



DEUTSCHE LUFTHANSA AG

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PREPARED FOR

Financial Analysis and Forecasting

Executive Summary

This report presents a critical analysis of the company Deutsche Lufthansa AG, highlighting its strategic positioning, managerial discretion and related accounting choices, financial position and performance, as well as a forecast of the company's future performance, contextualized within an industry perspective. Lufthansa operates in a cost-intensive and demand-sensitive sector, marked by cyclical trends, high operating costs, and increasing competition from low-cost carriers are key defining characteristics. The accounting analysis reveals that depreciation policies are among the most flexible and impactful. Despite this, Lufthansa appears relatively conservative compared to its main competitors, such as Ryanair, Air France, KLM and Turkish Airlines. The financial analysis shows a gradual recovery from the pandemic. Lufthansa has experienced a progressive improvement in profitability, although it still lags behind some low-cost competitors, such as Ryanair. The forecast indicates moderate future revenue growth, estimated at around 3.5%–4% per year. This is driven by the acquisition of ITA Airways, an expansion in passenger volume, and improvements in network structures and airport hubs. Overall, Lufthansa shows continuous progress and improvement in restoring financial resilience, with a clearly defined and efficient strategy. Its ability to maintain operational efficiency, effective capital allocation, and corporate expansion through mergers are key factors in shaping today's and tomorrow's Lufthansa, supporting long-term profitability.

We chose Deutsche Lufthansa AG because it is one of Europe's largest and most strategically important airlines and offers a rich case study for analyzing the interplay between financial management, strategic decision making, and industry dynamics in the context of post-pandemic recovery.

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List of Abbreviations

AG	<i>Aktiengesellschaft (German for “public limited company”)</i>
EBIT	<i>Earnings Before Interest and Taxes</i>
EBITDA	<i>Earnings Before Interest, Taxes, Depreciation and Amortization</i>
EU ETS	<i>European Union Emissions Trading System</i>
FY	<i>Fiscal Year</i>
GDP	<i>Gross Domestic Product</i>
IAG	<i>International Airlines Group</i>
IAS	<i>International Accounting Standards</i>
IATA	<i>International Air Transport Association</i>
IFRS	<i>International Financial Reporting Standards</i>
ITA	<i>Italia Trasporto Aereo (ITA Airways – Italy’s national airline)</i>
KLM	<i>Koninklijke Luchtvaart Maatschappij (Royal Dutch Airlines)</i>
LSG	<i>Lufthansa Service Gesellschaft (Lufthansa Sky Chefs)</i>
MRO	<i>Maintenance, Repair and Overhaul</i>
NOPAT	<i>Net Operating Profit After Tax</i>
OAG	<i>Official Airline Guide</i>
ROE	<i>Return on Equity</i>
ROIC	<i>Return on Invested Capital</i>
RPK	<i>Revenue Passenger-Kilometers</i>
SWISS	<i>Swiss International Air Lines</i>

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1. Strategic Analysis

The strategic analysis provides an overview of Lufthansa's industry, business, and financial outlook. In addition, it offers both qualitative and quantitative insights into the key risks and opportunities within the airline sector.

1.1 Industry And Firm Description

Industry

The global airline industry is distinguished by intense competition, a capital-intensive structure given the significant investments in airport infrastructure, high maintenance expenses, specialized personnel costs, and cyclical demand, which typically peaks during holidays, summer season and at the end of the year. Furthermore, demand is influenced by variations in disposable income, fuel costs, and broader macroeconomic fluctuations (Eurocontrol, 2025). The industry also faces fierce competition among full-service legacy carriers, low-cost operators, and hub carriers (McKinsey, 2025), with consumers highly sensitive to price variations (IATA, 2025). In Europe, full-service carriers have consolidated into three major groups (Lufthansa Group, IAG, and Air France-KLM) competing through hub-and-spoke network models, while ultra-competitive low-cost carriers (e.g., Ryanair, easyJet, Wizz Air) dominate point-to-point short-haul markets. Nonetheless, given its position as the fourth largest airline group by average flights per year in 2024 (Eurocontrol, 2025), Lufthansa is strategically situated between both long- and short-haul competitors, as it is possible to see in Figure 1 (see Figure 1). Demand in the industry is strongly correlated with global GDP growth, with volumes returning to pre-COVID-19 levels between 2022 and 2023, and even surpassing 2019 for the first time in 2024 (IATA, 2025). In fact, global revenue passenger-kilometers (RPK) in 2024 exceeded 2019 levels by approximately 4%, with European airlines also surpassing pre-crisis volumes (Lufthansa, 2025).

Deutsche Lufthansa AG

Deutsche Lufthansa AG, headquartered in Frankfurt, is the parent of Lufthansa Group, Europe's largest airline group by revenues and a top-five global airline by traffic. The Group's core is passenger airlines, including Lufthansa German Airlines (the flagship carrier), SWISS, Austrian Airlines, Brussels Airlines, and Eurowings. Through these brands, Lufthansa Group operates a multi-hub system: major hubs in Frankfurt and Munich (Lufthansa), Zurich (SWISS), Vienna (Austrian Airlines), Brussels, and a focus city network via Eurowings. In 2025, Lufthansa further expanded its European network by acquiring a 41% stake in ITA

Airways, Italy's flag carrier, with plans to integrate it into the Group and the Star Alliance. The Group, for instance, carried 122.5 million passengers in 2023 (up 20% from 2022) with an average load factor of 82.9%, approaching record highs (Lufthansa, 2025). Moreover, Lufthansa is a founding member of Star Alliance, leveraging partnerships with United Airlines, Air Canada, and others to feed its long-haul routes. In addition to passenger flights, the Group encompasses world-leading aviation services: Lufthansa Cargo (global air freight carrier), Lufthansa Technik (one of the world's largest aircraft MRO ,Maintenance, Repair & Overhaul – providers), and formerly LSG Sky Chefs (catering, sold in 2023 as part of refocusing on core airline business (Lufthansa, 2024)¹.

1.2 Firm's Key Success Factors

Lufthansa's strong brand and premium reputation are fundamental to its value proposition, reinforcing trust among customers and justifying a premium positioning in the market. Its extensive international network, with more than 300 destinations in nearly 100 countries and anchored by major hubs in Frankfurt and Munich, represents a crucial key resource supporting core operations and ensuring worldwide connectivity with operational efficiency (Lufthansa, 2024). The company's diversified portfolio, including passenger services, cargo logistics through Lufthansa Cargo, technical maintenance services via Lufthansa Technik, and other related ventures, contribute directly to multiple revenue streams while strengthening the resilience of the business. The ongoing investments in fleet modernization and advancing sustainability further enhances both key resources and the value proposition, as a modern, efficient, and eco-conscious fleet reduces costs and emissions but also positions Lufthansa as a leader in the industry's sustainable transition (Lufthansa, 2024).

1.3 Firm's Key Risk Factor

The company exhibits a strong dependence on its core hubs and international markets, creating structural vulnerabilities within its key resources and activities. Disruptions in these hubs or volatility in global markets can impact overall operations. Elevated operating costs, primarily driven by labor and fuel expenses, further strain the cost structure and reduce competitiveness, particularly against low-cost carriers with leaner business models. The decline in profitability, reflected in the adjusted EBIT margin falling to 4.4% in 2024, nearly 39% lower than in 2023, highlights weaknesses in the company's revenue streams and financial resilience. Additionally, recurring labor strikes continue to disrupt flight schedules and operational efficiency, exacerbating cost pressures and negatively affecting customer

¹ Refers to Figures 1, 2, and 3 in the Appendix for the Business Model, PESTEL, and SWOT analyses related to Lufthansa.

satisfaction. Furthermore, increasing exposure to climate change risks, such as extreme weather events and the tightening of environmental regulations, poses additional challenges to operational stability and long-term sustainability. Operational setbacks such as aircraft delivery delays further constrain capacity growth, limiting the ability to meet rising demand and compounding the impact of these external and internal pressures (Lufthansa, 2024).

2. Accounting Analysis

The airline industry stands out from an accounting perspective because the aircraft fleet is both the largest asset and the most significant cost driver for most companies. Small changes in accounting policies, particularly depreciation, can create substantial shifts in reported earnings, balance sheet values, and financial ratios. In addition, revenue recognition (IFRS 15), fuel hedging and derivative accounting (IFRS 9), and lease reporting (IFRS 16) play central roles. This analysis focuses on the most critical accounting practices, with a particular emphasis on depreciation, since this is an area where management has considerable flexibility.

2.1 Critical Accounting Policies Depreciation (IAS 16 & IAS 38)

Depreciation represents the systematic allocation of an asset's cost over its useful life. For Lufthansa, this policy is especially important since the aircraft fleet is the company's largest investment and a major operating expense. The choice of useful life and residual value directly affects key financial metrics such as EBIT, net income, equity, and total assets. Lufthansa currently depreciates its aircraft over 20 years with a 5% residual value, which corresponds to an annual depreciation rate of roughly 4.75%. In 2024, depreciation expenses amounted to about €2,337 million, representing around 6.5% of total operating expenses. Compared to peers such as Air France–KLM and IAG, which apply longer useful lives (22–25 years) or higher residual values, Lufthansa's approach is more conservative. This results in lower reported profit and equity but offers tax advantages through faster expense recognition. Because estimates of useful lives and residual values can be revised, depreciation remains one of the most judgment-sensitive accounting areas in the airline industry, with direct implications for profitability and financial reporting.

Adjustment: Extending Useful Life from 20 to 22 Years

When useful life is extended, the same depreciable base is allocated over more years, reducing annual depreciation.

The new depreciation rate equals:

$$\frac{(100\% - 5\%)}{22} \div \frac{(100\% - 5\%)}{20} = 0.91$$

Therefore, the new depreciation is 91% of the previous value.

We decided to extend the useful life for all assets, not only the aircraft fleet, as the change in depreciation policy reflects a broader reassessment of asset durability and utilization. Given recent technological improvements, efficient maintenance practices, and longer replacement cycles within the airline industry, applying a consistent adjustment across all asset categories provides a more accurate and comparable reflection of Lufthansa's long-term asset use. In short, Lufthansa appears more profitable and financially stronger after extending the useful life, but this improvement is purely accounting-driven and does not generate additional cash flows. The impact of the change in depreciation on the financials is shown in the excel document.

2.2 Other Critical Policies

Revenue Recognition (IFRS 15)

Revenue is recognized when Lufthansa performs its flights, ensuring that reported income reflects the actual delivery of air-transport services rather than cash receipts. Advance payments for tickets and loyalty-program obligations are recorded as contract liabilities until the corresponding service is provided. The main estimation challenge concerns the treatment of unused tickets ("breakage") and the expiry of loyalty points, both of which influence the timing of revenue recognition. Because advance sales and customer loyalty programs are central to Lufthansa's business model, this policy is essential for presenting a faithful view of performance. Peer airlines apply similar methods, leaving limited flexibility, and no adjustment is required.

Fuel Hedging and Derivatives (IFRS 9)

Fuel is one of Lufthansa's largest variable expenses and a major driver of earnings volatility. To manage exposure to price fluctuations, the company uses derivative contracts accounted for as cash-flow hedges under IFRS 9. Effective hedge results are recognized in equity, while

ineffective portions flow through profit or loss. This policy reduces short-term earnings volatility and provides planning stability but also caps potential gains when fuel prices fall. The approach is broadly aligned with industry practice and considered balanced; no reformulation is necessary.

Lease Accounting (IFRS 16)

Aircraft leasing is an integral part of Lufthansa's fleet-financing strategy. In accordance with IFRS 16, most leases are recognized on the balance sheet as right-of-use assets with corresponding lease liabilities, improving transparency around long-term commitments. The standard requires management judgment when determining lease terms, renewal options, and discount rates, all of which can affect reported assets and liabilities. Lufthansa's application of IFRS 16 appears consistent with peers, and while no restatement is required, lease obligations should be incorporated into leverage and capital-structure analysis.

2.3 Flexibility In Critical Accounting Estimates

While Lufthansa complies with IFRS, management discretion can significantly influence reported results. Depreciation policy is the most flexible area: small adjustments in useful life or residual value can move EBIT, equity, and asset values by hundreds of millions of euros. In contrast, revenue recognition and fuel-hedging rules are more constrained by accounting standards, and lease accounting depends on contractual terms.

Overall, Lufthansa's accounting choices remain within accepted industry norms but demonstrate moderate flexibility, particularly in asset valuation and depreciation. This flexibility highlights the importance of analytical adjustments when assessing profitability and capital structure.

3. Financial Analysis

The financial analysis is an evaluation of Lufthansa's profit, growth, and risk situation over the past years. It relates essential financial ratios to the company's strategic position, thus providing insights into its efficiency, leverage and general financial condition in comparison with the industry peers.

3.1 Calculation Of Important Ratios

The profitability ratios ROE, ROIC, EBITDA Margin and Gross Profit Margin demonstrate the extent to which Lufthansa turns its revenue into profit. They indicate the company's capacity to absorb its working costs like fuel and maintenance and are still profitable to the

shareholders. Asset Turnover reflects how efficiently the firm is using its assets and managing its cash flow. In the case of Lufthansa, this ratio is particularly important, as airlines are highly dependent on their liquidity position. They collect most of their revenues from ticket sales, whereas their operational expenses occur continuously. Therefore, the business must produce cash effectively to promote smooth operations as well as general financial health.

Finally, the financing ratios Debt-to-Equity Ratio, Interest Coverage Ratio, and Current Ratio indicate a measure of Lufthansa's capital structure and its capacity to meet its debt obligations. Since the airline business is a capital-intensive business requiring significant investments in aircraft and airports, it is thus imperative for Lufthansa to utilize debt for expansion purposes but at the same time ensuring financial strength to make the company long-term sustainable.

Passenger Load Factor is the percentage of the available seating capacity that is actually occupied by passengers, thereby showing the efficiency of the operation and the utilization of total capacity. Therefore, we also decided to include this ratio as it shows the level at which the company is turning capacity into demand, thus giving a very clear insight into operational performance and the management of resources.

3.2 Discussion Of The Ratios

Between FY 2022 and FY 2024, Lufthansa and its main competitors Ryanair, Air France-KLM, and Turkish Airlines have been through a post-pandemic recovery characterized by capacity restoration, elevated fuel prices, and inflationary cost pressures. The ratio profile of Lufthansa shows a consistent recovery in profitability and efficiency. However, the group is still below the low-cost benchmark of Ryanair and broadly aligned with other full-service carriers.

The gross profit margin of Lufthansa dropped slightly from 44.6% in FY 2023 to 42.9% in FY 2024. The reason for this change is mainly higher unit costs and maintenance expenses which were partially offset by sustained yield improvements. The margin is still higher than that of Air France-KLM (37.9%), Ryanair (30.0%) and Turkish Airlines (19.3%), which indicates that the legacy segment is more cost-effective. The EBITDA margin decreased from 12.5% to 10.2% which is a clear indication of margin compression and increase in jet fuel prices. On the other hand, Turkish Airlines (22.1%) and Ryanair (19.9%) have been able to maintain stronger operating leverage which is supported by optimized fleet deployment and fuel hedging policies respectively.

As per the capital structure and liquidity point of view, Lufthansa's debt-to-equity ratio was reduced to 1.18x, evidencing that the company is making progress in deleveraging and adopting a more conservative financial posture. An interest coverage ratio of 3.84x shows that the business has enough capacity to pay interest even though it's significantly lower than Ryanair (23.4x), which has the benefit of very low leverage. Moreover, the current ratio of 1.34x is quite similar to that of Turkish Airlines (1.01x) and serves as a sign of a balanced liquidity position, which is more favourable than that of Air France-KLM (0.65x) and Ryanair (0.74x). Overall, despite persistent cost and yield pressures, Lufthansa exhibits a moderate financial profile, displaying a combination of stable liquidity and an improved balance sheet with profitability metrics only partially recovered.

Lufthansa's load factor went up from 80% in 2022 to 83% in both 2023 and 2024 respectively, demonstrating a gradual recovery and stable management of capacity. Nevertheless, it is still lower than that of Air France, which is 88%, and Ryanair, which is 94%, thus indicating that low-cost and hybrid models are still resulting in higher seat utilization than traditional network carriers like Lufthansa (see: Figure 8).

3.3 Alternative ROE Decomposition

The ROE decomposition allowed to deeper evaluate the financial performance of Lufthansa and three European peers, Ryanair Holdings, Air France–KLM, and Turkish Airlines, using profit margin, asset turnover, return on invested capital (ROIC) and leverage ratio as key indicators of profitability, efficiency, and financial stability.

The **profit margin** shows how much of a firm's revenue remains as profit after all costs are deducted. In 2024, Ryanair (14.16%) significantly outperformed Turkish Airlines (11.91%), Lufthansa (4.21%), and Air France–KLM (3.10%) (see Figure 5). Ryanair's strong profitability reflects its efficient low-cost model, standardized fleet, and tight cost strategy. Lufthansa and Air France–KLM's lower margins reflect higher structural costs, unionized labor, and complex network operations that reduce flexibility and price competitiveness.

The **asset turnover ratio** measures how efficiently a company uses its assets to generate revenue. In 2024, Air France–KLM (0.89) led the group, followed closely by Ryanair (0.80) and Lufthansa (0.79), while Turkish Airlines (0.60) trailed due to its capital-intensive long-haul operations (see Figure 6). Air France–KLM's strong ratio reflects higher aircraft utilization and recovery in European short-haul travel. Lufthansa's gradual improvement from 0.71 in 2022 indicates better fleet management and load factor optimization.

The **Return on Invested Capital** (ROIC) evaluates how effectively a firm uses invested capital to generate profit. In 2024, Ryanair achieved a ROIC of 23.65%, far ahead of Lufthansa (6.26%), Turkish Airlines (13.69%), and Air France–KLM (around 23%). Ryanair's high ROIC reflects disciplined investment, superior cost structure, and strong returns from its growing passenger base. Lufthansa's weaker result indicates challenges in achieving value-accretive returns (see Figure 9).

The **leverage ratio** measures the extent to which a business relies on debt to finance its assets. In 2024, Ryanair (0.69) had the lowest leverage, reflecting a strong balance sheet and low financial risk. Lufthansa (1.17) has made clear progress in deleveraging compared to 2023, while Air France–KLM (2.66) and Turkish Airlines (2.91) remain highly leveraged (see Figure 7).

4. Prospective Analysis

The Deutsche Lufthansa AG entered the fiscal year of 2025 after a period of operational recovery but continued margin pressure. Following a 6% increase in revenue to €37.6 billion in 2024, the Group's focus is on restoring profitability, modernising its fleet and maintaining financial stability while integrating ITA Airways and expanding sustainable activities (Lufthansa Group, 2024). The following forecast assumptions reflect the expected developments in the Group's key financial indicators and ratios.

We expect that **Lufthansa's revenue growth** will continue to be driven primarily by volume expansion, supported by robust demand in the travel sector. After carrying over 131 million passengers in 2024 (7% increase compared to 2023) the Group's passenger volume is expected to grow by around 4% per year, which is largely in line with IATA's long-term market outlook. This growth will be driven mainly by higher capacity utilisation and an expansion of the route network at the five hubs, supplemented by the integration of ITA Airways into the Group's route network in 2025. The volume effect will therefore outweigh the price factors. While revenues declined in 2024 due to competitive pressure, particularly in Asia, the Group expects a moderate price recovery, supported by product improvements such as the new "Allegrì" and "SWISS Senses" cabins, which will increase willingness to pay in the premium segment. Nevertheless, moderate inflation and ongoing competitive pressure will limit fare growth. As a result, total revenue is expected to increase by around 3.5 to 4% per year, mainly due to organic factors and less to acquisitions. Logistics revenue, which grew by 10% in 2024, is likely to normalise due to falling freight rates, but we expect MRO

services, which grew by 14% in 2024, continue to make a solid contribution thanks to strong global demand for maintenance and repair services (Lufthansa Group, 2024).

The **NOPAT margin** fell from 5.73% in 2023 to 3.86% in 2024 due to cost inflation, wage increases and operational disruptions. Lufthansa aims to restore profitability through its turnaround programme, which focuses on fleet simplification, higher aircraft utilisation, and greater efficiency via digitalisation and workforce optimisation. In our opinion fleet modernisation plays a key role here. We expect that the acquisition of 18 new aircraft in 2024 and a total of 242 orders, will significantly reduce fuel and maintenance costs while improving the customer experience. Thanks to lower unit costs and greater operational reliability, we expect the NOPAT margin to recover to around 5–6% by 2027. However, the ongoing wage pressure and high maintenance costs are likely to prevent a return to the pre-pandemic highs of 8–9%.

Lufthansa's **net working capital** remains structurally high, as advance ticket sales generate significant deferred revenue and liquidity. In 2024, these advance payments contributed to strong cash flow despite lower EBIT. As this mechanism is stable, no significant changes in working capital intensity are expected. Digitalisation will slightly improve efficiency, while net working capital is likely to remain slightly negative and continue to support free cash flow and fleet investments.

The **net long-term assets turnover** ratio is characterised by the Group's capital-intensive activities. Lufthansa's gross capital expenditure rose to €3.7 billion in 2024, primarily because of the investment in new aircraft and MRO facilities. These investments will initially lead to a faster increase in the asset base than in revenues, resulting in a temporary decline in return on sales to around 0.55x by 2025. In the medium and long term, modern and fuel-efficient aircrafts will improve load factors, reduce downtime and expand capacity at lower cost, so that we expect the ratio to improve to 0.60 by 2027.

Leverage management remains a strategic priority in Lufthansa's financial policy. After repaying all government aid by 2023, the Group closed 2024 with net debt of €5.7 billion and a net debt ratio of around 50%. According to the annual report, management's goal is to maintain an investment-grade profile while balancing disciplined capital allocation with the necessary fleet expansion. Cash flow from operating activities amounted to €3.9 billion in 2024, enabling solid self-financing capacity. While aircraft purchases and the integration of ITA could lead to a slight increase in the debt ratio in the short term, we believe that the Group's strong liquidity position and focus on debt reduction through profit growth will support a stable net debt ratio of around 50% over the forecast period.

Interest expenses after tax will increase moderately due to higher market interest rates (Statista, 2025) and refinancing requirements in connection with fleet renewal. Lufthansa's mix of fixed-rate and hedged liabilities partially mitigates this effect, but average financing costs are expected to rise slightly from around 1.5% of invested capital in 2023 to around 2% in 2026. We believe that the company's diversified financing base, which includes bonds, leases and export credit financing, ensures a manageable interest rate risk. With debt stabilising and the interest rate environment normalising, financing costs after tax are expected to level off after 2026.

5. Conclusion

The report highlights that Lufthansa, despite continuing to face persistent structural costs and increasing pressure from low-cost carriers, has regained financial stability. Its accounting and financial approach particularly regarding depreciation policies and asset management, reflects a conservative stance. This results in accelerated expense recognition, offering certain tax benefits but also leading to lower reported profits. In our analysis, we extend the useful life of assets from 20 to 22 years, which lowers annual depreciation lifts reported earnings. Return on Equity (ROE) and Return on Invested Capital (ROIC) have risen since 2022, indicating effective capital management by the German airline. In addition, strong ticket sales have contributed to a steady cash flow, helping the company stabilize its efficiency and liquidity indicators. Nevertheless, growing competition from low-cost carriers and persistent cost pressures remain key concerns. Looking ahead, the forecast suggests that Lufthansa will continue to invest consistently in sustainability and technological innovation, aiming to safeguard and enhance its long-term competitiveness. However, inflationary trends and intensified price competition are expected to present ongoing short-term challenges.

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Appendix

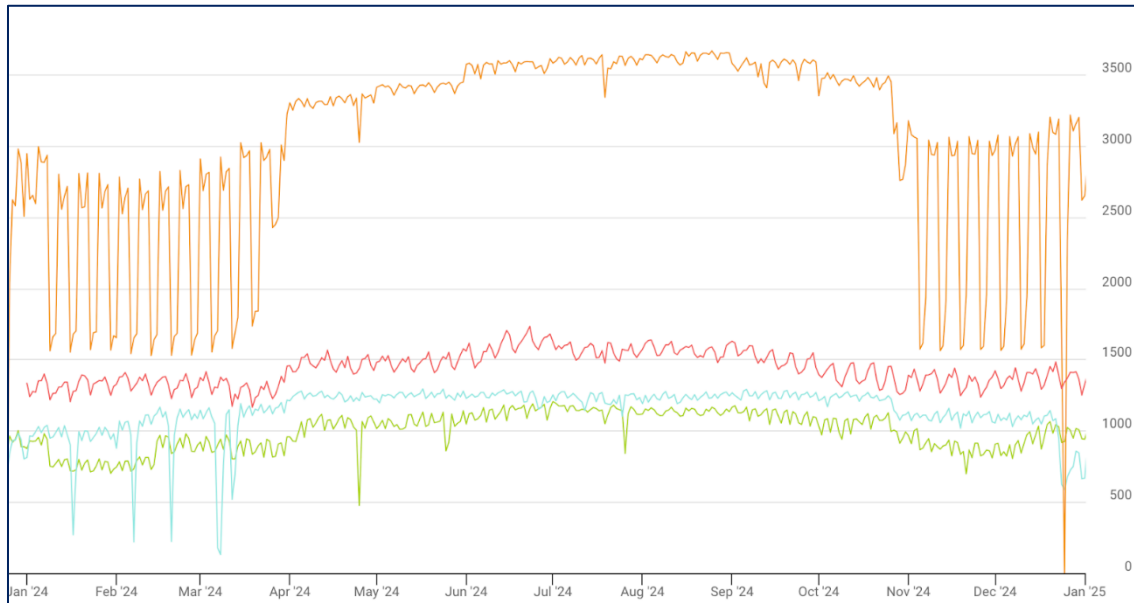


Figure 1: Number of flights in 2024 by airline (data from EUROCONTROL, 2025). The blue line represents Lufthansa, the green line represents Air France, the red line represents Turkish Airlines, and the orange line represents Ryanair

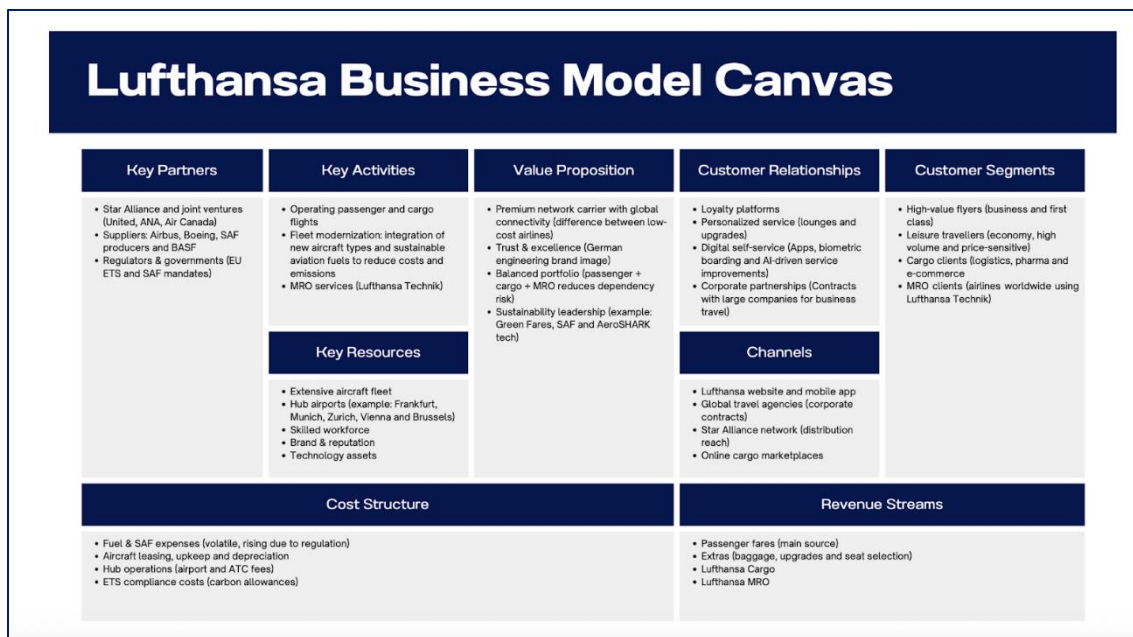


Figure 2: Lufthansa Business Model

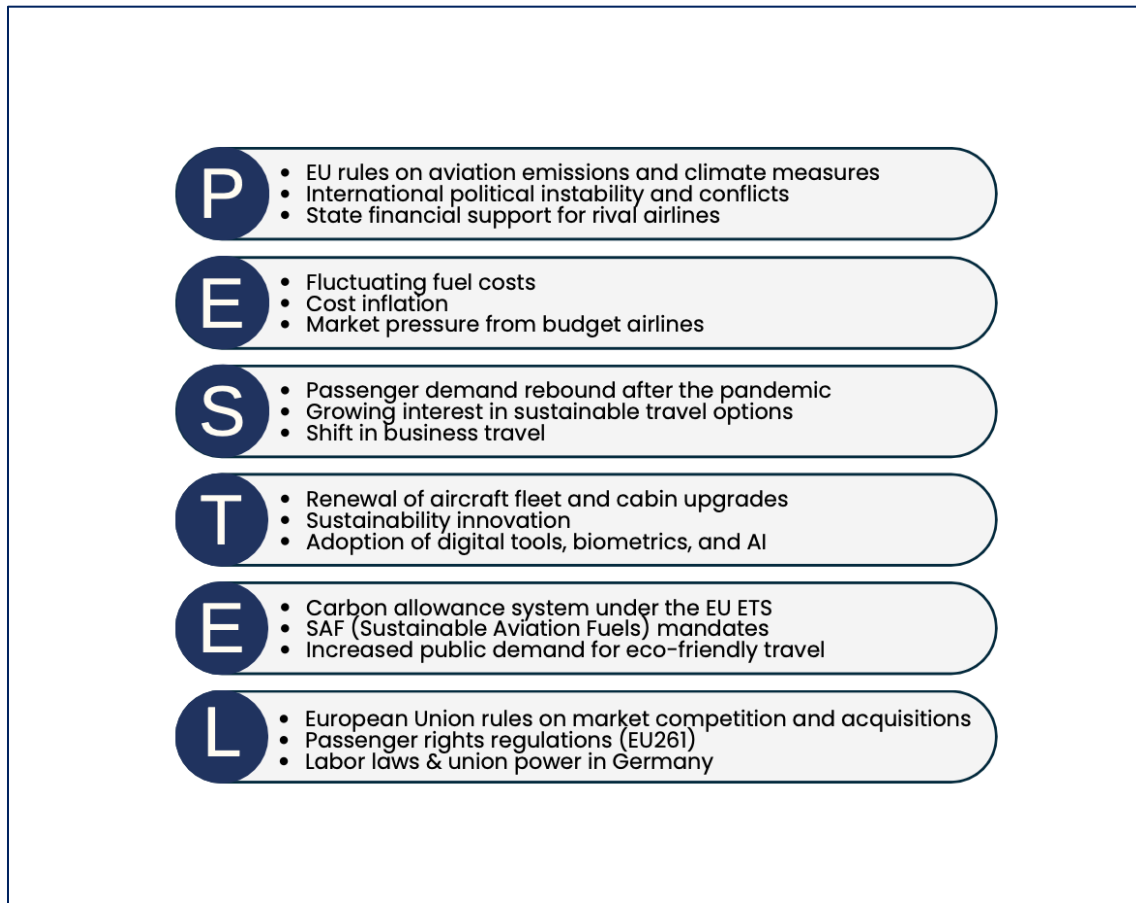


Figure 3: PESTEL Analysis for Lufthansa



Figure 4: SWOT Analysis for Lufthansa

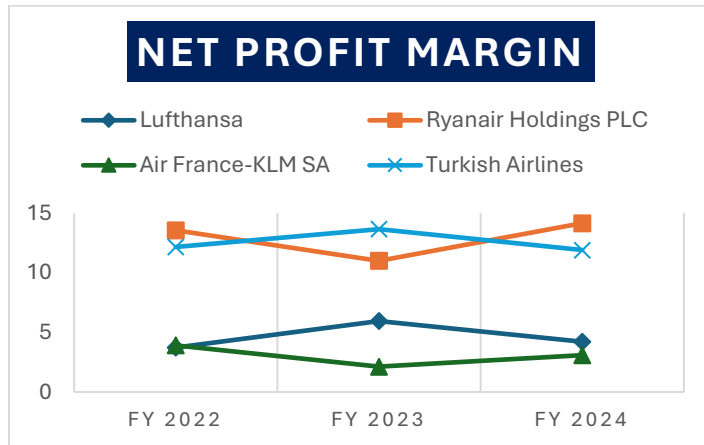


Figure 5: Net Profit Margin of Lufthansa and Peers

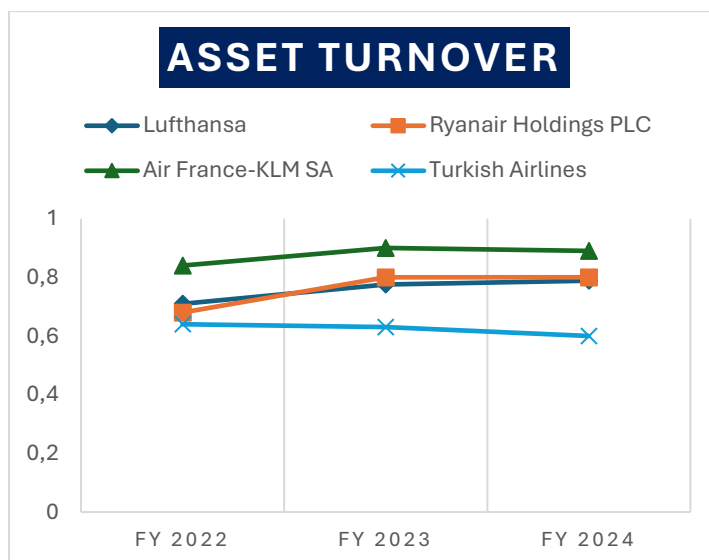


Figure 6: Asset Turnover of Lufthansa and Peers

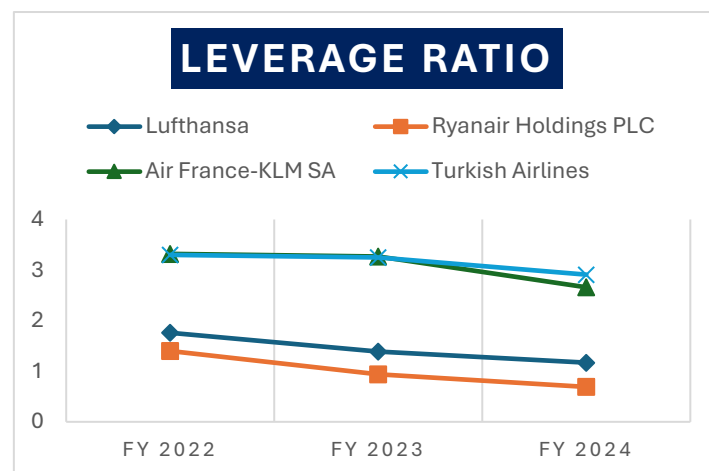


Figure 7: Leverage Ratio of Lufthansa and Peers

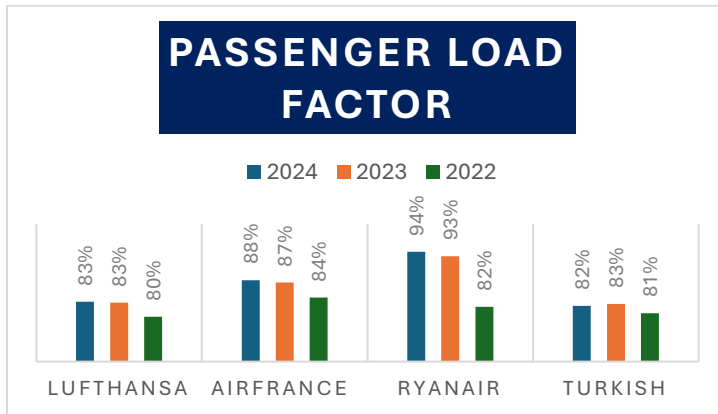


Figure 8: Passenger Load Factor of Lufthansa and Peers

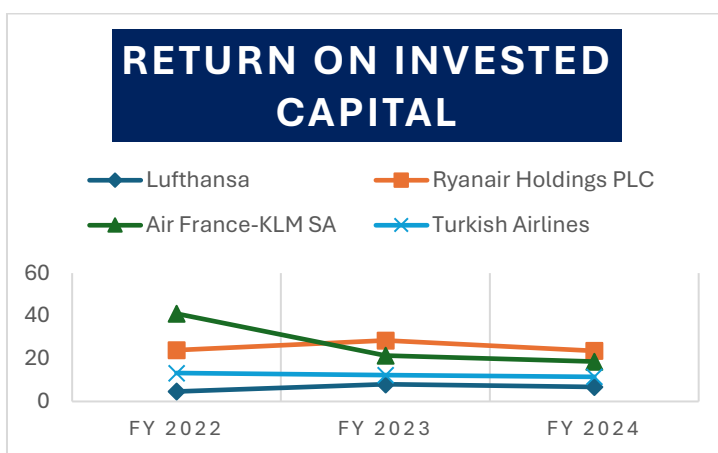


Figure 9: Return on Invested Capital of Lufthansa and Peers