in €m	Europe	North America	Central and South America	Asia / Pacific	Middle East	Africa	**Total**
Traffic revenue [1]	15,988	3,506	721	3,401	737	440	**24,793**
Other revenue	2,384	1,237	176	970	410	165	**5,342**
Non-current assets [2]	15,000	291	15	152	9	18	**15,485**
Capital expenditure on non-current assets	2,245	23	2	14	0*	2	**2,286**

The figures for the main countries are as follows:

in €m	Germany	USA
Traffic revenue [1]	6,939	3,123
Other revenue	862	1,051
Non-current assets	9,346	277
Capital expenditure on non-current assets	1,404	17

* Rounded below EUR 1m.
[1] Traffic revenue is allocated according to the original location of sale.
[2] Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

Figures by region for 2011

in €m	Europe	North America	Central and South America	Asia / Pacific	Middle East	Africa	**Total**
Traffic revenue [1]	15,556	3,218	568	3,349	644	444	**23,779**
Other revenue	2,286	1,105	157	960	239	208	**4,955**
Non-current assets [2]	14,808	259	17	166	1	11	**15,262**
Capital expenditure on non-current assets	2,401	26	2	17	0*	2	**2,448**

The figures for the main countries are as follows:

in €m	Germany	USA
Traffic revenue [1]	6,695	2,813
Other revenue	909	944
Non-current assets	8,636	255
Capital expenditure on non-current assets	1,404	25

* Rounded below EUR 1m.
[1] Traffic revenue is allocated according to the original location of sale.
[2] Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

The allocation of traffic revenue to regions is based on the original location of sale, the allocation of other revenue is based on the geographical location of the customer.

The regions are defined on a geographical basis. As an exception to this rule, traffic revenue generated in Turkey is attributed to Europe.

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.

A presentation of traffic revenue generated in the Passenger Airline Group and Logistics segments by traffic region, rather than by original location of sale, is included in the information on the respective segments in the management report.

49 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 mutual 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 exists 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 2012	2011	Volume of services received 2012	2011
Non-consolidated subsidiaries				
Airline Accounting Center Sp. z o.o., Poland	0*	0*	7	6
Albatros Versicherungsdienste GmbH, Germany	10	8	66	49
AS InPro GmbH, Germany	0*	0*	5	4
Austrian Airlines Technik-Bratislava, s.r.o., Slovakia	3	3	7	6
Austrian Lufthansa Cargo GmbH, Austria	8	8	8	8
Cargo Future Communications (CFC) GmbH, Germany	1	0*	4	5
Delvag Luftfahrtversicherungs-AG, Germany	8	9	9	10
DLH Fuel Company mbH, Germany	2	5	970	735
Global Tele Sales (PTY) Ltd., South Africa	1	2	9	9
handling counts GmbH, Germany	0*	1	13	12
LRS Lufthansa Revenue Services GmbH, Germany	6	8	53	45
Lufthansa Engineering and Operational Services GmbH, Germany	4	4	28	30
Lufthansa Global Tele Sales GmbH, Germany	2	1	42	42
Lufthansa Systems FlightNav AG, Switzerland	1	1	21	27
Lufthansa Systems Hungaria Kft., Hungary	2	2	30	29
Lufthansa Systems Network Services GmbH, Germany	2	1	22	24
Lufthansa Systems Poland Sp. z o.o., Poland	1	0*	10	7
Lufthansa Technical Training GmbH, Germany	4	4	24	24
Lufthansa Technik Logistik of America LLC, USA	5	4	15	13
Lufthansa Technik Milan s.r.l., Italy	2	8	3	11
Lufthansa Technik Services India Private Limited, India	1	5	1	2
Lufthansa Technik Shenzhen Co., Ltd., China	9	9	5	5
Lufthansa Technik Sofia OOD, Bulgaria	6	4	27	24
Lufthansa Technik Turbine Shannon Limited, Ireland	3	5	15	20
LZ-Catering GmbH, Germany	9	9	15	16
Joint ventures				
Aerologic GmbH, Germany	13	16	122	113
Aircraft Maintenance and Engineering Corp., China	9	10	2	9
Airfoil Services Sdn. Bhd., Malaysia	1	1	5	7
Alpha LSG Limited, UK	5	–	2	–
EFM – Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH, Germany	0*	0*	11	10
FraCareServices GmbH, Germany	11	10	2	2
Global Airline Services S.r.l., Italy	0*	–	8	–
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Turkey	18	16	0*	0*
LTQ Engineering Pty Limited, Australia	2	1	27	30
N3 Engine Overhaul Services GmbH & Co. KG, Germany	7	5	0*	0*
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., China	1	1	6	5
Spairliners GmbH, Germany	10	12	7	6
Star Alliance Services GmbH, Germany	6	7	8	7
Terminal One Group Association, L.P., USA	0*	0*	9	9
Associated companies				
Airmail Center Frankfurt GmbH, Germany	1	0*	7	7
AviationPower GmbH, Germany	1	0*	34	31
BELAC LLC, USA	–	0*	0*	5
HEICO Aerospace Holdings Corp., USA	0*	1	14	15
Jade Cargo International Company Limited, China	4	16	3	43
Other affiliated companies				
Brussels Airlines NV/SA, Belgium	66	49	28	5
Shanghai Pudong International Airport Public Cargo Terminal Co. Ltd. (West), Shanghai, China	0*	–	75	77
SunExpress Germany GmbH, Germany	14	4	–	1

* Rounded below EUR 1m.

The following tables show receivables owed by and liabilities to related parties:

Receivables from affiliated companies

in €m	2012	2011
Trade receivables from non-consolidated subsidiaries	34	63
Trade receivables from joint ventures	16	12
Trade receivables from associated companies	5	4
Trade receivables from other affiliated companies	21	13
Total trade receivables	**76**	**92**
Other receivables from non-consolidated subsidiaries	81	102
Other receivables from joint ventures	9	10
Other receivables from associated companies	46	25
Other receivables from other affiliated companies	0	28
Total other receivables	**136**	**165**
Loans to non-consolidated subsidiaries	41	47
Loans to joint ventures	18	4
Loans to associated companies	0	0
Loans to other affiliated companies	45	0
Total non-current receivables	**104**	**51**

Liabilities to affiliated companies

in €m	2012	2011
Trade payables to non-consolidated subsidiaries	6	8
Trade payables to joint ventures	24	14
Trade payables to associated companies	6	10
Trade payables to other affiliated companies	19	18
Total trade payables	**55**	**50**
Other liabilities to non-consolidated subsidiaries	227	271
Other liabilities to joint ventures	1	0
Other liabilities to associated companies	1	3
Total other liabilities	**229**	**274**

No individual shareholders of Deutsche 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 50” starting on p. 193.

50 Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed on p. 200.

Remuneration report for the Executive Board

The Executive Board’s remuneration consists of the following components:

- Basic remuneration, paid monthly as a salary.
- Since the financial year 2011, the variable remuneration is based on the operating margin for the Lufthansa Group. 75 per cent of this bonus is paid the following year, and therefore on an annual basis. The remaining 25 per cent is carried forward for another two years. At the end of the assessment period, which runs for three years in total, the amount carried forward is to be multiplied by a factor of between 0 and 2. How high the factor is depends to 70 per cent on the CVA achieved over the three-year period and to 30 per cent on sustainability parameters such as environmental protection, customer satisfaction and staff commitment.
- Executive Board members are also required to participate in the option programmes for managers (with their own parameters which vary from those of the general managers’ programme). The duration of these programmes was extended from three to four years in 2011. These arrangements ensure that the variable remuneration components are essentially based on performance over several years, see “Note 42” starting on p. 179.
- In years with poor operating results due to extraordinary exogenous factors, the Supervisory Board may award Executive Board members an appropriate individual bonus.

The following remuneration was paid to individual Executive Board members in 2012:

in €	Basic salary	Variable remuneration	Payments from maturing option programmes	Change in fair value of option programmes	Other*	**Total**
Christoph Franz	1,207,500	376,967	629,000	214,491	159,836	2,587,794
Stephan Gemkow (Executive Board member until 30.6. 2012)	431,250	132,436	–	–468,263	22,067	117,490
Stefan Lauer	862,500	264,871	510,000	125,212	188,669	1,951,252
Simone Menne (Executive Board member since 1.7.2012)	431,250	132,436	–	14,916	72,812	651,414
Carsten Spohr	862,500	264,871	–	225,237	86,318	1,438,926
Effective remuneration for the 2012 financial year	**3,795,000**	**1,171,580**	**1,139,000**	**111,593**	**529,702**	**6,746,875**

* 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 2011:

in €	Basic salary	Variable remuneration	Payments from maturing option programmes	Change in fair value of option programmes	Other*	**Total**
Christoph Franz	1,207,500	578,815	–	324,669	148,906	2,259,890
Stephan Gemkow	862,500	407,989	180,000	18,945	96,446	1,565,880
Stefan Lauer	862,500	407,989	174,000	26,852	161,918	1,633,259
Carsten Spohr (Executive Board member since 1.1.2011)	862,500	407,989	–	32,708	67,523	1,370,720
Effective remuneration for the 2011 financial year	**3,795,000**	**1,802,782**	**354,000**	**403,174**	**474,793**	**6,829,749**

* 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.

As of 31 December 2012 (2011) the members of the Executive Board hold the following shares from current option programmes:

	2009 programme		2010 programme		2011 programme		**2012 programme**	
Number of shares	Number of shares purchased from own funds	Number of option packages	Number of shares purchased from own funds	Number of option packages	Number of shares purchased from own funds	Number of option packages	**Number of shares purchased from own funds**	**Number of option packages**
Christoph Franz (Executive Board member since 1.6.2009)	– (14,060)	– (37)	9,620 (9,620)	37 (37)	17,280 (17,280)	45 (45)	14,805 (–)	45 (–)
Stephan Gemkow (Executive Board member until 30.6.2012)	– (11,400)	– (30)	– (7,800)	– (30)	– (11,520)	– (30)	– (–)	– (–)
Stefan Lauer	– (11,400)	– (30)	7,800 (7,800)	30 (30)	11,520 (11,520)	30 (30)	9,870 (–)	30 (–)
Simone Menne (Executive Board member since 1.7.2012)	– (–)	– (–)	– (–)	– (–)	– (–)	– (–)	9,870 (–)	30 (–)
Carsten Spohr (Executive Board member since 1.1.2011)	– (–)	– (–)	– (–)	– (–)	11,520 (11,520)	30 (30)	9,870 (–)	30 (–)

See “Note 42” starting on p. 179 for payment caps.

The pro rata change for 2012 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 2012 option programme for Mr Franz on the date of issue was EUR 536,985. For Ms Menne, Mr Lauer and Mr Spohr the figure was EUR 357,990 each.

Serving members of the Executive Board will benefit from various contractual entitlements when their employment comes to an end.

Since 2006 each Executive Board member has had a personal pension account into which for the duration of their employment Deutsche Lufthansa AG pays contributions amounting to 25 per cent of the annual salary and the bonus. The investments guidelines for the pension account are based on the same investment concept as for the Lufthansa Pension Trust, which also applies to staff members of Deutsche Lufthansa AG.

As of 31 December 2012, Mr Franz's retirement benefit entitlement amounted to EUR 1.6m (previous year: EUR 1.1m). That of Mr Gemkow was EUR 5.1m (previous year: EUR 4.4m), that of Mr Lauer EUR 6.9m (previous year: EUR 5.9m), of Ms Menne EUR 0.9m and that of Mr Spohr EUR 1.5m (previous year: EUR 1.1m).

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 the amounts paid in retirement benefits.

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 Board member'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 for a period of at least six months.

The cost of pension entitlements accrued in 2012 for Mr Franz was EUR 0.4m; for Ms Menne and Mr Gemkow EUR 0.2m each and for Mr Lauer and Mr Spohr EUR 0.3m each. The total cost of EUR 1.4m (previous year: EUR 1.4m), plus EUR 6.7m (previous year: EUR 6.8m) in overall remuneration as shown in the remuneration table, is listed under staff costs, amounting to EUR 8.1m (previous year: EUR 8.2m).

If Mr Lauer's employment contract is terminated for reasons for which he is not responsible he is entitled to a transitional pension until he becomes 60. Since 1 January 2011, the transitional pension entitlement has reached its maximum benefit level of 40 per cent of basic annual salary.

If Mr Franz's employment contract is terminated for reasons for which he is not responsible when he is over 55 he is entitled to a transitional pension until he becomes 60. His transitional pension entitlement amounts to 10 per cent of his basic annual salary, increasing by two percentage points up to a maximum of 20 per cent for each year of service commenced from 1 June 2014 as a full member of the Executive Board.

Under his contract as a pilot, which is currently not active, Mr Spohr is entitled to a transitional pension in accordance with the wage agreement "Transitional pensions for cockpit staff". If Mr Spohr leaves the Executive Board before he becomes 60 and resumes his employment as a pilot he is entitled to draw a "Transitional pension for cockpit staff at Lufthansa" once he becomes 60 or on request once he becomes 55, in accordance with the provisions of the wage agreement. This additional benefit is paid if certain conditions of eligibility are met and provides for a monthly pension of up to 60 per cent of the last modified salary until the beneficiary reaches the age of 63.

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 and other benefits for former members of the Executive Board and their surviving dependants came to EUR 5.9m (EUR 3.6m). 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 54.8m (previous year: EUR 51.9m). They are included in pension provisions; see "Note 37" starting on p. 173.

Remuneration report for the Supervisory Board

In the 2012 financial year, Supervisory Board remuneration included EUR 1,312,500 (previous year: EUR 1,275,000) in fixed payments for work on the Deutsche Lufthansa AG Supervisory Board. In addition, variable payments were made amounting to EUR 1,312,500 (previous year: EUR 0). The payment of a variable bonus requires positive earnings per share attributable to Lufthansa shareholders of at least EUR 1.02 and is capped at the amount of the fixed salary. The figures for the individual Supervisory Board members are shown in the following table.

	2012				2011			
in €*	**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	150,000	37,500	187,500	375,000	150,000	25,000	–	175,000
Frank Bsirske, Deputy Chairman	75,000	12,500	87,500	175,000	75,000	12,500	–	87,500
Jacques Aigrain	50,000	–	50,000	100,000	50,000	–	–	50,000
Dr Werner Brandt	50,000	12,500	62,500	125,000	50,000	12,500	–	62,500
Bernd Buresch	50,000	12,500	62,500	125,000	50,000	12,500	–	62,500
Jörg Cebulla	50,000	–	50,000	100,000	50,000	–	–	50,000
Dipl.-Vwt. Jürgen Erwert	50,000	12,500	62,500	125,000	50,000	12,500	–	62,500
Herbert Hainer	50,000	–	50,000	100,000	50,000	–	–	50,000
Dr Jürgen Hambrecht	50,000	25,000	75,000	150,000	50,000	12,500	–	62,500
Dominique Hiekel	50,000	–	50,000	100,000	50,000	–	–	50,000
Dr h.c. Robert Kimmitt	50,000	–	50,000	100,000	50,000	–	–	50,000
Martin Koehler	50,000	12,500	62,500	125,000	50,000	12,500	–	62,500
Dr Nicola Leibinger-Kammüller	50,000	–	50,000	100,000	50,000	–	–	50,000
Eckhard Lieb	50,000	12,500	62,500	125,000	50,000	12,500	–	62,500
Simon Reimann	50,000	–	50,000	100,000	50,000	–	–	50,000
Marlies Rose	50,000	–	50,000	100,000	50,000	–	–	50,000
Dr Klaus G. Schlede	50,000	37,500	87,500	175,000	50,000	25,000	–	75,000
Matthias Wissmann	50,000	–	50,000	100,000	50,000	–	–	50,000
Dr Michael Wollstadt	50,000	12,500	62,500	125,000	50,000	12,500	–	62,500
Stefan Ziegler	50,000	–	50,000	100,000	50,000	–	–	50,000
Total	**1,125,000**	**187,500**	**1,312,500**	**2,625,000**	**1,125,000**	**150,000**	**–**	**1,275,000**

* Individual amounts rounded to the nearest euro.

Other remuneration, mainly attendance fees, amounted to EUR 80,000 (previous year: EUR 79,000).

The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 63,000 (previous year: EUR 65,000) for work on supervisory boards of Group companies.

Managers holding key positions in the Company

In addition to their Supervisory Board remuneration, employee representatives on the Supervisory Board received compensation for their work in the form of wages and salaries including pension entitlements amounting to EUR 1.2m in total for 2012 (previous year: EUR 1.2m).

51 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 Section 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 at i http://investor-relations.lufthansagroup.com/en/corporate-governance/corporate-governance-declaration-section-289a-hgb/declaration-of-compliance-section-161-aktg.html.

52 Auditors' fees

The fees paid to the auditors in the financial year and charged to expenses in accordance with Section 319 Paragraph 1 HGB are made up as follows:

in €m	**2012**	2011
Annual audit	3.0	2.7
Other assurance services	1.0	0.7
Tax advisory services	0.2	0.3
Other services	2.3	1.3
Total	**6.5**	**5.0**

The following fees paid to overseas companies in the global PricewaterhouseCoopers federation were also recognised as expenses:

in €m	**2012**	2011
Annual audit	2.8	2.8
Other assurance services	0.6	0.2
Tax advisory services	0.8	0.6
Other services	0.3	0.2
Total	**4.5**	**3.8**

Cologne, 6 March 2013
Executive Board

Christoph Franz
Chairman of the Executive Board

Simone Menne
Member of the Executive Board
Chief Officer Finances and Aviation Services

Stefan Lauer
Member of the Executive Board
Chief Officer Group Airlines and Corporate Human Resources

Carsten Spohr
Member of the Executive Board
CEO Lufthansa German Airlines

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, the financial and earnings positions of the Group, and that the Group management report, which has been combined with the management report for Deutsche Lufthansa AG, includes a fair review of the course of business, including the business result, and the situation of the Group, and suitably presents the principal opportunities and risks associated with the expected development of the Group.

Cologne, 6 March 2013
Executive Board

Christoph Franz Chairman of the Executive Board	Simone Menne Member of the Executive Board Chief Officer Finances and Aviation Services	Stefan Lauer Member of the Executive Board Chief Officer Group Airlines and Corporate Human Resources	Carsten Spohr Member of the Executive Board CEO Lufthansa German Airlines

Auditors' report

To Deutsche Lufthansa Aktiengesellschaft, Cologne

Remarks on the consolidated financial statements
We have audited the attached consolidated financial statements for Deutsche Lufthansa Aktiengesellschaft, Cologne, and its subsidiaries – comprising the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements for the financial year from 1 January to 31 December 2012.

Responsibility of the Executive Board for the consolidated financial statements
The Executive Board of Deutsche Lufthansa Aktiengesellschaft, Cologne, is responsible for the preparation of these financial statements. This responsibility extends to ensuring that the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315a Paragraph 1 HGB and that they 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 Executive Board is also responsible for the internal controls it believes are necessary to enable the preparation of consolidated financial statements that are free of material misstatements – either intentional or unintentional.

Auditors' responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit of the financial statements in accordance with Section 317 HGB and the 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). These require that we carry out our professional duties and plan and perform the audit so as to obtain sufficient assurance as to whether the consolidated financial statements are free of material misstatements.

An audit involves carrying out audit procedures in order to obtain documentary evidence of the carrying amounts and other disclosures included in the consolidated financial statements. The audit procedures are chosen at the professional discretion of the auditors. This includes an assessment of the risks of material misstatements – either intentional or unintentional – in the consolidated financial statements. In assessing these risks the auditors take account of the internal control system, which is relevant to the preparation of true and fair consolidated financial statements. The aim is to plan and carry out audit procedures which are appropriate under the given circumstances, but not to form an audit opinion on the effectiveness of the Group's internal control system. An audit also includes an assessment of whether the accounting methods applied are suitable and whether the accounting estimates determined by the Executive Board are reasonable, as well as an assessment of the overall presentation of the consolidated financial statements.

We believe that the documentary evidence we have obtained is sufficient and suitable to form the basis for our audit opinion.

Audit opinion
In accordance with Section 322 Paragraph 3 Sentence 1 HGB we declare that our audit of the consolidated financial statements has not given rise to any objections.

In our opinion based on the findings of our audit the consolidated financial statements comply in all material respects with the IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315a Paragraph 1 HGB and give a true and fair view of the net assets and financial position of the Group as of 31 December 2012 and of its earnings for the financial year ending on that date in accordance with these requirements.

Remarks on the Group management report
We have audited the attached Group Management Report for Deutsche Lufthansa Aktiengesellschaft, Cologne, which has been combined with the management report for the Company, for the financial year from 1 January to 31 December 2012. The Executive Board of Deutsche Lufthansa Aktiengesellschaft, Cologne, is responsible for the preparation of the combined management report in accordance with applicable statutory German regulations as defined in Section 315a Paragraph 1 HGB. We conducted our audit in accordance with Section 317 Paragraph 2 HGB and the German generally accepted standards for the audit of combined management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). These require that we plan and carry out the audit of the combined management report so as to obtain sufficient assurance as to whether the combined management report is consistent with the consolidated financial statements and the findings of the audit and altogether provides an accurate view of the state of the Group and the opportunities and risks of its future development.

In accordance with Section 322 Paragraph 3 Sentence 1 HGB we declare that our audit of the combined management report has not given rise to any objections.

In our opinion, based on the findings of the audit of the consolidated financial statements and the combined management report, the combined management report is consistent with the consolidated financial statements and altogether provides an accurate view of the state of the Group and accurately presents the opportunities and risks of its future development.

Dusseldorf, 6 March 2013
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Dr Bernd Roese
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Supervisory Board and Executive Board

Supervisory Board

Dr Wolfgang Röller
Former Chairman of the Supervisory Board
Deutsche Lufthansa AG
Honorary Chairman

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
Chairman
LCH.Clearnet Group Limited,
UK

Dr Werner Brandt
Member of the Executive Board
SAP AG

Bernd Buresch
Coordinator
Enterprise Operation Center
Employee representative

Jörg Cebulla
Flight captain and member
of the Cockpit pilots' union
Employee representative

Dipl.-Vwt. Jürgen Erwert
Administrative staff member
Employee representative

Herbert Hainer
Chairman of the Executive Board
adidas AG

Dr Jürgen Hambrecht
Former Chairman
of the Executive Board
BASF SE

Dominique Hiekel
Purser
Employee representative

Dr h.c. Robert Kimmitt
Senior International Counsel
WilmerHale, USA

Martin Koehler
Senior Advisor
The Boston Consulting
Group Inc.

Dr Nicola Leibinger-Kammüller
Managing partner and
Chair of the Management Board
TRUMPF GmbH + Co. KG

Eckhard Lieb
Engine maintenance mechanic
Employee representative

Simon Reimann
Flight attendant and member
of the trade union UFO
Employee representative

Marlies Rose
Flight Manager
Employee representative

Dr Klaus G. Schlede
Former Deputy Chairman
of the Executive Board
Deutsche Lufthansa AG

Matthias Wissmann
President of the
German Automotive Industry
Federation (VDA)

Dr Michael Wollstadt
Head IT Development
Network Management
Employee representative

Stefan Ziegler
Captain
Employee representative

Executive Board

Dr Christoph Franz
Chairman of the Executive Board

Stephan Gemkow
Member of the Executive Board
Chief Financial Officer and
Aviation Services (until 30 June 2012)

Stefan Lauer
Member of the Executive Board
Chief Officer Group Airlines and
Corporate Human Resources

Simone Menne
Member of the Executive Board
Chief Officer Finances and
Aviation Services
(since 1 July 2012)

Carsten Spohr
Member of the Executive Board
CEO Lufthansa German Airlines

Supervisory Board Committees

Steering Committee
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber (Chairman)
Frank Bsirske (Deputy Chairman)
Bernd Buresch
Dr Jürgen Hambrecht

Four meetings in 2012

The Supervisory Board has elected a Steering Committee from among its members made up of equal numbers of shareholder and employee representatives. It consists of the Chairman of the Supervisory Board, his deputy and two other members. The Steering Committee gives recommendations to the Supervisory Board on the contents, form and signing of employment contracts with Executive Board members and is responsible for other HR matters involving board members and authorised company representatives (e.g. lending in accordance with Section 89 Stock Corporation Act (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 internal regulations for the Executive Board. In the event of equal voting, the Chairman of the Supervisory Board has the casting vote.

Audit Committee
Dr Klaus G. Schlede (Chairman)
Dr Werner Brandt
Jürgen Erwert
Martin Koehler
Eckhard Lieb
Dr Michael Wollstadt

Four meetings in 2012

The Supervisory Board has elected an Audit Committee from among its members made up of equal numbers of shareholder and employee representatives, which has six members. The chair is held by 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. One of the Supervisory Board members to qualify as an independent financial expert is Audit Committee member Dr Werner Brandt, CFO of SAP AG. The task of the Audit Committee is to discuss, in accordance with instructions from the Chairman of the Supervisory Board, the monitoring of the accounting process, the examination of the effectiveness of the internal control system, the risk management system and the internal auditing system as well as matters of compliance, the necessary independence of the auditors, the appointment of auditors, the focus of audits and the fee agreement, and to make recommendations in this respect to the Supervisory Board, particularly on the auditors to put forward for election at the Annual General Meeting and on approval of the individual and consolidated financial statements. The Audit Committee also discusses the quarterly interim reports with the Executive Board before they are published. The Audit Committee is authorised to lay down the internal organisation of its work in its own internal regulations, which it submits to the Supervisory Board for its information.

Nomination Committee
Dr Jürgen Hambrecht
Dr Klaus G. Schlede
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber

Two meetings in 2012

The Supervisory Board has elected a Nomination Committee from among its shareholder representatives, consisting of three equal members. The Committee's task is to propose to the Supervisory Board suitable candidates to recommend for election at the Annual General Meeting. At least five shareholder representatives should be independent members of the Supervisory Board. At least two shareholder representatives should be women. Taking the aforementioned requirements into account, a reasonable number of members should also have several years of professional experience gained outside Germany.

Arbitration Committee in accordance with Section 27 Paragraph 3 Co-determination Act (MitbestG)
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber (Chairman)
Frank Bsirske (Deputy Chairman)
Dr Jürgen Hambrecht
Dominique Hiekel

No meetings in 2012

The task of this committee, appointed in accordance with Section 9 Paragraph 2 of the Company's Articles of Association, is to exercise the rights mentioned in Section 31 Paragraph 3 Sentence 1 of the Co-determination Act when members are appointed to the Executive Board, and when their appointment is revoked.

Other mandates of the Supervisory Board members of Deutsche Lufthansa AG

As of 31 December 2012

Dipl.-Ing. Dr-Ing. E.h. Jürgen Weber
a) Allianz Lebensversicherungs-AG
Voith GmbH
Willy Bogner GmbH & Co. KGaA
(Chairman of the Supervisory Board)
b) Loyalty Partner GmbH
(Chairman of the Supervisory Board)
Tetra Laval Group

Frank Bsirske
a) Deutsche Postbank AG
(Deputy Chairman
of the Supervisory Board)
IBM Central Holding GmbH
RWE AG (Deputy Chairman
of the Supervisory Board)
b) Kreditanstalt für Wiederaufbau

Jacques Aigrain
b) J.A. Consulting SA, Switzerland
LCH Clearnet Ltd (Chairman)
LCH Clearnet LLC (Chairman)
LCH Clearnet SA (Director)
LyondellBassell NV
QFCA Qatar Financial Center Authority
Resolution Limited UK
Swiss International Air Lines AG

Dr Werner Brandt
b) QIAGEN N.V.

Bernd Buresch
a) Lufthansa Systems AG

Herbert Hainer
a) Allianz Germany AG
FC Bayern München AG
(Deputy Chairman of the
Supervisory Board)

Dr Jürgen Hambrecht
a) Daimler AG
Fuchs Petrolub AG (Chairman)
TRUMPF GmbH + Co. KG
(Chairman)

Martin Koehler
a) Delton AG

Dr Nicola Leibinger-Kammüller
a) Axel Springer AG
Siemens AG
Voith GmbH

Eckhard Lieb
a) Albatros Versicherungsdienste GmbH

Matthias Wissmann
a) Seeburger AG (Deputy Chairman
of the Supervisory Board)

Mandates of the Executive Board members of Deutsche Lufthansa AG

As of 31 December 2012

Dr Christoph Franz
a) Lufthansa Technik AG* (Chairman)
b) Roche Holding AG
Stadler Rail AG
Swiss International Air Lines AG*

Stephan Gemkow (at the time of
his departure on 30.6.2012)
a) Delvag Luftfahrtversicherungs-AG*
(Chairman) (until 30.6.2012)
Evonik Industries AG
LSG Lufthansa Service Holding AG*
(Chairman) (until 30.6.2012)
Lufthansa AirPlus Servicekarten GmbH*
(Chairman) (until 30.6.2012)
Lufthansa Cargo AG*
(Chairman) (until 30.6.2012)
Lufthansa Systems AG*
(Chairman) (until 30.6.2012)
Lufthansa Technik AG*
(Chairman) (until 30.6.2012)
b) Amadeus IT Group S.A.
Amadeus IT Holding S.A.
JetBlue Airways Corp.

Stefan Lauer
a) Fraport AG
Germanwings GmbH*
(Chairman) (until 31.12.2012)
LSG Lufthansa Service Holding AG*
Lufthansa Cargo AG*
Lufthansa Flight Training GmbH*
(Chairman)
Pensions-Sicherungs-Verein VVaG
b) Aircraft Maintenance and Engineering
Corp. (Deputy Chairman)
Austrian Airlines AG*
(Chairman of the Supervisory Board)
ESMT European School of Management
and Technology GmbH
Landesbank Hessen-Thüringen
Girozentrale
SN Airholding SA/NV
Günes Ekspres Havacilik A.S.
(SunExpress) (Deputy Chairman)
Swiss International Air Lines AG*
(Deputy Chairman)

Simone Menne
a) Delvag Luftfahrtversicherungs-AG *
(Chairman)
LSG Lufthansa Service Holding AG *
(Chairman)
LRS Lufthansa Revenue Services GmbH *
Lufthansa Cargo AG * (Chairman)
Lufthansa Systems AG * (Chairman)
Lufthansa Technik AG *

Carsten Spohr
a) Germanwings GmbH *
(Chairman) (from 1.1.2013)
b) Dr August Oetker KG

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 31.12.2012	Equity stake	Voting share		Different reporting period
Name, registered office	in %	in %		
Passenger Airline Group segment				
A319 LDA-LDB-LDC Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
A319 LDD-LDE-LDF Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
Air Dolomiti S.p.A. Linee Aeree Regionali Europee, Dossobuono di Villafranca (Verona), Italy	100.00	100.00		
AirNavigator Ltd., Tokyo, Japan	0.00	0.00	SPE	
AirTrust AG, Zug, Switzerland	100.00	100.00		
ALIP No. 4 Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
ALIP No. 6 Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
AUA 2006 MSN 263 Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
AUA Beteiligungen Gesellschaft m.b.H., Vienna Airport, Austria	100.00	100.00		
AUA LNR/LNS/LNT/LNU Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
Austrian Airlines AG, Vienna Airport, Austria	100.00	100.00		
Austrian Airlines Lease and Finance Company Ltd., Guernsey, Channel Islands, UK	100.00	100.00		
Edelweiss Air AG, Kloten, Switzerland	100.00	100.00		
Ellen Finance 2011 S.N.C., Paris, France	0.00	0.00	SPE	
Empyrée S.A.S., Paris, France	0.00	0.00	SPE	
Eurowings GmbH, Dusseldorf	100.00	100.00		
FI Beauty Leasing Ltd., Tokyo, Japan	0.00	0.00	SPE	
First Valley Highway Kumiai, Tokyo, Japan	0.00	0.00	SPE	
Gabriela Finance 2012 Limited, Dublin, Ireland	0.00	0.00	SPE	
Germanwings GmbH, Cologne	100.00	100.00		
Gina Leasing Co. Ltd., Tokyo, Japan	0.00	0.00	SPE	
Global Brand Management AG, Basel, Switzerland	100.00	100.00		
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 7 oHG, Grünwald	100.00	66.67		
Heike LH8 Kumiai Ltd., Tokyo, Japan	0.00	0.00	SPE	
Ingrid Finance 2010 S.N.C., Paris, France	0.00	0.00	SPE	
Jour Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dortmund	100.00	100.00		
LHBD Holding Ltd., London, UK	100.00	100.00		
LLG Nord GmbH & Co. Bravo KG, Grünwald	100.00	66.67		
LNN/LNO/LAE Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
LPC/LNP/LNQ Finance Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
Lufthansa CityLine GmbH, Cologne	100.00	100.00		
Lufthansa Italia S.p.A., Milano, Italy	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 1, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 2, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 3, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 4, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 5, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 6, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 7, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 8, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 9, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 10, Salzburg, Austria	100.00	100.00		

Major subsidiaries as of 31.12.2012 (continued)	**Equity stake**	**Voting share**		**Different reporting period**
Name, registered office	in %	in %		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 11, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 12, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 14, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 15, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 16, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 17, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 18, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 19, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 20, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 21, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing GmbH & Co. Fox-Golf oHG, Grünwald	100.00	66.67		
Lufthansa Malta Aircraft-Leasing Ltd., St. Julians, Malta	100.00	100.00		
Lufthansa Malta Holding Ltd., St. Julians, 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		
NBB Cologne Lease Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
NBB Koblenz Lease Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
NBB Rhine Valley Lease LLC, Tokyo, Japan	0.00	0.00	SPE	
ÖLB Austriaische Luftverkehrs-Beteiligungs GmbH, Vienna Airport, Austria	100.00	100.00		
ÖLH Austriaische Luftverkehrs-Holding GmbH, Vienna Airport, Austria	100.00	100.00 [1]		
ÖLP Austriaische Luftverkehrs-Privatstiftung, Vienna Airport, Austria	0.00	0.00 [2]		
Second Valley Highway Kumiai, Tokyo, Japan	0.00	0.00	SPE	
Soir Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
Swiss Aviation Software AG, Basel, Switzerland	100.00	100.00		
Swiss Aviation Training Ltd., Kloten, Switzerland	100.00	100.00		
Swiss European Air Lines AG, Basel, Switzerland	100.00	100.00		
Swiss International Air Lines AG, Basel, Switzerland	100.00	100.00		
Third Valley Highway Kumiai, Tokyo, Japan	0.00	0.00	SPE	
TimBenNico Finance 2011 S.N.C., Paris, France	0.00	0.00	SPE	
TRAVIAUSTRIA Datenservice für Reise und Touristik Gesellschaft m.b.H. & Co NFG. KG, Vienna, Austria	69.00	69.00		
Tyrolean Airways Tiroler Luftfahrt GmbH, Innsbruck, Austria	100.00	100.00		
Logistics segment				
Jettainer GmbH, Raunheim	100.00	100.00		
Lufthansa Cargo AG, Frankfurt / M.	100.00	100.00		
Lufthansa Cargo Charter Agency GmbH, Frankfurt / M.	100.00	100.00		
Lufthansa Leasing GmbH & Co. Echo-Zulu oHG, Grünwald	100.00	66.67		
MRO segment				
AirLiance Materials LLC, Roselle, IL 60172, USA	100.00	100.00		
BizJet International Sales & Support, Inc., Tulsa, USA	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		
JASEN Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE	

Major subsidiaries as of 31.12.2012 (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
Lufthansa Technik AERO Alzey GmbH, Alzey	100.00	100.00	
Lufthansa Technik AG, Hamburg	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 Budapest Repülögép Nagyjavító Kft., Budapest, Hungary	85.00	85.00	
Lufthansa Technik Component Services LLC, Tulsa, USA	100.00	100.00	
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Landing Gear Services UK Ltd., Kestrel Way, Hayes, UK	100.00	100.00	
Lufthansa Technik Logistik GmbH, Hamburg	100.00	100.00	
Lufthansa Technik Logistik Services GmbH, Hamburg	100.00	100.00	
Lufthansa Technik Maintenance International GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa Technik Malta Ltd., Luqa, Malta	92.00	92.00	
Lufthansa Technik North America Holding Corp., Tulsa, 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	
IT Services segment			
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 Business Solutions GmbH, Raunheim	100.00	100.00	
Catering segment			
41/42 Bartlett (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Aerococina, S.A. de C.V., Mexico City, Mexico	51.98	100.00	
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	
Belém Serviços de Bordo Ltda., Belém, Brazil	70.00	70.00	
Capital Gain International (1986) Ltd., Hong Kong, China	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 Refeições, Ltda., Rio de Janeiro, Brazil	100.00	100.00	
Charm Food Service Co. Ltd., Incheon, South Korea	80.00	100.00	
CLS Catering Services Ltd., Richmond, Canada	70.00	70.00	
Comercializadora de Servicios Limitada, Santiago de Chile, Chile	100.00	100.00	

Major subsidiaries as of 31.12.2012 (continued)	Equity stake	Voting share	Different reporting period
Name, registered office	in %	in %	
Comisariato de Baja California, S.A. de C.V., Tijuana, Mexico	51.00	51.00	
Comisariatos Gotre, S.A. de C.V., Torreon, Mexico	51.00	51.00	
Constance Food Group, Inc., New York, USA	100.00	100.00	
Fortaleza Serviços de Bordo Ltda., Fortaleza, Brazil	70.00	70.00	
Inflight Catering (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Inflight Catering Services Ltd., Dar es Salaam, Tanzania	61.99	61.99	
In-flight Management Solutions GmbH, Neu-Isenburg	100.00	100.00	
International Food Services Ltd., Hong Kong, China	100.00	100.00	
Inversiones Turisticas 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, China	100.00	100.00	
LSG Catering Guam, Inc., Guam, USA	100.00	100.00	
LSG Catering Hong Kong Ltd., Hong Kong, China	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, Neu-Isenburg	100.00	100.00	
LSG France SAS, Paris, France	100.00	100.00	
LSG Holding Asia Ltd., Hong Kong, China	86.88	86.88	
LSG Lufthansa Service Asia Ltd., Hong Kong, China	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, China	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 Hong Kong Ltd., Hong Kong, China	41.62	47.90 [3)]	
LSG Lufthansa Service Saipan, Inc., Saipan, Micronesia	100.00	100.00	
LSG Lufthansa Service - Sky Chefs do Brasil Catering, Refeições Ltda., São Paulo, Brazil	100.00	100.00	
LSG Sky Chefs Argentina S.A., Buenos Aires, Argentina	100.00	100.00	
LSG Sky Chefs Australasia Pty Ltd., Sydney, Australia	100.00	100.00	
LSG Sky Chefs Belgium N.V., Zaventem, Belgium	100.00	100.00	
LSG Sky Chefs Berlin GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Bremen GmbH, Neu-Isenburg	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 Culinary Service GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Danmark A / S, Kastrup, Denmark	100.00	100.00	
LSG Sky Chefs de Venezuela C.A., Caracas, Venezuela	99.99	99.93	
LSG Sky Chefs Düsseldorf GmbH, Neu-Isenburg	100.00	100.00	
LSG / Sky Chefs Europe Holdings Ltd., Horley, UK	100.00	100.00	
LSG Sky Chefs Finland Oy, Vantaa, Finland	0.00	0.00 [4)]	
LSG Sky Chefs - First Catering Schweiz AG, Bassersdorf, Switzerland	60.00	60.00	
LSG Sky Chefs Frankfurt International GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Frankfurt ZD GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Gulf Solutions W.L.L., Manama, Bahrain	60.00	60.00	

Major subsidiaries as of 31.12.2012 (continued)	**Equity stake**	**Voting share**	**Different reporting period**
Name, registered office	in %	in %	
LSG Sky Chefs Hamburg GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Hannover GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Havacilik Hizmetleri A.S., Sefaköy-Istanbul, Turkey	100.00	100.00	
LSG Sky Chefs Heathrow Limited, West Drayton, UK	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, China	100.00	100.00	
LSG Sky Chefs Istanbul Catering Hizmetleri A.S., Istanbul, Turkey	100.00	100.00 [5]	
LSG Sky Chefs Cologne GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Korea Co. Ltd., Incheon, South Korea	80.00	80.00	
LSG Sky Chefs Leipzig GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Lounge GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs München GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs New Zealand Ltd., 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 Nürnberg GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs (Qingdao) Co., Ltd., Laixi City, China	100.00	100.00	
LSG Sky Chefs Rus, Moscow, Russia	100.00	100.00	
LSG Sky Chefs Schweiz AG, Bassersdorf, Switzerland	100.00	100.00	
LSG Sky Chefs Solutions Asia Ltd., Hong Kong, China	100.00	100.00	
LSG Sky Chefs South Africa (Proprietary) Ltd., Johannesburg, South Africa	100.00	100.00	
LSG Sky Chefs S.p.A., Fiumicino (Roma), Italy	100.00	100.00	
LSG Sky Chefs Spain, S.A., Madrid, Spain	100.00	100.00	
LSG Sky Chefs Stuttgart GmbH, Neu-Isenburg	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 TAAG Angola S.A., Luanda, Angola	40.00	40.00 [3]	
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	
LSG South America GmbH, Neu-Isenburg	100.00	100.00	
Material Marketing Solutions Ltd., Feltham, UK	100.00	100.00	
Myanmar LSG Lufthansa Service Ltd., Yangon, Myanmar	100.00	100.00	
Natal Catering Ltda., Natal, Brazil	70.00	70.00	
Oakfield Farms Solutions Europe Ltd., Feltham, UK	51.00	51.00	
Oakfield Farms Solutions, L.L.C., Wilmington, USA	51.00	51.00	
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	

Major subsidiaries as of 31.12.2012 (continued)	**Equity stake**	**Voting share**		**Different reporting period**
Name, registered office	in %	in %		
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 Antalya Gida Sanayi ve Ticaret A.S., Istanbul, Turkey	51.00	51.00		
Starfood S.r.l., Fiumicino, Italy	51.00	51.00		
UAB Airo Catering Services Lietuva, Wilna (Vilnius), Lithuania	100.00	100.00		
Western Aire Chef, Inc., Wilmington, USA	100.00	100.00		
ZAO AeroMEAL, Yemelyanovo, Russia	100.00	100.00		
Other				
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	100.00	100.00		
AirPlus Holding GmbH, Vienna, Austria	100.00	100.00		
AirPlus International AG, Kloten, Switzerland	100.00	100.00		
AirPlus International, Inc., Springfield, USA	100.00	100.00		
AirPlus International Ltd., London, UK	100.00	100.00		
AirPlus International S.r.l., Bologna, Italy	100.00	100.00		
AirPlus Payment Management Co., Ltd., Shanghai, China	100.00	100.00		
Lufthansa AirPlus Servicekarten GmbH, Neu-Isenburg	100.00	100.00		
Lufthansa AITH Beteiligungs GmbH, Cologne	100.00	100.00		
Lufthansa Asset Management GmbH, Frankfurt/M.	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 Leasing Austria 1. Beteiligungs GmbH, Salzburg, Austria	100.00	100.00		
Lufthansa Malta Blues LP, St. Julians, Malta	99.99	99.99		
Lufthansa Malta Finance p.l.c., St. Julians, Malta	100.00	100.00		
Lufthansa SICAV-FIS-Fonds, Luxembourg, Luxembourg	100.00	100.00		
Lufthansa Training & Conference Center GmbH, Seeheim-Jugenheim	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	
TGV DLH, Dusseldorf	100.00	100.00	SPE	

SPE: special-purpose entity.
[1] 50.20 per cent of the equity stakes and voting rights are attributed via ÖLP.
[2] Control over ÖLP results from the ability to nominate 3 out of 5 members of the Management Board.
[3] Management responsibility for the company lies with the Group.
[4] 100 per cent of the equity shares and voting rights are attributed via a call option.
[5] 33.34 per cent of the equity stakes and 50.01 per cent of the voting rights are attributed via a call option.

Major joint ventures as of 31.12.2012*	Equity stake	Voting share	Different reporting period
Name, registered office	in %	in %	
Passenger Airline Group segment			
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), 07300 Antalya, Turkey	50.00	50.00	
Logistics segment			
Aerologic GmbH, Leipzig	50.00	50.00	
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., Shanghai, China	29.00	22.22	
MRO segment			
Aircraft Maintenance and Engineering Corp., Beijing, China	40.00	42.86	
Lufthansa Bombardier Aviation Services GmbH, Schönefeld	51.00	51.00	
N3 Engine Overhaul Services GmbH & Co. KG, Arnstadt	50.00	50.00	
Spairliners GmbH, Hamburg	50.00	50.00	
Catering segment			
Alpha LSG Limited, Manchester, UK	50.00	50.00	
Other			
Diners Club Spain S.A., Madrid, Spain	25.00	25.00	

* Accounted for using the equity method.

Major associated companies as of 31.12.2012*	Equity stake	Voting share	Different reporting period
Name, registered office	in %	in %	
Passenger Airline Group segment			
Alpar Flug- und Flugplatz-Gesellschaft AG, Belp, Switzerland	13.86	13.86	
SN Airholding SA/NV, Brussels, Belgium	45.00	45.00	
Terminal 2 Gesellschaft mbH & Co oHG, Freising	40.00	40.00	
Logistics segment			
Jade Cargo International Company Limited, Shenzhen, China	25.00	28.57	
time:matters Holding GmbH, Dusseldorf	49.26	49.00	
MRO segment			
BELAC LLC, Oldsmar, Florida, USA	21.05	21.05	
HEICO Aerospace Holdings Corp., Florida, USA	20.00	20.00	
Catering segment			
CateringPor - Catering de Portugal, S.A., Lissabon, Portugal	49.00	49.00	
Gansu HNA LSG Sky Chefs Co., Ltd., Lanzhou, China	49.00	40.00	
Hong Kong Beijing Air Catering Ltd., Hong Kong, China	45.00	45.00	
Hong Kong Shanghai Air Catering Ltd., Hong Kong, China	45.00	45.00	
Inflite Holdings (Cayman) Ltd., Grand Cayman, Cayman Islands	49.00	49.00	September
Inflite Holdings (St. Lucia) Ltd., Castries, St. Lucia	49.00	49.00	September
Nanjing Lukou International Airport LSG Catering Co. Ltd., Nanjing, China	40.00	40.00	
Tolmachevo Catering OOO, Novosibirsk, Russia	26.00	26.00	
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 Region, Russia	49.00	49.00	

* Accounted for using the equity method.

Miscellaneous equity investments of Deutsche Lufthansa AG

Miscellaneous equity investments of Deutsche Lufthansa AG as of 31.12.2012	Equity stake	Voting share	Consolidated
Name, registered office	in %	in %	
Subsidiaries, not consolidated			
ACS Aircontainer Services Gesellschaft m.b.H., Fischamend, Austria	76.00	76.00	
Air Dolomiti Germany GmbH, Munich	100.00	100.00	
Airline Accounting Center de Mexico, S.A. de C.V., Mexico City, Mexico	100.00	100.00	
Airline Accounting Center Sp. z o.o., Krakow, Poland	100.00	100.00	
Airline Administration Center (Thailand) Ltd., Bangkok, Thailand	100.00	100.00	
Airline Marketing Services India Private Limited, Mumbai, India	100.00	100.00	
Airline Training Center Arizona Inc., Goodyear, USA	100.00	100.00	
AirPlus International GmbH, Neu-Isenburg	100.00	100.00	
Airport Services Dresden GmbH, Dresden	100.00	100.00	
Airport Services Friedrichshafen GmbH, Friedrichshafen	100.00	100.00	
Airport Services Leipzig GmbH, Schkeudiz	100.00	100.00	
Albatros Service Center GmbH, Cologne	100.00	100.00	
Albatros Versicherungsdienste GmbH, Cologne	100.00	100.00	
AS InPro GmbH, Oldenburg	100.00	100.00	
ATC - Austrian Technik Consulting, s.r.o., Trencin, Slovakia	100.00	100.00	
AUA Versicherungs-Service Gesellschaft m.b.H., Vienna Airport, Austria	100.00	100.00	
Austrian Airlines Technik-Bratislava, s.r.o., Bratislava, Slovakia	100.00	100.00	
Austrian Airlines Technik Marketing GmbH, Vienna Airport, Austria	100.00	100.00	
Austrian Airlines Tele Sales & Service GmbH, Innsbruck, Austria	100.00	100.00	
Austrian Lufthansa Cargo GmbH, Vienna Airport, Austria	100.00	100.00	
Aviation Quality Services GmbH, Frankfurt/M.	100.00	100.00	
AVICON Aviation Consult Gesellschaft m.b.H., Vienna Airport, Austria	100.00	100.00	
AVS Privatkunden Versicherungsservice GmbH, Vienna Airport, Austria	100.00	100.00	
Cargo Future Communications (CFC) GmbH, Büchenbeuren	65.00	65.00	
Castle Pensions No. 1 Limited, Donington, UK	100.00	100.00	
Castle Pensions Top-up Limited, Donington, UK	100.00	100.00	
Caterair Portugal - Assistencia A Bordo, Lda., Sacavém, Portugal	100.00	100.00	
City Net Catering Holdings Ltd., Alcester, UK	100.00	100.00	
Crossair AG, Basel, Switzerland	100.00	100.00	
Cross Travel Club AG i.L., Basel, Switzerland	100.00	100.00	
Delvag Luftfahrtversicherungs-AG, Cologne	100.00	100.00	
Delvag Rückversicherungs-AG, Cologne	100.00	100.00	
Deutsche Lufthansa Unterstützungswerk GmbH, Cologne	100.00	100.00	
DLH Fuel Company mbH, Hamburg	100.00	100.00	
DLH Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
DLH Malta Transition Limited, St. Julians, Malta	100.00	100.00	
Donington Pensions No. 2 Limited, Donington, UK	100.00	100.00	
Europe Continental Airways S.A. (i.L.), Saint Louis, France	100.00	100.00	
EW Beteiligungs- und Verwaltungsgesellschaft mbH, Dortmund	100.00	100.00	
GERANOS Grundstücksgesellschaft mbH & Co. IMMOBILIEN KG, Cologne	85.00	100.00	
GGG Service for Airlines GmbH, Frankfurt/M.	100.00	100.00	
Global Tele Sales Brno s.r.o., Brno, Czech Republic	100.00	100.00	
Global Tele Sales Ltd., Contaf, Dublin, Ireland	100.00	100.00	
Global Telesales of Canada, Inc., Peterborough, Canada	100.00	100.00	

Name, registered office	Equity stake in %	Voting share in %	Consolidated
Global Tele Sales Pty Limited, Melbourne, Australia	100.00	100.00	
Global Tele Sales (PTY) Ltd., Cape Town, South Africa	100.00	100.00	
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 5 KG i.L., Grünwald	100.00	83.33	
handling counts GmbH, Frankfurt/M.	100.00	100.00	
Hinduja Lufthansa Cargo Holding B.V., Amsterdam, Netherlands	100.00	100.00	
IBYKUS-KG THG Grundbuchtreuhandgesellschaft mbH & Co., Cologne	85.00	88.14	
In-Flight Management Solutions Latin America, S.A. de C.V., Mexico City, Mexico	100.00	100.00	
LCAG Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
LCAG Malta Transition Limited, St. Julians, Malta	100.00	100.00	
LCAG USA, Inc., Wilmington, USA	100.00	100.00	
LCH Grundstücksgesellschaft Berlin mbH, Cologne	100.00	100.00	
LGHS Holding (Thailand) Limited i.L., Bangkok, Thailand	49.00	90.74	
LGSP Lufthansa Ground Service Portugal, Unipessoal Lda., Maia/Oporto, Portugal	100.00	100.00	
LH Cargo Holding GmbH, Frankfurt/M.	100.00	100.00	
LHT Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
LRS Lufthansa Revenue Services GmbH, Norderstedt	100.00	100.00	
LSG Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
LSI Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
LTMES FZE, Dubai, United Arab Emirates	100.00	100.00	
Lufthansa Blues Beteiligungs GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa Cagri Merkezi ve Müsteri Hizmetleri A.S., Istanbul, Turkey	99.91	99.91	
Lufthansa Cargo India (Priv) Ltd., New Delhi, India	100.00	100.00	
Lufthansa Cargo Servicios Logisticos de Mexico, S.A. de C.V., Mexico City, Mexico	100.00	100.00	
Lufthansa City Center International GmbH, Frankfurt/M.	50.00	50.00	
Lufthansa Consulting GmbH, Cologne	98.25	100.00	
Lufthansa Consulting Managementbeteiligungs GmbH & Co. KG, Cologne	91.25	91.25	
Lufthansa Engineering and Operational Services GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa Flight Training - CST GmbH, Berlin	100.00	100.00	
Lufthansa Flight Training Vienna GmbH, Vienna Airport, Austria	100.00	100.00	
Lufthansa Global Tele Sales GmbH, Berlin	100.00	100.00	
Lufthansa International Finance (Netherlands) N. V., Amsterdam, Netherlands	100.00	100.00	
Lufthansa Malta Blues General Partner GmbH & Co. KG, Frankfurt/M.	100.00	100.00	
Lufthansa Malta Pension Holding Ltd., St. Julians, Malta	100.00	100.00	
Lufthansa Pension Beteiligungs GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa Pension GmbH & Co. KG, Frankfurt/M.	100.00	100.00	
Lufthansa Service-Center Kassel GmbH, Kassel	100.00	100.00	
Lufthansa Services (Thailand) Ltd., Bangkok, Thailand	64.19	80.00	
Lufthansa Systems 25. GmbH, Raunheim	100.00	100.00	
Lufthansa Systems Asia Pacific Pte. Ltd., Singapore, Singapore	100.00	100.00	
Lufthansa Systems FlightNav AG, Opfikon, Switzerland	100.00	100.00	
Lufthansa Systems Hungaria Kft, Budapest, Hungary	100.00	100.00	
Lufthansa Systems Infrastructure Services Inc., Dallas, USA	100.00	100.00	
Lufthansa Systems IS Consulting GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Network GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Network Services GmbH, Norderstedt	100.00	100.00	

Miscellaneous equity investments of Deutsche Lufthansa AG as of 31.12.2012 (continued)	**Equity stake**	**Voting share**	**Consolidated**
Name, registered office	in %	in %	
Lufthansa Systems Poland Sp. z o.o., Gdansk, Poland	100.00	100.00	
Lufthansa Technical Training GmbH, Hamburg	100.00	100.00	
Lufthansa Technik Brussels N.V., Steenokkerzeel-Melsbroek, Belgium	100.00	100.00	
Lufthansa Technik Intercoat GmbH, Kaltenkirchen	51.00	51.00	
Lufthansa Technik Logistik of America LLC, New York, USA	100.00	100.00	
Lufthansa Technik Milan s.r.l., Somma Lombardo (VA), Italy	100.00	100.00	
Lufthansa Technik Services India Private Limited, Gurgaon - 122002 (Harayana), India	100.00	100.00	
Lufthansa Technik Shenzhen Co., Ltd., Shenzhen, China	80.00	80.00	
Lufthansa Technik Sofia OOD, Sofia, Bulgaria	75.10	75.10	
Lufthansa Technik Tulsa Corporation, Tulsa, USA	100.00	100.00	
Lufthansa Technik Turbine Shannon Limited, Shannon / Co. Clare, Ireland	100.00	100.00	
Lufthansa Technik Vostok OOO, Moscow, Russia	100.00	100.00	
Lufthansa Technik Vostok Services OOO, Moscow Region, Russia	100.00	100.00	
Lufthansa UK Pension Trustee Limited, West Drayton, Middlesex, UK	100.00	100.00	
LZ-Catering GmbH, Hamburg	100.00	100.00	
Malta Pension Investments, St. Julians, Malta	0.00	100.00	
Maptext, Inc., Monmouth Junction, USA	100.00	100.00	
Marriott Export Services, C.A., Caracas, Venezuela	99.99	100.00	
Marriott International Trade Services, C.A., Caracas, Venezuela	99.99	100.00	
OP-Fonds LVG, Cologne	88.73	88.73	
Pilot Training Network d.o.o. (i.L.), Zemunik Gornij, Croatia	100.00	100.00	
Pilot Training Network GmbH, Frankfurt / M.	100.00	100.00	
Quinto Grundstücks-Verwaltungsgesellschaft mbH, Grünwald	94.80	94.80	
Reservation Data Maintenance India Private Ltd., New Delhi, India	51.00	51.00	
Servicios Complementarios de Cabina, S.A. de C.V., Mexico City, Mexico	51.88	99.80	
Shared Services International India Private Limited, New Delhi, India	100.00	100.00	
Shared Services International, Singapore PTE. LTD, Singapore, Singapore	100.00	100.00	
SLL, s.r.o., Bratislava, Slovakia	100.00	100.00	
Slovenske Aerolinie, a.s. (i.L.), Bratislava, Slovakia	100.00	100.00	
Star Risk Services Inc., Southlake, Texas, USA	100.00	100.00	
Swiss Private Aviation AG, Kloten, Switzerland	100.00	100.00	
Swiss WorldCargo (India) Private Limited, Mumbai, India	100.00	100.00	
TATS - Travel Agency Technologies & Services GmbH, Frankfurt / M.	100.00	100.00	
THG Grundbuchtreuhandgesellschaft mbH, Cologne	85.00	85.00	
TRAVI Holding GmbH, Vienna, Austria	69.00	69.00	
VPF Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
Vienna Oberlaa Liegenschaftsentwicklungs GmbH, Vienna Airport, Austria	100.00	100.00	
XP Reisen Vertriebs GmbH, Frankfurt / M.	100.00	100.00	
Other equity investments			
Aerologic Management GmbH i.L., Bonn	50.00	50.00	
Aeroxchange Ltd., Wilmington, USA	9.46	9.46	
AFC Aviation Fuel Company mbH, Hamburg	50.00	50.00	
Airfoil Services Sdn. Bhd., Kuala Lumpur, Malaysia	50.00	50.00	
Airmail Center Frankfurt GmbH, Frankfurt / M.	40.00	40.00	
ATLECON Fuel Corporation, Atlanta, USA	11.11	11.11	
AviationPower GmbH, Hamburg	49.00	49.00	
Beijing Lufthansa Center Co. Ltd., Beijing, China	11.23	12.50	
CommuniGate Kommunikationsservice GmbH, Passau	50.00	50.00	
Deutsche Akademie für Flug- und Reisemedizin gemeinnützige GmbH, Frankfurt / M.	90.00	90.00	

Name, registered office	Equity stake in %	Voting share in %	Consolidated
EFM - Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH, Freising	51.00	51.00	
Egyptian Aviation Services Company (S.A.E.), Cairo, Egypt	5.83	5.83	
ETACS GmbH, Frankfurt/M.	25.20	25.20	
Fairpartners AG, Langen	8.33	8.33	
Finairport Service S.r.l., Turin, Italy	36.00	36.00	
Flughafen München Baugesellschaft mbH, Munich Airport	40.00	40.00	
FMO Passenger Services GmbH, Greven	33.33	33.33	
FraCareServices GmbH, Frankfurt/M.	49.00	49.00	
Global Airline Services S.r.l., Fiumicino, Italy	40.00	40.00	
Global Logistics System Worldwide Company for Development of Freight Information Network GmbH, Frankfurt/M.	25.00	25.00	
GOAL German Operating Aircraft Leasing GmbH & Co. KG, Grünwald	40.00	39.99	
GOAL German Operating Aircraft Leasing GmbH, Munich	40.00	40.00	
Guangzhou Baiyun International Airport LSG Sky Chefs Co Ltd., Guangzhou, China	30.00	28.57	
Gulf International Caterers, W.L.L., Bahrain, Bahrain	49.00	49.00	
Hangzhou Xiaoshan Airport LSG Air Catering Co Ltd., Hangzhou, China	25.00	28.57	
Idair GmbH, Hamburg	50.00	50.00	
Jetblue Airways Corporation, City of Dover, County of Kent, Delaware, USA	15.85	15.85	
Link & Learn Aviation Training GmbH, Zirl, Austria	33.33	33.33	
LSG Gate Gourmet Paris S.A.S. i.L., Roissy, France	50.00	50.00	
LSG-Hygiene Institute GmbH, Neu-Isenburg	25.00	25.00	
LSG Sky Chefs Catering Egypt S.A.E., Cairo, Egypt	15.00	15.00	
LTQ Engineering Pty Limited, Tullamarine, Australia	50.00	50.00	
Luftfahrzeugverwaltungsgesellschaft GOAL mbH, Grünwald	40.00	40.00	
Lufthansa HNA Technical Training Co., Ltd., Meilan Airport, Hainan, China	50.00	1.00	
Lufthansa LAN Technical Training S.A., Santiago de Chile, Chile	50.00	50.00	
Lufthansa Leasing GmbH, Grünwald	49.00	49.00	
Luxair Société Luxembourgeoise de Navigation Aérienne S.A., Luxembourg, Luxembourg	14.44	14.44	
N3 Engine Overhaul Services Verwaltungsgesellschaft mbH, Hamburg	50.00	50.00	
Nigerian Aviation Handling Company PLC., Lagos, Nigeria	7.00	7.00	
North Hub Cleaning Services SIA, Marupe, Latvia	49.00	49.00	
Portland Fueling Facilities Corporation, Portland, USA	6.25	6.25	
Pro Flight GmbH, Bremen	50.00	50.00	
SAEMS Special Airport Equipment and Maintenance Services GmbH & Co. KG, Hamburg	40.00	40.00	
S.A.E.M.S. Verwaltungs-GmbH, Hamburg	40.00	40.00	
Sanya LSG Air Catering Co. Ltd., Sanya, China	45.00	40.00	
SCA Schedule Coordination Austria GmbH, Vienna Airport, Austria	25.00	25.00	
Shenzhen Airport International Cargo Terminal Company Limited, Shenzhen, China	50.00	50.00	
Sichuan Airlines LSG Air Catering Co. Ltd., Chengdu, China	49.00	40.00	
Sky Bird Services Ltd., Hong Kong, China	10.00	10.00	
Sky Chefs for Airlines Catering Company, Tripoli, Libya	44.50	44.50	
Star Alliance Services GmbH, Frankfurt/M.	5.56	5.56	
STARS Special Transport and Ramp Services GmbH & Co. KG, Hamburg	49.00	49.00	
S.T.A.R.S. Verwaltungs-GmbH, Hamburg	49.00	49.00	
Tanklager & Hydranten Betriebsgesellschaft mbH (THBG BBI), Schönefeld	30.00	30.00	
Terminal One Group Association, L.P., New York, USA	24.75	0.00	
Terminal One Management, Inc., New York, USA	25.00	25.00	
The Airline Group Limited, London, UK	14.52	14.52	
Universal Air Travel Plan, Inc., Washington D.C., USA	5.26	5.26	
Xinjiang HNA LSG Sky Chefs Co. Ltd., Urumqi, China	49.00	40.00	
Zentrum für Angewandte Luftfahrtforschung GmbH, Hamburg	20.00	20.00	
ZFB Zentrum für Flugsimulation Berlin GmbH i.L., Berlin	50.00	50.00	

Ten-year overview

		2012	2011	2010[10]
Income statement Lufthansa Group				
Revenue	€m	30,135	28,734	26,459
Result				
Operating result	€m	524	820	1,020
Operating margin	%	1.7	2.9	3.9
Profit/loss from operating activities[1]	€m	1,311	773	1,386
Profit/loss before income taxes[1)8]	€m	1,039	446	1,134
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG	€m	990	–13	1,131
Main cost items				
Staff costs	€m	7,052	6,678	6,491
Fees and charges	€m	5,167	5,000	4,318
Fuel for aircraft	€m	7,392	6,276	4,964
Depreciation, amortisation and impairment	€m	1,839	1,722	1,654
Net interest	€m	–318	–288	–346
Balance sheet Lufthansa Group				
Asset structure				
Non-current assets[4]	€m	18,659	18,627	18,963
Current assets[4]	€m	9,760	9,454	10,357
of which liquid assets	€m	4,966	3,998	5,380
Capital structure				
Shareholders' equity[2]	€m	8,298	8,044	8,340
of which issued capital[3]	€m	1,177	1,172	1,172
of which reserves	€m	6,071	6,790	5,939
Liabilities	€m	20,121	20,037	20,980
of which pension provisions	€m	2,076	2,165	2,571
of which borrowing	€m	6,910	6,424	7,184
Total assets	€m	28,419	28,081	29,320
Other financial data Lufthansa Group				
Capital expenditure	€m	2,358	2,560	2,271
of which on tangible and intangible assets	€m	2,291	2,445	2,222
of which on financial investments	€m	67	115	49
Cash flow from operating activities	€m	2,842	2,356	2,992
Free cash flow	€m	1,397	713	1,542
Indebtedness				
gross	€m	6,919	6,440	7,207
net[7]	€m	1,953	2,328	1,596
Deutsche Lufthansa AG				
Net profit/loss for the year	€m	592	–116	483
Transfer to/from reserves	€m	–	230	–208
Dividends proposed/paid	€m	–	114	275
Lufthansa share				
Share price at year-end	€	14.24	9.19	16.36
Earnings per share	€	2.16	–0.03	2.47
Dividend per share proposed/paid	€	–	0.25,	0.60

2009	2008	2007	2006	2005	2004	2003
22,283	24,842	22,420	19,849	18,065	16,965	15,957
130	1,280	1,378	845	577	383	36
0.6	5.2	6.1	4.3	3.2	2.3	0.2
271	1,309	1,586	1,078	719	954	–176
–134	730	2,125	1,129	875	541	–814
–34	542	1,655	803	453	404	–984
5,996	5,692	5,498	5,029	4,853	4,813	4,612
3,762	3,499	3,174	2,824	2,543	2,542	2,290
3,645	5,377	3,860	3,355	2,662	1,819	1,352
1,475	1,289	1,204	1,051	1,398	1,112	1,930
–325	–172	–194	–254	–248	–331	–341
17,696	14,975	14,076	12,969	12,318	11,543	10,885
8,696	7,433	8,244	6,492	6,954	6,527	5,847
4,439	3,278	3,607	2,538	3,598	3,788	2,721
6,202	6,594	6,900	4,903	4,522	4,014	2,696
1,172	1,172	1,172	1,172	1,172	1,172	977
4,956	4,817	4,018	2,648	2,707	2,398	2,660
20,190	15,814	15,420	14,558	14,750	14,056	14,036
2,710	2,400	2,461	3,814	4,022	4,132	4,327
6,802	3,581	3,345	2,956	3,563	3,306	3,240
26,392	22,408	22,320	19,461	19,272	18,070	16,732
2,304	2,152	1,737	1,929	1,829	1,783	1,155
2,177	1,798	1,621	1,380	1,221	1,647	992
127	354	116	549	608	136	163
1,991	2,473	2,862	2,105	1,956	1,881	1,581
251	612	2,688	584	815	1,061	1,024
6,860	3,639	3,369	2,971	3,605	3,370	3,312
2,195	–125	–768	–101	–143	–418	591
–148	276	1,123	523	455	265	–1,223
148	44	–551	–202	–226	–128	1,223
–	320	572	321	229	137	–
11.75	11.19	18.22	20.85	12.51	10.55	13.25
–0.07	1.18	3.61	1.75	0.99	0.94	–2.51
–	0.70	1.25	0.70	0.50	0.30	–

Ten-year overview (continued)

		2012	2011	2010[10]
Operational ratios Lufthansa Group				
Return on sales (Profit / loss before income taxes [1] [8] / revenue)	%	3.4	1.6	4.3
Return on capital employed (Profit / loss before income taxes [1] [8] plus interest on liabilities / total assets)	%	5.4	3.3	5.7
Return on equity (Profit / loss after income taxes / shareholders' equity [2])	%	12.1	0.0	13.7
Return on equity (Profit / loss before income taxes [1] [8] / shareholders' equity [2])	%	12.5	5.5	13.6
Equity ratio (Shareholders' equity [2] / total assets)	%	29.2	28.6	28.4
Gearing [6] (Net indebtedness plus pension provisions / shareholders' equity [2])	%	48.6	55.9	50.0
Leverage (Net indebtedness / total assets)	%	6.9	8.3	5.4
Internal financing ratio (Cash flow / capital expenditure)	%	120.5	92.0	131.7
Debt repayment ratio Net indebtedness / adjusted cash flow from operating activities	%	58.9	49.7	59.7
Revenue efficiency (Cash flow / revenue)	%	9.7	8.8	11.9
Net working capital (Current assets less current liabilities) [4]	€bn	0.0	−0.3	0.5
Non-current asset ratio (Non-current assets / total assets)	%	65.7	66.3	64.7
Depreciation ratio for aircraft / reserve engines (Accumulated depreciation / accumulated acquisition costs)	%	54.2	54.4	53.9
Staff ratios				
Average number of employees	number	118,368	119,084	117,066
Revenue / employee	€	254,587	241,292	226,018
Staff costs / revenue	%	23.4	23.2	24.5
Traffic figures Lufthansa Group [5] [9]				
Total available tonne-kilometres	millions	40,064	40,798	37,664
Total revenue tonne-kilometres	millions	29,754	29,908	28,274
Cargo load factor	%	74.3	73.3	75.1
Available seat-kilometres	millions	259,861	258,263	234,377
Revenue seat-kilometres	millions	204,775	200,376	186,452
Passenger load factor	%	78.8	77.6	79.6
Passengers carried	millions	103.1	100.6	92.7
Revenue passenger tonne-kilometres	millions	19,551	19,045	17,845
Freight / mail	tonnes	1,972,357	2,120,191	2,022,670
Freight / mail tonne-kilometres	millions	10,203	10,861	10,429
Number of flights	number	1,033,588	1,050,728	1,008,988
Flight kilometres	millions	1,355	1,374	1,241
Aircraft utilisation (block hours)	number	2,260,726	2,283,051	2,061,740
Aircraft in service	number	627	696	710

Figures have been rounded to full EUR millions. This results in differences to prior annual reports.

* Figures are converted from DM into EUR.

[1] From 2005 profit / loss from operating activities before income taxes (up to 2004 profit / loss before taxes) including other taxes; previous years adjusted.
[2] From 2005 shareholders' equity including minority interests; previous years adjusted.
[3] Capital increase by EUR 195,379,200 (76,320,000 shares) in 2004.

2009	2008	2007	2006	2005	2004	2003
–0.6	2.9	9.5	5.7	4.8	3.2	–5.1
1.4	4.9	11.2	8.2	7.0	5.8	–1.7
–0.4	8.4	25.5	18.3	13.5	10.2	–36.3
–2.2	11.1	30.8	23.0	19.3	13.5	–30.2
23.5	29.4	30.9	25.2	23.5	22.2	16.1
79.1	34.5	24.5	75.7	85.8	92.5	182.4
8.3	–0.6	–3.4	–0.5	–0.7	–2.3	3.5
86.4	114.9	164.8	109.1	106.9	105.5	136.9
38.1	97.0	154.7	54.9	48.7	45.3	29.9
8.9	10.0	12.8	10.6	10.8	11.1	9.9
–0.1	–0.6	0.0	–0.2	0.0	0.9	–0.3
67.1	66.8	63.1	66.6	63.9	62.2	65.1
54.2	58.9	58.0	57.9	55.7	53.4	55.5
112,320	108,123	100,779	93,541	90,811	92,743	94,798
198,384	229,757	222,467	212,196	198,930	182,925	168,326
26.9	22.9	24.5	25.3	26.9	28.4	28.9
35,469	34,960	30,339	26,667	26,486	25,950	23,237
24,943	24,973	22,613	19,216	18,727	18,445	16,227
70.3	71.4	74.5	72.1	70.7	71.1	69.8
208,226	195,431	169,108	146,720	144,182	140,648	124,027
162,286	154,156	135,011	110,330	108,185	104,064	90,708
77.9	78.9	79.8	75.2	75.0	74.0	73.1
77.3	70.5	62.9	53.4	51.3	50.9	45.4
16,236	15,463	13,569	11,112	10,898	10,484	9,138
1,712,167	1,914,925	1,910,846	1,758,968	1,735,771	1,752,900	1,580,430
8,706	9,510	9,043	8,103	7,829	7,961	7,089
899,928	830,832	749,431	664,382	653,980	647,785	543,549
1,178	1,125	979	795	794	799	704
1,949,857	1,855,842	1,629,416	1,341,810	1,340,948	1,351,932	1,172,034
722	524	513	430,	432	377	382

[4] Financial statements from 2004 according to new IAS 1 balance sheet standards; figures for previous years roughly comparable.
[5] From 2003 including Air Dolomiti, from 2006 including Eurowings.
[6] From 2004 net indebtedness plus pension provisions; previous years adjusted.
[7] From 2005 including borrower's note loans (payable at any time).
[8] Until 2008 including the discontinued business segment Leisure Travel.
[9] Lufthansa Passenger Airlines, SWISS, Austrian Airlines, Germanwings (from January 2010) and Lufthansa Cargo.
[10] The income statement for the financial year 2010 has been adjusted in line with IFRS 5 Discontinued Operations because of the planned disposal of bmi.

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").

Code-share A code-share is a flight segment that is sold under the flight number of one airline, while being operated either partly or entirely by another airline. Both companies maintain their own independent profile on the market.

Hub In air traffic a hub refers to an airline's transfer airport, a central connecting point for different routes. Passengers and goods are transported from the original starting point to the airport's hub. From there they are carried to their destination by a second flight alongside passengers and goods from other departure points.

IATA International Air Transport Association – the international trade association for the airline industry.

Low-cost carrier Low-cost carrier are airlines which offer largely low ticket prices but with reduced service levels and sometimes additional charges on board and on the ground. Flights are mostly from secondary airports outside the major cities (e.g. Hahn in the Hunsrück area outside Frankfurt).

MRO Short for maintenance, repair and overhaul of aircraft.

Network carrier In contrast to low-cost carriers these airlines offer a wide-ranging, normally global route network via one or more hubs, with synchronised connecting flights.

Sharklets Sharklets, or winglets, are the extensions fitted to the ends of the wings on aircraft belonging to the Airbus A320 family. They reduce the drag that occurs at the wing, thereby lowering fuel consumption.

Passenger-kilometre/tonne-kilometre Standard output units for air transport. A revenue 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.

Passenger load factor/cargo load factor Measure of capacity utilisation in per cent. The cargo load factor expresses the ratio of capacity sold to available capacity. The passenger load factor refers to passenger transportation and the cargo load factor to freight transport or total traffic.

Financial terminology

Call option The right to purchase a specific 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 "consolidated cash flow statement" on p. 135.

Cash value added – CVA Parameter for measuring performance of value creation. When the cash flow generated in a period (EBITDA^{plus}) is greater than the minimum cash flow required to cover the cost of capital, the CVA is positive and value is created, see "Value-based management and targets" from p. 30.

Compliance Institutionalised arrangements for ensuring that a company's management and staff duly comply with all statutory provisions and prohibitions.

Deferred taxes A balance sheet item used to show taxable and deductible temporary differences. 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 supervisory, executive or divisional boards, or their family members, involving shares in "their" company. 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 shares. It is determined by dividing the dividend by the share price at the close of the reporting year and then multiplying it by 100.

Debt repayment ratio A financial indicator. It represents the ratio of adjusted cash flow from operating activities to net indebtedness and pensions, see p. 56. The rating agencies' comparable criteria for an investment grade rating are met if a target of at least 60 per cent is achieved sustainably.

EBIT Financial indicator denoting earnings before interest and taxes.

EBITDA Financial indicator denoting earnings before interest, taxes, depreciation and amortisation. Depreciation relates to items of property, plant and equipment and amortisation to intangible assets – both terms apply equally to non-current and current assets. The figure also includes impairment losses on equity investments accounted for under the equity method and on assets held for sale.

EBITDA^{plus} EBITDA^{plus} refers to the operating result adjusted for non-cash items. It includes all cash-relevant items over which management has an influence, see "Value-based management and targets" from p. 30.

Equity method Accounting method for measuring income derived from a company's investments in associated companies and joint ventures. Under this method, investment income equals a share of net income proportional to the size of the equity investment.

Equity ratio Financial indicator expressing the ratio of shareholders' equity to total assets.

Financial covenants Covenants are obligations on the part of a borrower towards its banks that are defined in loan agreements. They can also be described as conditions relating to the company's capital structure. During the term of the loan they oblige the borrower to maintain certain financial ratios (relating to equity, debt or liquidity, for example). Deutsche Lufthansa AG's main financial liabilities do not include covenants.

Free cash flow Financial indicator expressing the cash flow from operating activities remaining in the reporting period after deducting net cash used for investing activities.

Gearing Financial indicator expressing the ratio of net indebtedness plus pension provisions to equity.

Group of consolidated companies Group of subsidiaries included in a company's consolidated financial statements.

Impairment Losses recognised on the carrying amount of assets. Impairment charges are recognised when an asset's "recoverable value" (the higher of fair value less costs to sell and value in use) is below its carrying amount. By contrast, 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.

Jet fuel crack Price difference between crude oil and kerosene.

Lufthansa Pension Trust A fund to which Lufthansa has been contributing since 2004 to finance future retirement benefits to staff in Germany and those seconded abroad. Annual contributions are planned to build up fund assets, with the objective of funding benefit obligations in full.

Net indebtedness/net liquidity Financial indicator denoting non-current borrowing less cash, cash equivalents and current securities.

Operating result An earnings measure. The operating result is calculated as the profit from operating activities, adjusted for book gains and losses, write-backs of provisions, impairment losses, results of financial investments and the measurement of financial liabilities at the end of the period, see p. 49.

Put option A 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).

Rating A standardised measure used on international financial markets to judge and categorise a company's creditworthiness. A rating can enable conclusions to be drawn about whether an issuer is capable of meeting in full its obligations under the terms of the issue.

Registered shares with transfer restrictions Registered shares that may only be transferred with the approval of the company.

Retention of earnings Transfer of a company's profit to equity. It strengthens the company's financial position.

Return on equity Financial indicator expressing the ratio of net profit to shareholders' equity.

Return on sales Financial indicator expressing the net profit before taxes in relation to sales revenue.

Total shareholder return Financial indicator expressing the overall return that an investor earns from the increase in the market capitalisation 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 solely from flight operations. It comprises revenue from transporting passengers and cargo as well as related ancillary services.

Weighted average cost of capital – WACC The average return required on the capital employed at a company. The return on capital is calculated using the weighted average return required for both debt and equity.

Working capital Financial indicator for assessing a company's liquidity, measured as the difference between its current assets and its current liabilities.

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Financial calendar 2013/2014

2013

14 March Press Conference and Analysts' Conference on 2012 results

2 May Release of Interim Report January – March 2013

7 May Annual General Meeting in Cologne

2 Aug. Release of Interim Report January – June 2013

31 Oct. Release of Interim Report January – September 2013

2014

13 March Press Conference and Analysts' Conference on 2013 results

29 April Annual General Meeting in Hamburg

6 May Release of Interim Report January – March 2014

31 July Release of Interim Report January – June 2014

30 Oct. Release of Interim Report January – September 2014

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