# Lufthansa
Annual Report 2010

Vision

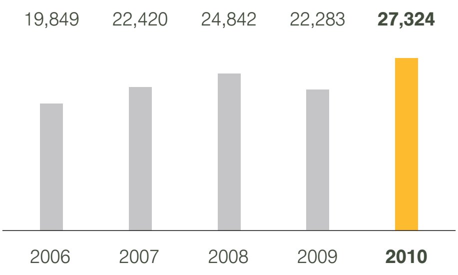
## Key figures Lufthansa Group

| | | **2010** | 2009 | Change in % |
|---|---|---|---|---|
| **Revenue and result** | | | | |
| Total revenue | €m | 27,324 | 22,283 | 22.6 |
| of which traffic revenue | €m | 22,268 | 17,604 | 26.5 |
| Operating result | €m | 876 | 130 | 573.8 |
| EBIT | €m | 1,335 | 191 | 599.0 |
| EBITDA | €m | 3,049 | 1,838 | 65.9 |
| Net profit/loss | €m | 1,131 | –34 | |
| **Key balance sheet and cash flow statement figures** | | | | |
| Total assets | €m | 29,320 | 26,392 | 11.1 |
| Equity ratio | % | 28.4 | 23.5 | 4.9 pts |
| Net indebtedness | €m | 1,596 | 2,195 | –27.3 |
| Cash flow from operating activities | €m | 3,075 | 1,991 | 54.4 |
| Capital expenditure (gross) | €m | 2,273 | 2,405 | –5.5 |
| **Key profitability and value creation figures** | | | | |
| Adjusted operating margin[1)] | % | 4.1 | 1.4 | 2.7 pts |
| EBITDA margin | % | 11.2 | 8.2 | 3.0 pts |
| CVA | €m | 71 | –858 | |
| CFROI | % | 9.4 | 4.2 | 5.2 pts |
| **Lufthansa share** | | | | |
| Share price at year-end | € | 16.36 | 11.75 | 39.2 |
| Earnings per share | € | 2.47 | –0.07 | |
| Suggested dividend per share | € | 0.60 | – | |
| **Traffic figures [2)]** | | | | |
| Passengers | thousands | 91,157 | 77,315 | 17.9 |
| Freight and mail | thousand tonnes | 2,023 | 1,712 | 18.2 |
| Passenger load factor | % | 79.3 | 77.9 | 1.3 pts |
| Cargo load factor | % | 68.0 | 60.6 | 7.4 pts |
| Flights | number | 1,021,266 | 899,928 | 13.5 |
| **Employees** | | | | |
| Average number of employees | number | 117,066 | 112,320 | 4.2 |
| Employees as of 31.12. | number | 117,019 | 117,521 | –0.4 |

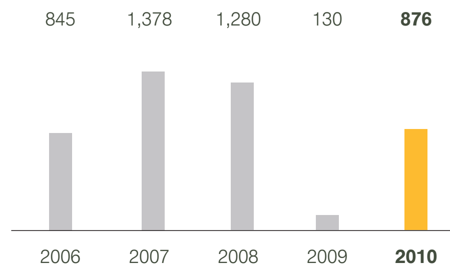
[1)] Performance indicator to enable comparison with other airlines: (operating result + write-backs of provisions) / revenue.
[2)] Lufthansa Group without Germanwings.

Date of publication: 17 March 2011.

**Revenue** in €m




**Operating result** in €m



# Lufthansa Group overview

## Key figures business segments

| Passenger Airline Group | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 20,912 | 24.5 |
| of which external revenue | €m | 20,233 | 24.7 |
| Operating result | €m | 436 | – |
| Adjusted operating margin | % | 3.0 | 2.2 pts |
| Segment result | €m | 572 | – |
| EBITDA[1] | €m | 2,601 | 81.9 |
| CVA | €m | –198 | 71.4 |
| Segment capital expenditure | €m | 2,047 | 7.9 |
| Employees as of 31.12. | number | 57,157 | –1.6 |

[1] Before profit/loss transfer from other shareholders.

**Passenger Airline Group** The airlines in the Passenger Airline Group made good use of the positive demand trend. Passenger numbers went up sharply and at the same time the airlines continued their cost management, realising important synergies. Increased profitability meant that a sound operating profit was earned again, in spite of non-recurring expenses.

| Logistics | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 2,795 | 43.3 |
| of which external revenue | €m | 2,770 | 43.7 |
| Operating result | €m | 310 | – |
| Adjusted operating margin | % | 11.4 | 19.4 pts |
| Segment result | €m | 330 | – |
| EBITDA | €m | 445 | – |
| CVA | €m | 233 | |
| Segment capital expenditure | €m | 21 | –16.0 |
| Employees as of 31.12. | number | 4,517 | 0.6 |

**Logistics** The earnings turnaround was even more pronounced in the Logistics segment. Lufthansa Cargo benefited particularly from the global economic recovery and the boom in German exports. The measures taken in prior years to safeguard earnings continued to have a strong effect. Following an operating loss in the previous year, Lufthansa Cargo reported record profits in 2010.

| MRO | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 4,018 | 1.4 |
| of which external revenue | €m | 2,373 | 3.3 |
| Operating result | €m | 268 | –15.2 |
| Adjusted operating margin | % | 7.4 | –0.9 pts |
| Segment result | €m | 319 | –3.6 |
| EBITDA | €m | 412 | –5.5 |
| CVA | €m | 172 | 4.9 |
| Segment capital expenditure | €m | 67 | –44.6 |
| Employees as of 31.12. | number | 20,159 | 1.8 |

**MRO** Lufthansa Technik is a late-cycle player and so suffered from still hesitant demand in the MRO market in 2010. Thanks to greater production flexibility and a broader product portfolio it was nevertheless able to continue its growth path and increase revenue. Lufthansa Technik again generated a strong operating profit, but as expected, it was below the record set the previous year.

| IT Services | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 595 | –1.7 |
| of which external revenue | €m | 232 | –4.9 |
| Operating result | €m | 10 | –37.5 |
| Adjusted operating margin | % | 1.8 | –1.0 pts |
| Segment result | €m | –6 | |
| EBITDA | €m | 45 | –16.7 |
| CVA | €m | –23 | |
| Segment capital expenditure | €m | 36 | –30.8 |
| Employees as of 31.12. | number | 2,935 | –3.0 |

**IT Services** Lufthansa Systems offers IT solutions for the airline industry and, despite the still difficult environment for the sector, was able to win new customers and orders. Revenue and earnings nevertheless remain under pressure. In 2010 a programme was therefore launched to reorient the company. Steps to cut costs and increase revenue are intended to shore up its competitiveness sustainably.

| Catering | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 2,249 | 7.0 |
| of which external revenue | €m | 1,716 | 8.0 |
| Operating result | €m | 76 | 5.6 |
| Adjusted operating margin | % | 3.4 | –0.1 pts |
| Segment result | €m | 87 | 16.0 |
| EBITDA | €m | 174 | 45.0 |
| CVA | €m | –28 | 58.8 |
| Segment capital expenditure | €m | 38 | –34.5 |
| Employees as of 31.12. | number | 28,499 | 0.4 |

**Catering** LSG Sky Chefs increased its revenue and confirmed its global market leadership in airline catering by expanding its range and signing new partnerships. Its operating profit was even higher than the previous year's, which had been buoyed by non-recurring factors. The business segment benefited from higher passenger numbers and the recovery in the premium segment.

## 2010 figures

**27.3**
Revenue in EUR bn

**876**
Operating result in EUR m

**1,625**
Free cash flow in EUR m

**71**
Cash value added in EUR m

**39.2**
Total shareholder return in per cent

## Contents



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## The vision to shape the future

On solid foundations – and yet always a step ahead. This is the combination that ensures our continued success. Air transport is and remains a growth market in which we intend to keep developing financially and qualitatively in a challenging environment. We will stay true to our quality ethos in future too – with an excellent brand, a strong group of airlines and service companies, sustainable value creation and great innovation.

*Ladies and Gentlemen,*

On 1 January 2011 I took over from Wolfgang Mayrhuber as Chairman of the Executive Board and CEO of Deutsche Lufthansa AG. Together with the Executive Board colleagues Stephan Gemkow and Stefan Lauer, Wolfgang Mayrhuber and I take responsibility for an eventful, demanding, but ultimately successful financial year.

At the beginning of the year we were still battling with the effects of the financial and economic crisis, as well as with a hard winter, which caught us again at the end of 2010, the pilots' strike and several days of airspace closures due to the volcanic eruption in Iceland. All these events weighed heavily on our profits. Thanks to the tangible market upturn and the great commitment of our staff, Lufthansa recovered swiftly in the second half and closed the year much better than originally expected. Operating profit came to EUR 876m, which is more than five times higher than in the previous year. Net profit also did extremely well in 2010, amounting to about EUR 1.1bn. This impressive performance results from strong sales and revenue development in international passenger traffic and in cargo, from the positive effects of our cost-cutting measures and from realising further synergy potential in our airline group. This positive business performance overall and the economic outlook for 2011, which is currently bright, mean that Lufthansa's Executive Board and Supervisory Board can propose a dividend payment of 60 cents per share at the Annual General Meeting to be held on 3 May 2011.

The 2010 financial year showed that Lufthansa has learned from past crises and can draw on a wealth of experience to tackle them. Lufthansa has quick reactions and responded to market changes with the utmost flexibility in terms of capacities and costs. Lufthansa is well positioned – strategically, financially and operationally. We have demonstrated that with our accomplished and highly committed team of staff and managers we can increase our lead over the competition – both in times of crisis and thereafter.

This is corroborated by a brief look at our business segments. All of them were able to close the financial year 2010 with a positive operating result. Developments at the Passenger Airline Group were defined by the noticeable market recovery, above all in the premium segment. In intercontinental traffic Lufthansa again expanded its position and gained additional market share. Last year our first four A380s entered service, just in time for the resurgence in passenger demand. We continue to make savings, however. The programme to safeguard earnings, Climb 2011, is running as before and will deliver annual savings of EUR 1bn.

The performance of our group airlines was mixed. SWISS tripled its operating profit. Austrian Airlines and bmi are still working flat out at their restructuring. The first successes are visible and are already having an effect on the two airlines' results. Germanwings, Lufthansa's low-cost subsidiary, continued on its growth path, but one-off factors sent its operating result into the negative.

Lufthansa Cargo reported record earnings in 2010. This represents an impressive about-turn for our freight company following its loss in 2009 due to the crisis. Lufthansa Technik was the last of our business segments to be hit by the effects of the global economic crisis, and despite lost revenue at the start of the year it generated a substantially positive operating result. Lufthansa Systems grappled with a difficult economic environment for the IT sector and could only partly make good the effect of lost revenue on its bottom line by continuing its cost-cutting measures. The Jetzt! programme launched in mid 2010 is intended to improve revenue and earnings in the short and medium term. LSG Sky Chefs benefited from increased demand for catering services and closed the 2010 financial year with an operating profit above that of the previous year.

All in all we can thus be wholly satisfied with the Company's performance and results in the financial year 2010. The Lufthansa share also reflected the upward trend. In a good year for stock markets it rose more than twice as much as the DAX, appreciating by some 39 per cent in 2010.

The Lufthansa Group stands by its principles – solid financial structures, quality and customer focus, innovation and long-term value creation – even at difficult times, and this has proved its worth. These are the foundations for the sustainable success and the profitable growth of your Company. The sound performance in 2010 and the positive economic outlook are grounds for starting the year 2011 with confidence. Lufthansa's new management crew has set itself some ambitious targets. Your Company will still be led by four Executive Board members. New to the board is Carsten Spohr, who heads Lufthansa German Airlines.

We know that the 2011 financial year will not be a picnic. Competition in Europe and on long-haul routes is getting tougher – especially towards Asia and Africa. The air traffic tax levied in Germany since 1 January 2011 is an unpleasant blow, particularly for German and European airlines and therefore for Lufthansa and our customers too. The cost of kerosene is rising again to record heights. At the same time, political unrest, terrorist attacks, wars and environmental catastrophes represent additional risks for our industry. We will nevertheless do everything we can to pursue Lufthansa's successful course, so that your Company can continue to grow sustainably and in order to retain your trust in us in the future.

Frankfurt, March 2011

Christoph Franz

Christoph Franz
Chairman of the Executive Board of Deutsche Lufthansa AG


**The Executive Board of Deutsche Lufthansa AG in fiscal year 2010** (from left):
Stefan Lauer, Wolfgang Mayrhuber, Christoph Franz, Stephan Gemkow

## ↗ Wolfgang Mayrhuber

**Chairman of the Executive Board and CEO until 31 December 2010**

Wolfgang Mayrhuber, born on 22 March 1947 in Waizenkirchen, Austria, was Chairman of the Executive Board of Deutsche Lufthansa AG from June 2003 until December 2010. After studying engineering at the Höhere Technische Bundeslehranstalt Steyr, Austria, and at the Bloor Institute in Canada, Wolfgang Mayrhuber worked for Lufthansa for 40 years. As a project manager in the early 1990s he made a major contribution to turning the Group around. In October 1994 he was appointed Chairman of the Executive Board of the newly established Lufthansa Technik AG. On 1 April 2002 he was also made Deputy Chief Executive of the Lufthansa Group. On 18 June 2003 he took over the position of Chairman of the Executive Board and CEO. Under his leadership the Group focussed on building an airline group by acquiring and integrating other companies and strengthening the other business segments, as well as on extending the Star Alliance.

## ↗ Stefan Lauer

**Chief Officer Group Airlines and Corporate Human Resources**

Stefan Lauer, born on 24 March 1955, has been a member of the Executive Board of Deutsche Lufthansa AG since 1 August 2000. After qualifying as a lawyer in 1983 he began his career working for the Frankfurt City Council. In 1986 he became Private Secretary to the Mayor. On 1 January 1990, he joined Deutsche Lufthansa AG as head of the executive liaison department. In early 2000 he became Chairman of the Executive Board and CEO of Lufthansa Cargo AG, having held the post of Board member for sales and marketing at Lufthansa Cargo AG since 1 January 1997. In addition to his duties on the Executive Board of Lufthansa, Stefan Lauer is a member of the steering committees of BDI, the federation of German industry, and BDA, the German federation of employers' associations. He is also Chairman of the Executive Board of the German Association for Personnel Management.

## ↗ Carsten Spohr

**Chief Officer Lufthansa German Airlines since 1 January 2011**

Carsten Spohr, born on 16 December 1966, has been a member of the Executive Board of Deutsche Lufthansa AG and CEO of Lufthansa German Airlines since 1 January 2011. Following a degree in engineering and business administration, Carsten Spohr obtained his commercial pilot's licence before completing the trainee programme at Deutsche Aerospace AG. In 1994 Spohr returned to Deutsche Lufthansa with responsibility for personnel marketing. From 1995 to 1998 he worked as assistant to the CEO before becoming head of regional partner management in August 1998. In October 2004 Carsten Spohr was appointed to the Board of Lufthansa Passenger Airlines. As of 15 January 2007 he was made Chairman of the Executive Board and CEO of Lufthansa Cargo AG. In September 2010 the Supervisory Board appointed him as a member of the Executive Board and CEO of Lufthansa German Airlines with effect from 1 January 2011.

## ↗ Christoph Franz

**Chairman of the Executive Board and CEO since 1 January 2011**

Christoph Franz, born on 2 May 1960, has been Chairman of the Executive Board and CEO of Deutsche Lufthansa AG since 1 January 2011. After studying engineering and business administration in Germany, France and the USA, he began his career at Deutsche Lufthansa AG in 1990, working on numerous projects in the areas of strategy, sales and controlling. He played a key role in the turnaround of the Company in the 1990s. In 1994 he moved to Deutsche Bahn AG. On 1 July 2004 he was appointed Chief Executive Officer of Swiss International Air Lines AG. This was followed by the appointment as of 1 June 2009 as Deputy Chairman of the Executive Board of Deutsche Lufthansa AG and at the same time as Chairman of Lufthansa German Airlines. In September 2010 the Supervisory Board appointed Christoph Franz as Chairman of the Executive Board and CEO of Deutsche Lufthansa AG with effect from 1 January 2011.

## ↗ Stephan Gemkow

**Chief Officer Finances and Aviation Services**

Stephan Gemkow, born on 23 January 1960, has been a member of the Executive Board of Deutsche Lufthansa AG since 1 June 2006. He has a degree in business studies and started work as a management consultant at BDO Deutsche Warentreuhand AG in 1988. His career at Lufthansa began in 1990 in Group organisation and strategic corporate development. After holding various management posts in operational areas he became Area Sales Manager in Washington D.C. in 1994. In 1997 he was made head of Investor Relations and in 2001 head of Group finances, before being appointed to the Executive Board of Lufthansa Cargo AG in 2004. In addition to his duties on the Lufthansa Executive Board, Stephan Gemkow chairs the supervisory boards of numerous Group companies. Stephan Gemkow is also a member of the Stock Exchange Expert Commission.

# “With Christoph Franz there is a man at the helm in whom I have every confidence.”

**Wolfgang Mayrhuber and Christoph Franz in an interview about the CEO changeover that took place on 1 January 2011.**

» **Mr Mayrhuber, the year 2010 turned out much better than was originally expected. How would you sum up your last year as CEO of Lufthansa?**
*Mayrhuber:* Indeed, we can look back on what was really a very successful year. After the difficult crisis year in 2009 and some unforeseeable events in 2010 – such as the flight ban following the volcanic eruption in Iceland in the spring – it didn’t look that way to start with. We managed to fly out of the storm faster than expected, metaphorically speaking. Altogether, all the business segments achieved positive results and for the airborne companies we can really talk about a genuine recovery in earnings.

» **What were the reasons for this achievement?**
*Mayrhuber:* One major driver was increased demand, both in the freight segment and in passenger traffic, here above all in First and Business Class. Then there was our financial strength in conjunction with our crisis management. This meant we were able to keep investing in the future of the Company even during the crisis and despite a strict savings policy. Now we are enjoying the benefits of that to a greater extent than many of our competitors.

» **And if you look back a little further, what conclusions would you draw from seven years at the head of Lufthansa?**
*Mayrhuber:* In any event they were certainly very good years, and objectively speaking, I can also say successful ones. Today, Lufthansa is not only operationally, but also financially First Class. And when I look back and see the changes that have taken place over the last seven and a half years, it is still just a small step compared with the way the Lufthansa crane and the industry as a whole have evolved during the course of my entire career with the Company. I was a Lufthansa man for 40 years, remember! I witnessed many milestones in that time, such as the Company’s establishment as an aviation group, the foundation of Star Alliance and the strategic development in Munich.

» **What distinguishes Lufthansa at the end of your era as Chairman of the Executive Board and CEO?**
*Mayrhuber:* The business has kept on getting faster and more international over the years – and the Company has kept developing accordingly. Today we are a well-balanced aviation and airline Group on a growth path – and I was able to contribute to that. But this kind of achievement is never just down to one person, it is the result of intensive teamwork. For that I express my thanks to my colleagues on the Executive Board, the management team, all the employees, and the business partners and customers who have accompanied me during my time at Lufthansa.

» **Is there any work-in-progress that you are leaving for your successor?**
*Mayrhuber:* I’ve never seen a company where there wasn’t any work-in-progress! And looking over to our neighbours at Fraport, with all the excavations and cranes for building the terminal and the runway, one can see that work-in-progress always brings movement and progress with it. Things never stand still at Lufthansa either. And if you’re always moving, you’re always coming up against new challenges too. In our case it is growing competition, for example, which keeps us on our toes in European traffic, but increasingly also on long-haul routes thanks to the unwarranted aircraft orders from Gulf carriers. The cost management programmes also need to be pursued with vigour in all segments, even if we have the economic wind at our backs, as does the integration of our newest company acquisitions. But all this gives me no cause for concern – with Christoph Franz there is a man at the helm in whom I have every confidence. With him and the rest of the Executive Board team, Lufthansa will stay on the right track.

» **Mr Franz, what do you see as the greatest challenges in your new position as CEO?**
*Franz:* First of all I would like to thank Wolfgang Mayrhuber, because I am fortunate enough to start my job on a foundation of outstanding structures. Under his leadership, in the last few years this Company has really been made ready for the future.

**Wolfgang Mayrhuber**
Chairman of the Executive Board and CEO until 31 December 2010

**Christoph Franz**
Chairman of the Executive Board and CEO since 1 January 2011

He took important decisions in terms of growth and profitability and set the appropriate wheels in motion. I now see my role primarily in pursuing this course energetically together with the new Executive Board team and in continuing to develop the Group.

**» Future growth requires increasing profits. How is that to be achieved specifically in the years ahead?**

*Franz:* By concentrating on our main markets and our strategic development. The airline industry is in a state of flux. This can quickly give rise to development opportunities that with a keen eye and by moving swiftly we can exploit – by developing our own networks, with our existing partners or by means of new partnerships and equity investments, insofar as they make strategic and financial sense. But above all we are committed to bringing our costs down to a sustainable competitive level – and at the same time to investing further in the quality of our product, which is already very high. This applies to all the business segments in the Group. Two examples from 2010 show how this circle can be squared: we were able to increase the efficiency of our fleet substantially with the A380, and with the new cabin concept for European traffic we were able to create additional seating capacities and give passengers more room at the same time.

**» You have already set some ambitious targets, such as achieving an operating margin of 8 per cent in the passenger business. Are you not putting yourself under a lot of pressure right at the beginning of your term of office?**

*Franz:* It's simple: if you don't have ambitious goals, you can't achieve any real success. We certainly mustn't start building castles in the air, but why shouldn't we have the self-confidence to set our own standards so that we can develop in a growth market under our own strength? It's not something that can be realised in the next year or two, but in the medium term we have to increase profits considerably in passenger traffic, which is the core business of our Group. Otherwise it will be difficult to finance the necessary growth in the network, in the fleet and in jobs to keep up with the competition.

**» How do you reconcile the strict cost cutting and the announcement that 4,000 new employees are to be recruited?**

*Franz:* The fact that we need so many new staff is a very positive side effect of our growth trajectory. The steps we are taking to reduce our unit costs and the recruitment of new staff are not mutually exclusive. Our savings programmes are aimed at increasing efficiency. By expanding our seating capacities, with larger regional planes for instance, more seats in the A320 or on intercontinental routes with the A380, we need more staff in the cockpit and the cabin. And rising passenger numbers mean we also need more people on the ground. Furthermore, despite all the cost-cutting we remain a quality airline with a premium mindset – and that requires correspondingly trained and motivated personnel.

**» Mr Franz, what are you looking forward to most at Lufthansa – and what will you miss most, Mr Mayrhuber?**

*Franz:* What I'm looking forward to is what I already have every day: a great feeling when I come to Lufthansa in the morning. That isn't because our offices are such architectural gems or for any other cosmetic reasons, but because of the people who make Lufthansa what it is – a successful company with a great heritage and a great future.

*Mayrhuber:* I second that. Lufthansa is one of those very special companies that has a soul and whose name alone can trigger positive emotions. I am very proud to have been a part of it for so long. But at the same time I am glad that a new chapter is beginning and I am very excited about what the next few years hold for me. But of course Lufthansa will always remain in my affections.

## What we have achieved:

2010 was a very successful year:

- Despite numerous one-off expenses we achieved a great result for the year, with positive earnings contributions from all segments. Austrian Airlines and bmi have cut their losses considerably thanks to their restructuring.
- In the first year after the crisis our financial indicators have made notable progress back towards their targets or have already reached them. We have created value again.
- Our rating has stabilised and the outlook was upgraded.
- The Lufthansa share price rose by 39 per cent – more than twice as much as the DAX.
- On the basis of this performance we can again propose a dividend payment for 2010 of EUR 0.60.

It also reflects the success of our chosen course, which is aimed at profitable growth:

- In the recent years of crisis Lufthansa kept its opportunities open. Thanks to its far-sighted activities the Group is now able to take its full share of the dynamic recovery in demand.
- Their flexibility allowed our business segments to make adjustments at short notice, both in crisis management and now again in the upswing. Our strong financial profile meant we had various options available at all times.
- The ongoing fleet renewal has reduced fuel consumption again and further decoupled $CO_2$ emissions from traffic growth.
- Lufthansa not only developed stability in the crisis, but also much greater profitability in the upswing.

## What still has to be done:

- To secure our growth path and our value creation durably we must earn an appropriate operating margin again.
- This means that all segments have to consistently pursue their programmes to increase earnings, notwithstanding the economic upturn.
- We have to keep sharpening our profile in growth regions. After expanding successfully on the African continent we are now turning the focus of our passenger traffic activities to Latin America and Asia.
- At the same time we have to hold our ground in an ever more international market, which is characterised by intense competition and dominated by increasingly unequal conditions and regional circumstances.

# Vision

Deutsche Lufthansa AG demonstrates ↗ vision: we stick assiduously to our course, which is defined in terms of sustainable and profitable growth. In recent years and despite the crisis we have extended our leadership in long-haul ↗ growth markets and stabilised our market share on short- and medium-haul routes. This has enabled us to increase the profitability of our business considerably. With excellent ↗ products we meet our customers' higher demands in a changing competitive environment. To do so we rely on our successful model of a modular airline and aviation ↗ Group, which improves the performance of each and every company in it. In a strong corporate group with economies of scale and a global network to realise synergies and transfer knowledge systematically the group airlines and service segments can apply their individual strengths with greater force. By striving continuously for safety, quality and innovations that make our business more socially sustainable and reduce its environmental impact we use ↗ leading-edge technology to improve our opportunities in the market.

Growth on long-haul routes:
destination Rio de Janeiro in South America.

# The vision to exploit the right growth opportunities.

// Remaining focussed on the way forward and ensuring that potential is realised – these are the defining features of our strategy. This success can be seen in the way we have extended our lead in the long-haul sector and secured market share in European traffic, as well as in the dynamic recovery of our cargo business.

# Markets

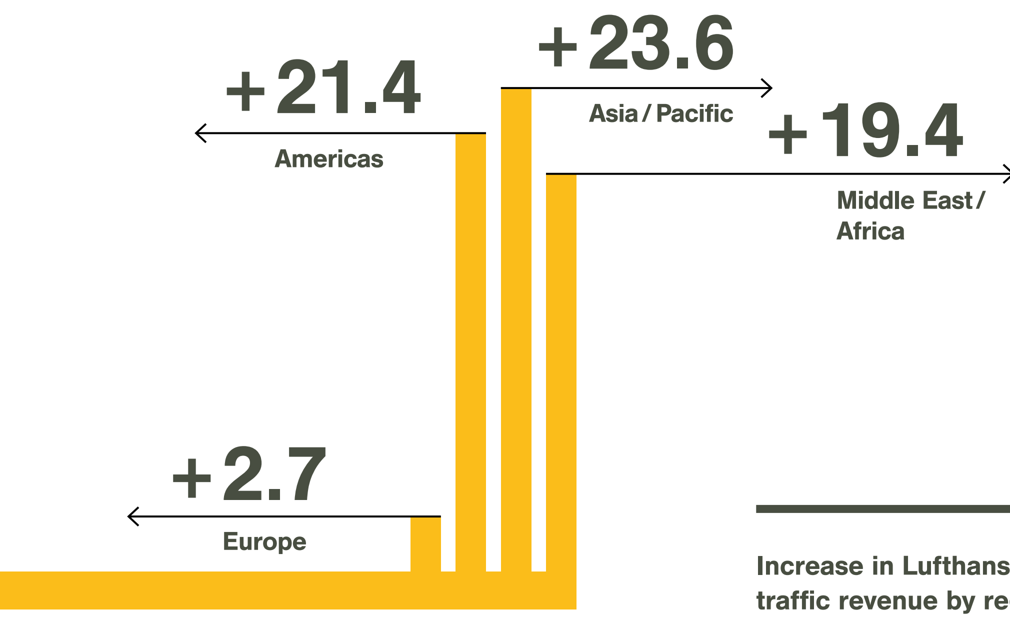
**Staying balanced** // Flexibility is one of our greatest strengths. We actively tackled the changes that the crisis made necessary – by restructuring European traffic for instance, for example with the EU-DIRection project that reduces unit costs in decentralised traffic. In our other business segments and airline group companies we are also carrying out cost management and turnaround projects energetically. At the same time we are strengthening our market position and exploiting specific growth opportunities, for instance by continuing to renew our fleet and open up new markets.

Flexibility makes us strong: return to profitability in European traffic.

Bogotá is back in the route network of Lufthansa Passenger Airlines.

A powerful combination: Lufthansa and Austrian Airlines.

// Despite reducing the number of flights, Lufthansa Passenger Airlines was able to expand available seat kilometres considerably in 2010 compared with the previous year. This is principally the result of the ongoing fleet restructuring and focussed network expansion.




**Increase in Lufthansa Passenger Airlines traffic revenue by region 2009 versus 2010 in %**

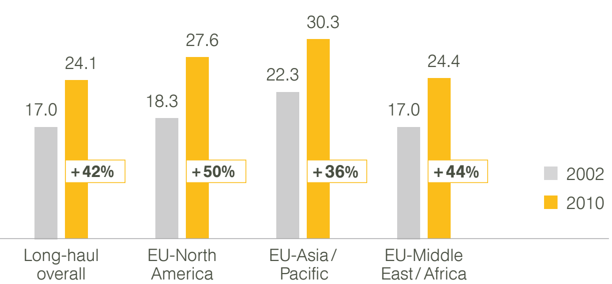
**New horizons** // We are reinforcing our leading position on long-haul routes by intensifying our partnerships in established markets, such as with the joint venture Atlantic++. In addition we are showing a presence in growth regions like South and Central America, restoring Bogotá and Rio de Janeiro to our route network, for instance, and launching cooperation agreements with the carriers TAM, Avianca-TACA and Copa Airlines.

**Well placed** // Our leading position in our European home market provides an ideal starting point for opening up markets worldwide. On the European mainland, too, we continue to add new interesting destinations to our network. In the promising Eastern European market, for instance, we hold a prominent position by combining the powerful route networks of Lufthansa Passenger Airlines and Austrian Airlines.

// Our strong position on long-haul routes pays off: 2010 saw rapid growth, especially thanks to the price increase and greater demand for First and Business Class tickets. Average yields on intercontinental routes are already back up at levels from before the financial crisis.

Africa is a rapidly growing market for air transport.

**Growth in market share among AEA airlines for the Passenger Airline Group, 2002–2010 in percentage points**




**A continent with potential** // Africa has one of the fastest growth rates for air traffic worldwide. We are well placed to secure our share of it. With 18 African destinations, Brussels Airlines has an especially strong presence in this market for example. Lufthansa Passenger Airlines included Pointe Noire (Republic of the Congo) in the flight plan in 2010. Together with our partners our route network now comprises 32 destinations in this growth region, with more planned. Star Alliance is also growing in Africa – we already have strong partners there in South African Airways and Egypt Air. Ethiopian Airlines is expected to join the world's leading airline alliance in 2011 as well.


Competitive advantage thanks to far-sighted crisis management.

**Market recovery employed** // Lufthansa Cargo was able to make optimal use of the economic upturn in 2010. In fact, the successes are also due to external influences, such as increased demand in the freight sector. Nonetheless, much of the success is home-grown and the result of crisis management in earlier years. Bold capacity management left the structures intact and enabled Lufthansa Cargo to make better use of the upswing than many of its competitors. The strategy of seizing specific market opportunities and investing in growth markets also paid off.

With SWISS from Zurich to the world.

With Brussels Airlines to the African continent.

**1. SWISS** // SWISS has expanded its network. It has offered the route Zurich–San Francisco since June 2010. Since early 2010 SWISS has flown six times a day from Geneva to London Heathrow. The Geneva–Madrid route was also included in the flight plan and the frequency of connections from Zurich and Geneva to other destinations was increased.

**2. Austrian Airlines** // Two important destinations are back in Austrian Airlines' flight plan as of 2010: Dnipropetrovsk, the third largest city in Ukraine, and the Indian metropolis Mumbai.

**3. Brussels Airlines** // Adding to its already extensive flight plan for the African continent, Brussels Airlines included Accra, Cotonou, Ouagadougou and Lomé as new destinations in 2010.

# 70.5 million

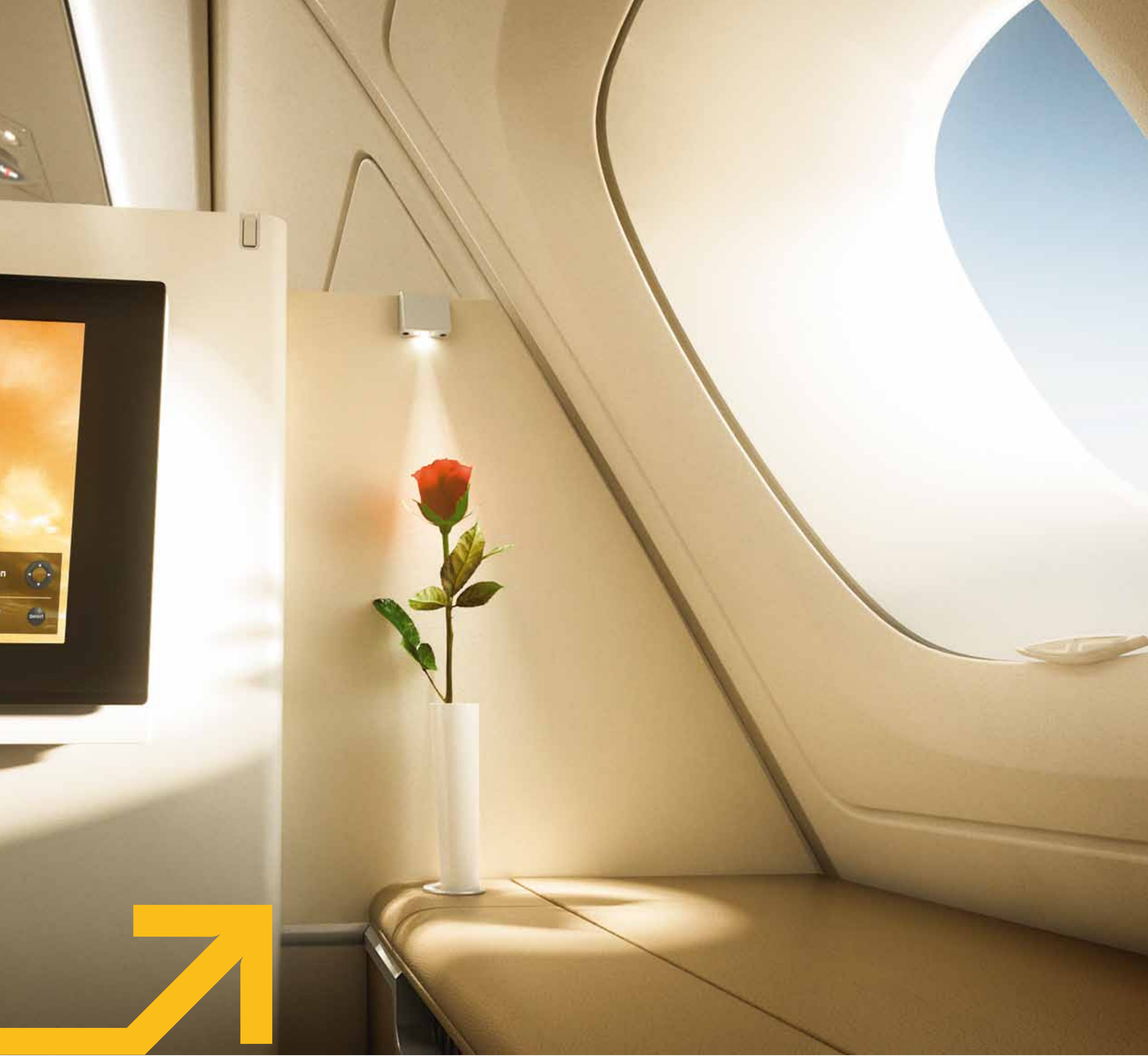
**passengers in Europe in 2010**

**//** In European traffic with all of our group airlines we are in intense competition with no-frills carriers. This makes it all the more important that we continue our cost-management programmes consistently and use synergies in the airline group systematically.

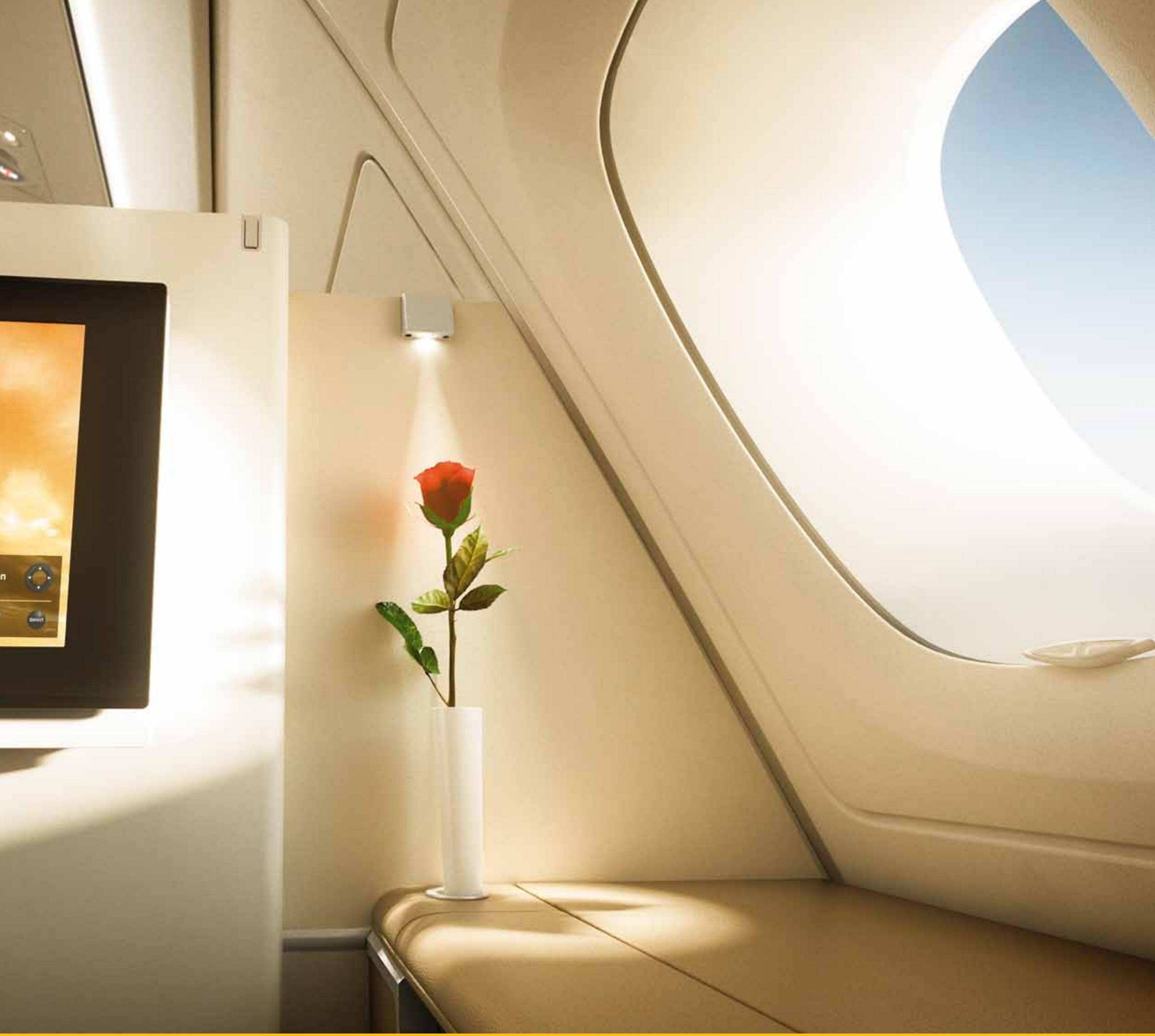
The A380 offers
outstanding comfort –
not just in First Class.


# The vision not to make compromises for the customer.

// As customer requirements increase, so do the demands made of our products. To keep making the travel experience more and more agreeable, we develop sophisticated solutions that differentiate us from the competition, not only epitomising the zeitgeist, but often anticipating it.



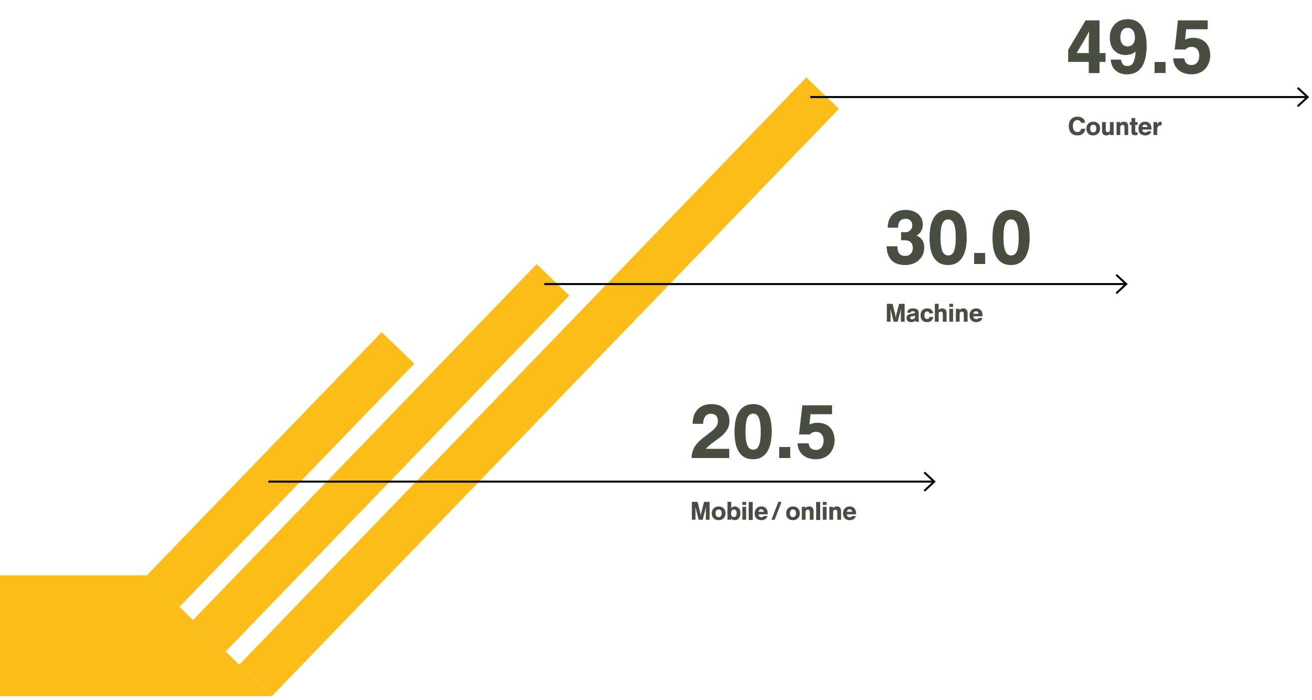
# Product



**Thinking and acting with foresight** // Attractive and comfortable, yet cost-effective and functional at the same time – a good product has to satisfy many criteria and meet our traditionally high quality standards. We have always managed to reconcile these multifaceted demands by means of careful planning and farsighted decision-making. The result is excellent products on the ground and in the air, which can stand up to any comparison. Customers appreciate our well thought out product range, with its great functionality and clear concepts. More than ever, the constantly changing competitive landscape demands forward-looking innovations. This is why we will be investing over EUR 1bn in new products in the period up to 2015: the Europa cabin, the in-flight entertainment system or FlyNet on board, the gate extensions in Frankfurt and Terminal 2 in Munich or the expansion of the lounges on the ground – at the moment there are more novelties being both planned and implemented than ever before. All these investments are measured strictly against what brings our customers the greatest benefit and at the same time is financially feasible and sensible for us. Constant product optimisation based on efficiency and functionality has proven its worth for us – and will remain our guiding principle.

Surf the internet on board with FlyNet.

Outstanding products in the cabin and on the ground.




**Use of different check-in methods in 2010 in %**

Lufthansa has always put an emphasis on quality and service.

# Top on the ground, top in the air.

Work and rest in a feeling of well-being on board the A380.

// What do our customers expect? Travel comfort in every class, smooth processes on the ground, variety and attentive service on board. Anyone who wants to satisfy their customers' wishes must start by listening to them. For this reason we involve our customers in development processes at an early stage.

**Meeting and surpassing expectations** // The remit for new products and services is defined by the customers themselves. Our challenge consists of optimising their implementation. We have proven that we do this well with, for example, the quietest First Class in the world on board the A380. The noiseproof curtain shutting off the rest of the cabin, special exterior insulation and a carpet that absorbs the sound of footsteps all contribute to satisfying one of our customers' main requirements: peace and quiet.

The exclusive cabin design, featuring high-quality materials, discreet colours and clean lines, ensures that the atmosphere in First Class is always agreeable. The newly developed seat combines ergonomics with comfort and can be extended to form the best flat bed in its class. Business and Economy Class in the A380 also set new standards in terms of spaciousness and room to move. The special lighting concept throughout the cabin also adds to the feeling of well-being above the clouds.

**Reconciling comfort and efficiency** // An innovative in-flight product for German and European traffic was launched in December 2010 in the form of the new Europa cabin. The aim was to develop a more attractive cabin design that offered more room for passengers and greater seating comfort. The newly designed, slimmer seats now combine two decisive advantages: they give guests more room to move, and as they make better use of space, they enable more seats to be fitted. In addition to the redesign of the cabin interior a new service concept is also to be introduced, which includes offering snacks to customers on inner-German routes.

Better handling processes at Frankfurt Airport are the focus of the Jump project. Here, the suggestions for improvement come from the people in the thick of it: the staff on the ground. Some 1,500 operational employees from passenger services have elaborated more than 30 improvement measures, which are intended to make departure procedures at Terminals A and B as smooth as possible.

**LSG Sky Chefs** // By applying the latest technology to the production of frozen meals and innovative fresh food concepts, LSG Sky Chefs continues to improve the culinary delights on offer above the clouds.

**Lufthansa Cargo** // The test phase of the RTLS technology (Real Time Location System) has been completed. The procedure enables consignments to be tracked permanently in real time. This improves quality and saves costs.

**Lufthansa Technik** // Alongside new applications for the cabin management and in-flight entertainment system nice®, the new generation of the FlyNet product also got off the ground. This makes Lufthansa the first airline to offer its passengers broadband internet access on intercontinental flights.

Service on the ground: Quick Check-in.

**//** The Lufthansa Group's fleet is growing: the Group ordered 56 new aircraft in 2010. Eight Airbus A330-300s are to be deployed on long-haul routes and the 48 remaining aircraft in European traffic. In addition to new purchases for Lufthansa Passenger Airlines and Lufthansa Regional, additions to the fleet are also planned at the group airlines SWISS and Germanwings. Altogether, the Lufthansa Group has 155 modern, fuel-efficient aircraft on its order list, which are to be delivered successively by 2015.

Success with the airline group strategy: SWISS on its approach to San Francisco.

# The vision to combine scale and individual strengths.

// Many individual pieces that complement one another and add up to a strong whole – this, in a nutshell, is our recipe for success. All the business segments and group airlines contribute their strengths within the common framework of the Group and the result is a powerful network.

# Group

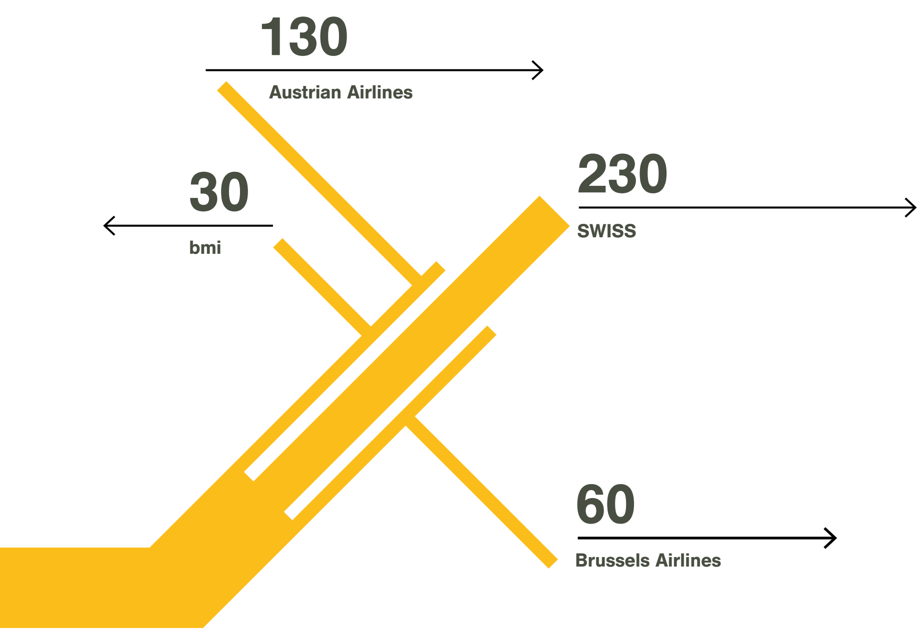
Munich hub: foundation for the expansion of the airline group.

**Pooling talents** // A multilayered formation at both global and regional level and a broad customer base are some of the factors behind the success of our airline group in passenger traffic. To secure our growth prospects we set up a second hub in Munich at an early stage in order to supplement our home hub in Frankfurt. This was a far-reaching decision, as it laid the foundation for integrating other hubs as the airline group was expanded.


In the European market Germanwings represents the airline group in the no-frills segment.

Lufthansa Cargo and Austrian Cargo combine their global activities.

// Efficiency gains, cost savings: using synergies within the Group opens up many possibilities. This relates to the route network, which becomes more and more attractive as a result, as well as cooperation with the segments MRO, IT Services and Catering.




**Synergies in the group currently forecast in EUR m**

With SWISS, Austrian Airlines and bmi came the strategically important hubs in Zurich and Vienna. And although we only hold a minority stake in Brussels Airlines at present, this company already contributes to our network, reinforcing it in Africa for instance. Germanwings augments the airline group in the no-frills segment.

In airfreight too, we are pooling our activities: Lufthansa Cargo and Austrian Airlines optimise their cargo traffic flows via the hubs in Frankfurt, Munich and Vienna, as well as merging global sales structures and harmonising products and processes. Next to providing greater benefits for customers, this is also key to realising synergies.

# Individually strong, jointly successful.

**//** Airline group on track: in Lufthansa's philosophy the decentralised market strategy plays a vital role. This applies equally to the business segments in the Group and to the group airlines, which work autonomously in their home markets – with their own identity and their own product.

TAM has been a member of the Star Alliance since May 2010.

**Strong alliance** // Lufthansa and the group airlines strengthen their network by their own growth and that of their partners. Star Alliance, the largest air transport grouping in the world, is still growing: the Brazilian airline TAM has been a member since May 2010. The accession of Avianca-TACA and Copa Airlines planned for 2012 is also of great strategic significance. They will make it possible to expand the alliance's presence considerably in the Latin American growth market. Lufthansa is assisting Avianca-TACA as a kind of mentor to prepare for membership of the alliance. It also supports Ethiopian Airlines on its path to Star Alliance membership planned for 2011.


Joint success in airfreight.

**Cooperation throughout the Group** // Cooperation within the Group goes beyond segment borders. In 2010 Lufthansa Cargo not only used the economic upswing for an impressive earnings turnaround, but also continued to develop its services by means of partnerships. The integration of Austrian Cargo adds further links to the network and offers greater capacity and flexibility.

This is just one example of success at the Group level, in which all business segments contributed to the positive overall result for 2010. At the same time all areas benefit from focussed cost-cutting measures and potential synergies with which they increase their efficiency and competitiveness.

Cost reductions from optimised network and maintenance planning.


LSG Sky Chefs makes positive contribution to Group's earnings.

**Measures bear fruit** // The most wide-ranging programme is taking place at Lufthansa Passenger Airlines in the form of Climb 2011. The target of making sustainable savings of EUR 1bn by the end of 2011 loomed a little closer in 2010, when costs were already reduced by around EUR 230m. Potential savings were also identified at the interfaces to partners of Lufthansa Passenger Airlines: for example by making more economical use of resources in aircraft maintenance by improving coordination between network and maintenance planning. EU-DIRection is another sub-project of Climb 2011, which aims among other things to reduce the number of fleets deployed in European traffic from nine to four. The turnaround programme Austrian Next Generation at Austrian Airlines and the restructuring of bmi are also on track. SWISS has already completed its restructuring, but here too, steps to cut costs further were pursued energetically during the financial crisis.

**A solid basis for take-off** // The service companies are also of great importance for the financial stability of the Group. Their solid earnings provide the thrust that enables the airline business to soar. Lufthansa Technik is the world's leading provider of maintenance, repair and overhaul services for civil aircraft and in 2010 it again delivered a substantial earnings contribution. Lufthansa Systems, our provider of solutions that link airline and IT expertise, also contributed an operating profit to Group's earnings. The same applies to LSG Sky Chefs, the worldwide number one provider of catering services, which increased its operating profit again in 2010.

EUR 1.0bn

**Climb 2011 aims in sustainable earnings improvement**

Strict cost management and a focus on quality and growth – this is the principle by which we continue to work towards our targets. Brisk knowledge transfer within the Group plays a vital part. Our diversity is an important source of know-how and innovation. One of many examples is the Fuel Efficiency project – a Group-wide initiative to increase efficiency in fuel use. Representatives of all group airlines meet for a Fuel Day to exchange and advance knowledge in this field.

The latest simulator technology
provides unparalleled safety for flying.

# The vision to propel growth with leading-edge technology.

// Lufthansa traditionally stands for technology at the highest level. Safety and added value for customers are the watchwords when it comes to developing leading-edge solutions. We strive for innovations that benefit society and the environment as well. Indeed, sustainable business is a vital element of our corporate philosophy.

# Technology

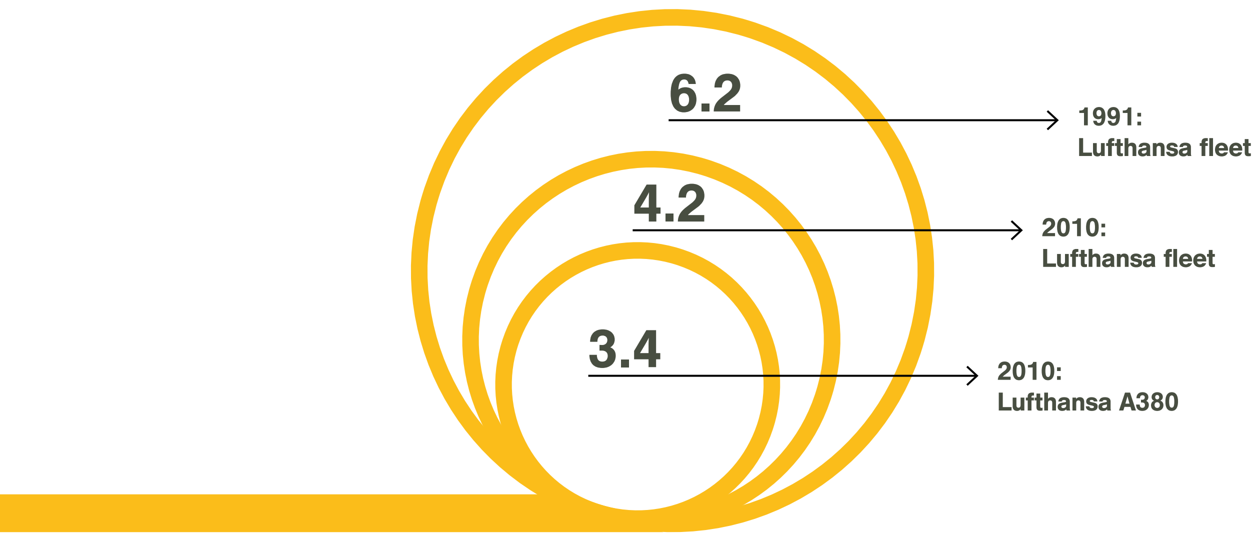
Training in the flight simulator for the B747.

**High-tech is our motor** // Technical competence has always been one of our strengths. We consider cutting-edge technology made by Lufthansa to be a key driver of growth and an important contribution to corporate responsibility. We are deeply committed to refining it, constantly and with foresight – irrespective of the environment in which we operate. Know-how, paired with the utmost safety: our business segments set the pace in this area every day – from the specialists at Lufthansa Technik through to Lufthansa Flight Training, which guarantees true-to-life training with the latest simulator technology.

Technical competence in aircraft maintenance.

Savings with the latest IT systems.

**New standards** // Efficiency gains are often a matter of processes. How they can be optimised in the field of load planning was demonstrated by Lufthansa Systems in 2010. The expanded version of the load planning system NetLine/Load makes it possible to identify further improvements for the loading process and thus save time and costs. Using it can enable the fuel consumption of a medium-sized carrier to be reduced by around 5 million litres of kerosene per year.




**Fuel consumption for 100 km per passenger in litres**

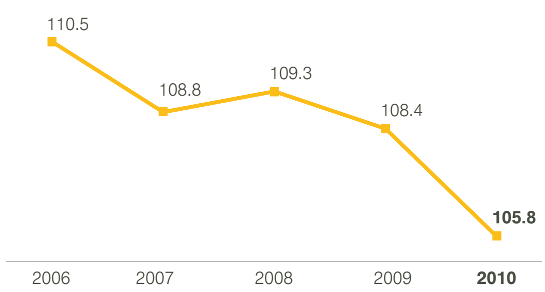
Global air traffic is responsible for (just) two per cent of all man-made $CO_2$ emissions. We are nevertheless in search of solutions in order to make our contribution to climate protection. The specific fuel consumption of the Group fleet again reached a historic low-point in 2010 at 4.20 l/100 RPK – a trend we intend to continue.

// Fleet renewal, lighter materials, improved infrastructure, test programmes with alternative fuels and quieter engines: we apply technological progress to the pursuit of our high environmental standards. Climate protection and noise abatement are right at the top of our agenda – strongly evidenced by the 3-litre aircraft A380 for instance.


Modern aircraft like the B747-8i fly with much less fuel.


The latest security technology is in use.

**$CO_2$ emissions per passenger for 100 pkm in grammes**




**The future begins now** // The subject of fuel efficiency has long been a central preoccupation of the airline industry. By 2050 the industry wants to halve its $CO_2$ emissions in comparison with 2005. It is an ambitious target for which Lufthansa is carrying out pioneering work, as in the Fuel Efficiency project for example. Our fleet renewal programme also has positive effects for the environment. Because modern aircraft are much quieter and more fuel-efficient. The wide-bodied aircraft Airbus A380 and from 2012 the Boeing B747 will play an important role, as will the new C-Series planes from Bombardier, with which SWISS will be equipping its European fleet from 2014. Thanks to the very latest quiet engines and extremely light high-tech materials they also set standards in terms of cost-effectiveness and environmental impact.

**1. Lufthansa Cargo** // By investing in the latest technology Lufthansa Cargo already meets statutory standards even before the tighter regulations issued by the American transportation security agency TSA come into effect. Since July 2010 the segment has scanned all freight consignments transported on passenger aircraft destined for the USA.

**2. LSG Sky Chefs** // The lightweight Quantum trolley developed by LSG Sky Chefs won the Crystal Cabin Award 2010 for the most innovative cabin product. Its most admired feature was the reduced weight compared with a traditional trolley, which reduces fuel consumption.


The engines' maintenance requirements and service life will be examined as part of test operations with biofuels.

# –25%

**Target for reduction in $CO_2$ emissions per passenger in 2020 compared with 1996 levels**

**A trailblazer in biofuels** // We are advancing the development of biofuels for aviation by testing them on our flights in the years to come. Probably starting in spring 2011 Lufthansa will be the first airline to launch a test series with biofuel in regular flight operations. In an Airbus A321 on the Hamburg–Frankfurt route we will be using a blended fuel with 50 per cent biosynthetic kerosene. It is produced in part using nut oil from the Jatropha plant. We expect the year-long trial to deliver valuable information on the effects of biofuels on maintenance and life expectancy of jet engines. During the trial period alone we will save around 1,500 tonnes of $CO_2$.

# Annual review

## ↗ Q1 // 2010

### ↗ Pilots’ strike interrupts flight operations

At the end of February the pilots’ union Vereinigung Cockpit (VC) began a strike set to last for four days, which disrupted large sections of Lufthansa’s flight traffic. A total of 2,825 flights had to be cancelled. A settlement reached at the Frankfurt labour court cleared the way for constructive talks and a return to the negotiating table; the strike was called off after one day.

### ↗ Lufthansa and SWISS celebrate fifth anniversary

In March Lufthansa and SWISS celebrated the fifth anniversary of their successful merger, which has since become a model for the integration of new airlines into the Lufthansa Group. After a successful turnaround, SWISS now makes a key earnings contribution within the Passenger Airline Group, which benefits from synergies between the airlines.

### ↗ Lufthansa Cargo suspends reduced working hours

At the end of March, positive economic developments and the associated rise in demand led to the decision to suspend the reduced working hours at Lufthansa Cargo introduced as part of its crisis management. They were then abandoned completely in April.

### ↗ Lufthansa extends scope of cooperation with Brussels Airlines

Lufthansa expands its route network on the African continent and benefits from its airline partner’s strong presence there. After further intensifying the scope of the cooperation between Lufthansa and Brussels Airlines, Lufthansa’s network was augmented by three code-sharing flights from Brussels to Conakry (Guinea), Freetown (Sierra Leone) and Kigali (Rwanda) as well as by two new connections from Brussels to Luanda (Angola).

## ↗ Q3 // 2010

### ↗ Successful take-off for Austrian Lufthansa Cargo

The newly established Austrian Lufthansa Cargo GmbH had a successful take-off on 1 July 2010. The company combines the freight capacities of Lufthansa Cargo and Austrian Airlines under one roof and is responsible for marketing them in Austria. The integration gives customers an even broader range of services to choose from.

### ↗ Lufthansa Cargo plane crash in Riyadh

Cargo flight LH 8460 on its way from Frankfurt via Riyadh and Sharjah to Hong Kong crashed on landing at Riyadh airport. Both crew members were able to leave the aircraft using the emergency slides. The MD-11 freighter with the registration number D-ALCQ was severely damaged, however.

### ↗ Christoph Franz is appointed future Chairman of the Executive Board

In September the Supervisory Board appointed Christoph Franz as the future Chairman of the Executive Board and CEO of Deutsche Lufthansa AG. He succeeds Wolfgang Mayrhuber as of 1 January 2011. Carsten Spohr was also appointed to the Executive Board with responsibility for Lufthansa Passenger Airlines as of the same date.

### ↗ Lufthansa orders 56 new aircraft for the Group

The Supervisory Board approved the order of 48 new aircraft in September. The orders are part of the current fleet modernisation programme. In 2010 a total of 56 new aircraft were ordered. They are to be delivered successively starting in 2012.

## Q2 // 2010

### Airspace over Europe closed due to volcanic eruption

The ash cloud caused by the eruption of the Eyjafjallajökull volcano in Iceland caused governments to close large sections of European airspace for several days in mid April. Only after several days were flight operations gradually authorised to resume. Lufthansa Passenger Airlines alone had to cancel 10,562 flights in April.

### Lufthansa receives its first Airbus A380

On 11 June 2010 Lufthansa's first Airbus A380 went into scheduled operations on the route between Frankfurt am Main and Tokyo. The newly developed First Class was presented alongside the launch of the new flagship. As well as offering greater comfort, the latest aircraft in the Lufthansa fleet sets standards in terms of environmental performance. It consumes just around 3 litres of kerosene per person over 100 kilometres.

### Agreement reached with unions

The collective bargaining between Lufthansa and Vereinigung Cockpit that had been in abeyance for more than a year was finally brought to a successful close in June. The 24-month retroactive wage freeze agreed until 31 March 2011 represents a considerable relief for the Company, especially in direct traffic outside the hubs. The Air Transport Employers' Federation and the trade union ver.di also agreed to extend the wage settlement in force for ground staff until 31 December 2011.

### Companies in the Lufthansa Group receive awards

The world's largest customer survey in air transportation, carried out by opinion pollsters Skytrax every year since 1999, voted Lufthansa the best airline in Europe in 2010. It was followed in second place by SWISS. In addition, Lufthansa Cargo was voted best European cargo airline at the Cargo Airline of the Year Awards.

## Q4 // 2010

### Lufthansa and Lufthansa Cargo expand network in South America

After adding Bogotá to its timetable, Lufthansa implemented code-sharing connections with the Columbian airline Avianca to six follow-on destinations in Columbia. Lufthansa Cargo is also expanding its route network in South America. From the end of February 2011 it will be flying twice a week from Frankfurt to the Brazilian industrial metropolis of Manaus.

### Rating outlook raised for Lufthansa

The rating agency Standard & Poor's confirmed its investment grade rating for Lufthansa in November. The outlook was lifted from negative to stable. The reasons for the change were the Lufthansa Group's improved financial profile, the recovery of the airborne companies and stable earnings contributions from the services segments, as well as efficient cost control.

### Lufthansa has internet on board again

Since the end of November 2010 Lufthansa has been the only airline worldwide to offer passengers broadband internet access on long-haul flights. The service is initially only available on selected transatlantic flights, but should be extended to almost the entire intercontinental route network by the end of 2011.

### Product innovations and more service on short-haul flights

In December Lufthansa Passenger Airlines presented the new cabin layout for European traffic. A new seat with a slimmer back rest and ergonomically optimised seat shape gives passengers an average of up to four centimetres more leg-room. The space saving enables up to two more rows of seats to be installed in every plane. Economy Class passengers are also to be served light snacks again on inner-German routes.

# Lufthansa share

↗ In a volatile market the price of the Lufthansa share soared by 39 per cent. ↗ This increase in value was more than twice that of the DAX. ↗ The majority of analysts see Lufthansa on the winning side of developments in the sector and recommend the share as a buy. ↗ Investor relations work was further intensified. ↗ For 2010 a dividend is to be paid again, of EUR 0.60 per share.

**2010 a good year for stock markets**

2010 was a very positive year for stock markets overall. It was nevertheless also characterised by high volatility, especially in the first half-year. Stock exchanges around the world registered strong increases in the first quarter, but in the second mostly sustained losses. These resulted from concerns about a renewed recession and a double dip in the USA. Only with positive fundamentals did the upbeat mood prevail consistently from the middle of the year, finally leading to a strong rally in the second half-year. German shares benefited particularly strongly from this performance. This reflected dynamic growth in Germany's export industries and the fastest economic growth compared with the other European countries. The DAX, which at 5,966 points was unchanged from its opening mark at the middle of the year, rose by a total of 16.1 per cent to close the year at 6,914.

**Lufthansa share climbs more than twice as much as the DAX**

The year 2010 on the stock market confirmed that airline shares can generally derive an above-average benefit from an economic upturn. In 2010, too, the economic recovery translated into a sharp upswing in business for many airlines, particularly on long-haul routes. Share prices for network carriers performed correspondingly well, while no-frills airlines saw only modest gains or even losses due to their greater focus on European traffic and leisure travellers.

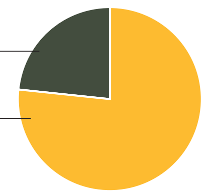
In this environment the Lufthansa share was able to outperform the DAX substantially. After rising by 4.5 per cent in the first quarter the share suffered a loss of 7.9 per cent in the second, partly due to the uncertainty caused by the airspace closures.

**The Lufthansa share: key figures**

| | | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| Year-end share price | € | 16.36 | 11.75 | 11.19 | 18.22 | 20.85 |
| Highest share price | € | 17.77 | 12.31 | 18.32 | 22.72 | 21.03 |
| Lowest share price | € | 10.34 | 7.86 | 8.99 | 17.17 | 12.29 |
| Number of shares | millions | 457.9 | 457.9 | 457.9 | 457.9 | 457.9 |
| Market capitalisation (at year-end) | €bn | 7.5 | 5.4 | 5.1 | 8.3 | 9.6 |
| Earnings per share | € | 2.47 | −0.07 | 1.18 | 3.61 | 1.75 |
| Cash flow from operating activities per share | € | 6.71 | 4.35 | 5.40 | 6.25 | 4.60 |
| Dividend per share | € | 0.60 | – | 0.70 | 1.25 | 0.70 |
| Dividend yield (gross) | % | 3.7 | – | 6.3 | 6.9 | 3.4 |
| Dividend | €m | 274.8 | – | 320.5 | 572.4 | 321.0 |
| Total shareholder return | % | 39.2 | 11.3 | −31.7 | −9.3 | +70.7 |

In the third quarter investors shifted the focus of their attention again to underlying economic developments. The increasingly strong traffic and revenue trend in the summer months ultimately led to a rise of 18.4 per cent in the third quarter. The Lufthansa Group then confirmed its strong operating performance in the autumn by reporting a considerable profit for the first nine months and raising its earnings forecast for the full year. This gave the share price another boost in the fourth quarter (+14.0 per cent). At the end of December, with the share closing the year at EUR 16.36, Lufthansa shareholders were able to look back on performance and total shareholder return of 39.2 per cent for the full year – more than twice as much as the DAX.

**Analysts' recommendations*** as of 31.12.2010




* Target price: EUR 18.84, average of 30 analysts.
Range: EUR 15.90 to EUR 25.50.

↗ Based on its strong competitive position the Group's medium-term earnings potential has risen considerably in comparison with earlier market cycles thanks to organic growth and the integration of the new airlines.

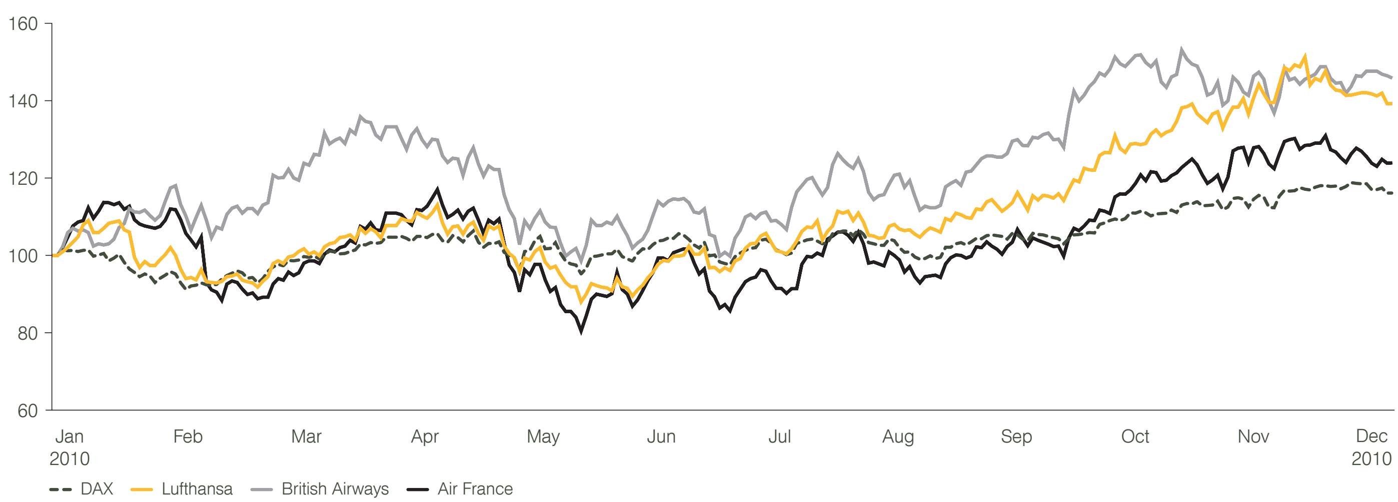
### Analysts see further potential

Despite the already steep price increase, the clear majority of analysts still recommend the Lufthansa share as a buy, because they consider Lufthansa to be one of the winners from the developments in the sector. Based on its strong competitive position and bolstered by a solid financial profile, the Group's medium-term earnings potential has risen considerably in comparison to earlier market cycles thanks apparently to organic growth, network expansion and the integration of new airline group partners. This higher profitability is considered to be enhanced by the programmes to safeguard earnings and restructuring, as well as by the growing synergies in the airline group. Risks are identified in capacity growth, in rising oil prices, in the ongoing restructuring in European traffic and in rapidly increasing competition on long-haul routes from the airlines of the Gulf states. At year-end 77 per cent of the analysts recommended the Lufthansa share as a buy and 23 per cent as a hold. None of the researchers had seen the share as a sell. The average target price was EUR 18.84 and the highest was EUR 25.50.

### EUR 0.60 dividend proposal for 2010

Our dividend policy is one of continuity. The aim is for shareholders to share directly in the Company's financial success. Dividend payments are mainly based on the Group's operating result, whereby a dividend ratio of 30 to 40 per cent is the target.

**Performance of the Lufthansa share,** indexed as of 31.12.2009, compared with the DAX and competitors



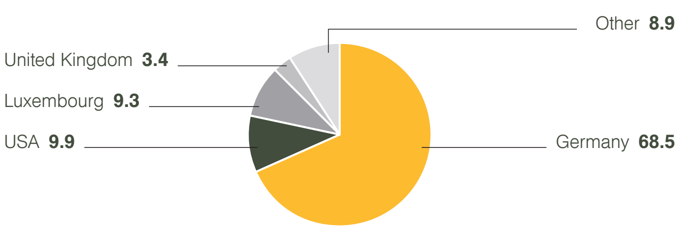
The condition for a dividend payment being made is that the net profit for the year as reported in the consolidated and in particular the individual financial statements of Deutsche Lufthansa AG allows a distribution of this amount, see also chapter “Financial Strategy” on p. 53.

Thanks to the positive business performance this condition is met for the financial year 2010, with the result that the Executive Board and Supervisory Board will propose a dividend of EUR 0.60 per share at the Annual General Meeting to be held on 3 May 2011.

**Majority of Lufthansa shares in German hands**

In order to uphold international air traffic rights and the operating licence, Lufthansa shares are traded as registered shares with transfer restrictions in accordance with the German Aviation Compliance Documentation Act (LuftNaSiG). This means that the breakdown of Lufthansa shareholders by nationality can be demonstrated and documentation provided proving that the majority of shares are held by German investors. There were only slight shifts within the shareholder structure over the course of 2010. At the end of the year the proportion of German investors came to 68.5 per cent (previous year: 74.2 per cent) and was therefore well above the statutory minimum. Investors from the USA with 9.9 per cent overtook Luxembourg-based shareholders (9.3 per cent) as the largest foreign group in 2010. Investors from the UK accounted for 3.4 per cent of share capital.

**Shareholder structure by nationality** as of 31.12.2010 in %




Free float: 100%

Unchanged to last year the free float accounted for 100 per cent of share capital. As of the reporting date private individuals held 32.8 per cent and institutional investors 67.2 per cent. The largest investors at year-end were the US fund managers BlackRock Inc. and Janus Capital Management LCC with holdings of 4.997 and 3.29 per cent respectively. The transactions requiring disclosure and published during the financial year 2010 can be seen in the “notes” on p. 189. They are published on our website i www.lufthansa.com/investor-relations together with the shareholder structure, which is updated every quarter.

**Investor relations work further intensified and acknowledged**

What is true at times of crisis also applies in the upswing: we inform all capital market participants transparently, swiftly and completely about current Company developments, the strategy pursued and structural changes. In 2010 we ramped up our activities once again, therefore, even in comparison with the intensive investor contacts in the crisis year 2009. The Executive Board and the Investor Relations team provided information about current and strategic developments affecting the Group at 37 roadshows and 14 investor conferences in 2010. Altogether we held around 450 one-on-one and group meetings with institutional investors and analysts.

In addition to the regular meetings and conference calls on the annual and quarterly results, a kick-off meeting for the year took place with analysts for the first time in January 2010 and was followed in June 2010 by the annual Investor Day in the Lufthansa Aviation Center in Frankfurt. This event focussed on providing background information on the strategy and business performance of the Group’s airborne companies, with presentations from representatives of the Passenger Airline Group and Lufthansa Cargo.

Alongside the annual report and the three interim reports we inform capital markets regularly by means of the Investor Info on the monthly traffic figures for the airborne companies and other news from companies in the Lufthansa Group. Lenders and bond investors also receive our Creditor Info several times a year. Communication with our private investors is also a high priority.

The Shareholder Info is published several times a year with information about the Company. We redesigned it completely in 2010 and now send it to our private shareholders as an additional source of information. It can be ordered from our website. The dates of shareholder conferences in which Lufthansa is taking part are also listed there. In 2010 we gave presentations on Lufthansa at five conferences for private shareholders, answering shareholders' questions there in person.

The next Annual General Meeting takes place on 3 May 2011 in Berlin. Our complete financial calendar and contact details can be found on p. 236 of this annual report and at i www.lufthansa.com/investor-relations. This online presence was redesigned in 2009 and is highly popular. The number of annual page impressions has stabilised at an impressive 4.9 million. As well as publications such as our financial reports, presentations, speeches and current news, the internet site offers tools for the individual analysis of financial statements, financial and traffic data, and an online version of the annual report. The site is barrier-free, which means it can be accessed and used by anyone, irrespective of their physical capabilities.

Our efforts to communicate an up-to-date and transparent view of Lufthansa and its prospects to all interested capital market participants were again acknowledged in 2010. Lufthansa received awards for its investor relations work, sometimes in several categories, from Thomson Extel, IR Magazine and Institutional Investor.

### Lufthansa represented in key indices but does not qualify for DJSI

As a member of the DAX Lufthansa is one of the 30 largest publicly listed companies in Germany. Our share was represented with a weighting of 1.24 per cent in the index as of the end of the year. Measured by market capitalisation (EUR 7.5bn) it was in 23rd place (previous year: 24) and made Lufthansa the most valuable publicly listed air transport group in Europe. The Lufthansa share is also included in other international indices such as the Dow Jones EURO STOXX Mid, MSCI Euro and FTSE Eurofirst 300.

In the USA investors can also invest in Lufthansa via the Sponsored American Depository Receipt Program (ADR). ADR trading volume currently amounts to less than 1 per cent of share capital. To increase its visibility and liquidity in the American capital markets Lufthansa will be registered in the OTC trading system OTCQX, most likely from May 2011.

The Group's exemplary commitment to corporate responsibility has long been recognised by experts. Lufthansa is included in numerous sustainability indices and registers such as FTSE4Good, Ethibel and ASPI. For the first time since 2005 Lufthansa was not able to qualify for membership of the Dow Jones Sustainability Index, however, as the conditions have again been toughened.

The analysts see room for improvement in some areas such as social commitment, terms for suppliers and engagement with external stakeholders. Areas such as climate strategy, noise abatement and local air quality were viewed positively on the other hand. The ratings that led to the exclusion are now to be reviewed and steps for improvement will be taken.

The year 2010 also saw heavy trading in the share. A total of 1.0 billion Lufthansa shares changed hands, corresponding to a trading volume of EUR 12.6bn. In relation to the number of shares in circulation (457.9 million) this resulted in a turnover frequency of 2.1. The overwhelming majority (97.4 per cent) took place via the electronic trading platform Xetra. The months of April and November saw particularly brisk trading, each with turnover of around EUR 1.3bn.

**The Lufthansa share: data**

| | |
|---|---|
| ISIN International Security Identification Number | DE0008232125 |
| Security identification number | 823212 |
| ADR programme code | DLAKY |
| German stock exchange code | LHA |
| Reuters' code | LHAG.DE, Xetra |
| Bloomberg code | LHA GY for Xetra, LHA GF, Frankfurt Stock; LHA GR, all LH share prices |
| Stock exchanges | Frankfurt, Stuttgart, Munich, Hanover, Dusseldorf, Berlin, Bremen, Hamburg, Xetra |
| Prime sector | Transport & Logistics |
| Subsector | Airlines |
| Indices | DAX, Dow Jones STOXX 600, Dow Jones EURO STOXX, Dow Jones STOXX Global 1800, FTSE4Good, FTSE Eurofirst 300, S&P Global 1200, S&P Europe 350 |

Ladies and Gentlemen,

The Supervisory Board again worked well and effectively with the Executive Board in 2010, which was a special year. We carried out the duties conferred on us 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, all strategically significant operating decisions and planned Company policy. 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 the Chief Executive Officer on an ongoing basis.

In 2010 the Supervisory Board held four ordinary meetings, on 10 March, 28 April, 22 September and 6 December. No member of the Supervisory Board was present at fewer than half the meetings.

In December we again reviewed the efficiency of our working practices and together with the Executive Board made an updated declaration of compliance with the German Corporate Governance Code. There were no conflicts of interest requiring disclosure in 2010.

In the declaration of compliance the Supervisory Board supported the fundamental importance of a diverse Supervisory Board membership for the Company. At the same time it would like to see more women represented. Notwithstanding the recommendation in 5.4.1 of the Code, no concrete targets have been set for this, however. When proposing candidates for election to the Annual General Meeting, the Supervisory Board will be guided by the knowledge, skills and professional experience of the potential nominees.

The Supervisory Board meetings focussed on economic developments at Lufthansa and its consolidated and investee companies. Particular attention was paid to the strike by cockpit staff at the end of February and the airspace closures enforced by the authorities over several days in April following the volcanic eruption in Iceland, which had a considerable adverse effect on earnings at Lufthansa. The Supervisory Board was also given detailed information about the progress made in integrating Austrian Airlines and British Midland into the Group.

Other important items on the agenda related to approval of the purchase of 56 aircraft of different types for the Group's airlines, to continuing the cooperation with Munich airport to extend Terminal 2, to the sale of Amadeus shares as part of a stock market flotation, and to the restructuring of the sub-group Lufthansa Systems AG.

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 explanation.

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

The Arbitration Committee required under Section 27 Paragraph 3 German Codetermination Act did not need to be convened during the reporting period. The Supervisory Board's Nomination Committee met once in the spring to prepare new elections to the Supervisory Board. The Audit Committee, which met four times in 2010, 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, the risk management system and the internal audit system. The members received reports on risk management, compliance and the work of the Group's internal audit department.

We appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf, who were elected as auditors for the parent company and the Group at the Annual General Meeting 2010, 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 PricewaterhouseCoopers 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 2010 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 2011 the Audit Committee discussed the audit reports in detail with the CFO. I was present at the meeting, as were 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 2010 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.

Mr Ulrich Hartmann and Dr Herbert Walter resigned their seats on the Supervisory Board of Deutsche Lufthansa AG with effect from the close of the Annual General Meeting on 29 April 2010. Mr Herbert Hainer, CEO of Adidas AG, and Dr h.c. Robert M. Kimmitt, Senior International Counsel in the law firm WilmerHale, were elected to replace them on the Supervisory Board. Mr Martin Koehler, Managing Director of Boston Consulting Group, Inc., was confirmed as a member of the Supervisory Board. He was appointed to the Supervisory Board in early March 2010 to replace Mr John Allan, who left at the end of 2009. The Supervisory Board thanks Mr Hartmann, who has belonged to the Supervisory Board since 1998 and to the Audit Committee since its foundation in 2002, and Dr Walter for their contribution and support as well as for the responsibility borne during their time on the Supervisory Board.

On the recommendation of the Steering Committee, which met five times in 2010, in September the Supervisory Board appointed Dr Christoph Franz, Deputy CEO and CEO Lufthansa German Airlines until the end of 2010, to succeed Mr Wolfgang Mayrhuber as Chairman of the Executive Board and CEO as of 1 January 2011. At the same time his appointment was extended until 31 May 2014.

On the recommendation of the Steering Committee Mr Carsten Spohr, Chairman of the Board and CEO of Lufthansa Cargo AG until the end of 2010, was appointed to replace Mr Franz as Chief Executive Officer Lufthansa German Airlines, with effect from 1 January 2011 until 31 December 2013.

Also in the September meeting the Supervisory Board adopted a new remuneration structure for the Executive Board, which applies to all four Executive Board members from the financial year 2011. This reflects the changes in the rules resulting from the Act on Appropriate Executive Board Remuneration (VorstAG) in force since summer 2009 and the German Corporate Governance Code (GCGC). These require publicly listed companies to align their remuneration structures more closely with the sustainable development of the company. The Supervisory Board was also keen to smooth the remuneration of the Executive Board, which in the cyclical airline business had fluctuated far more than average in recent years. The Supervisory Board therefore reduced the short-term financial incentives in the variable component by converting part of the one-year variable bonus into basic salary and largely basing the variable remuneration on performance over several years. The new structure is presented in its entirety in the remuneration report and will be put to the 2011 Annual General Meeting for approval.

At the close of the financial year Mr Wolfgang Mayrhuber, who had been a member of the Executive Board since the beginning of 2001 and thus for exactly ten years, completed his nearly eight years as Chairman of the Executive Board and CEO of Deutsche Lufthansa AG. During this time he was the driving force behind the transformation of the aviation company into a leading group of airlines, and guided Lufthansa safely through the various crises of recent years. In so doing, Wolfgang Mayrhuber, who can look back on a career at the Lufthansa Group spanning some 40 years, has earned the particular esteem of the Company.

On 19 September 2010 Dr Rolf Jetzer, President of the Board of Directors of the Group company SWISS, died at the age of 59. Dr Jetzer made an extremely valuable contribution to the smooth integration of SWISS into the Lufthansa Group. We will always think of him with respect.

We would like to express our particular thanks to the Executive Board and to all the employees in the Group and its associated companies for their personal contribution to the Lufthansa Group's unexpectedly great success in the financial year 2010.

Cologne, 16 March 2011

J. Weber

For the Supervisory Board
Jürgen Weber, Chairman

## Corporate Governance

↗ Lufthansa complies with the current recommendations of the German Corporate Governance Code with few exceptions. ↗ The Executive Board and Supervisory Board have a close and trusting working relationship in the interests of the Company and within the framework of established internal regulations. ↗ Shareholders, analysts and the general public are informed in a timely and equitable manner. ↗ A comprehensive compliance programme ensures correct conduct in accordance with statutory provisions and prohibitions.

**Declaration of compliance with the German Corporate Governance Code**

At their meeting on 6 December 2010, the Executive Board and Supervisory Board issued the following declaration of compliance with the German Corporate Governance Code (GCGC):

"In accordance with Section 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board of Deutsche Lufthansa AG declare that the recommendations of the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 2 July (the Code), have been complied with since the last declaration of compliance with the following exceptions and will continue to be complied with:

The Executive Board members Wolfgang Mayrhuber and Stephan Gemkow hold more than three supervisory board seats in publicly listed companies outside the Group or on supervisory boards of companies with similar demands. 5.4.5 of the amended Code states that supervisory board seats in companies with similar demands to those made by publicly listed companies outside the Group are now also included in the recommended maximum of three. To avoid breaching the trust that holding a board seat implies, compliance with this amended recommendation cannot be achieved without a degree of advance notice. Mr Mayrhuber is to leave the Executive Board as of 31 December 2010 and will no longer be subject to the restriction thereafter. Mr Gemkow will give up one of his four board seats relevant to this topic in the first half of 2011.

The Supervisory Board believes that the diversity of its composition is important for the Company and at the same time would like to see more women represented. Notwithstanding 5.4.1 of the Code, it does not, however, define any concrete targets in the form of quotas or absolute numbers. When proposing candidates for election to the Annual General Meeting, the Supervisory Board will be guided by the knowledge, skills and professional experience of the potential nominees. A general age limit of 70 years is already included in Section 8 Paragraph 2 of the Articles of Association."

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

**Shareholders and Annual General Meeting**

Lufthansa shares are registered shares with transfer restrictions which all have the same voting rights. This means that 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. 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 transferring voting rights to banks and shareholder associations via internet. 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 on our website.

**Executive Board and Supervisory Board**

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.

Both the Executive Board and the Supervisory Board of Deutsche Lufthansa AG have internal regulations governing the work within these boards and the cooperation between them. The 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 Chief Executive Officer reports regularly to the Supervisory Board, which is made up of equal numbers of shareholder and employee representatives. He also notifies the Chairman of the Supervisory Board directly 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 commencing new businesses, signing or cancelling control agreements and strategically important cooperation agreements, long-term leasing of aircraft, and, above a certain treshold, establishing new companies, issuing bonds and long-term borrowing as well as investment in non-current assets. Four times a year the Executive Board informs the Supervisory Board on the course of the Group's business and that of its associated companies. Once a year it provides information on the Group's operational and financial planning.

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 interim reports with the Executive Board before they are published.

The Nomination Committee consists of three members. 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 Codetermination Act is only convened when the necessary two thirds majority for appointing or revoking the appointment of a member of the Executive Board has not been reached. The Committee then has one month to make a proposal to the Supervisory Board.

The Supervisory Board member Mr Matthias Wissmann is a partner and the Supervisory Board member Mr Robert Kimmitt is Senior International Counsel at the law firm WilmerHale. The Supervisory Board member Mr Martin Koehler is a partner at the consultancy company The Boston Consulting Group (BCG). The Company has had in the past and will probably in the future have advisory contracts with both WilmerHale and BCG. Neither Mr Wissmann nor Mr Kimmitt nor Mr Koehler advise the Company 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 Company 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, which means that the criteria of Section 114 Stock Corporation Act (AktG) are not met 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. 217.

**Transparent accounting and financial communications**

Lufthansa 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). PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in Dusseldorf has been appointed to audit the financial statements for 2010. The auditors' fees for the 2010 financial year are summarised in "Note 51" to the consolidated financial statements on p. 214. Lufthansa informs shareholders, analysts and the general public in a timely and equitable manner. More information on these activities can be found in the chapter "Lufthansa share" p. 38 and on our website i www.lufthansa.com/investor-relations.

Trading in Lufthansa shares, options or other derivatives based on the Lufthansa share by members of the Executive Board, Supervisory Board and members of the Lufthansa German Airlines Board – known as directors' dealings – are announced straight away 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.

**Supervisory Board and Executive Board remuneration**
In accordance with Section 13 Paragraph 1 of the Articles of Association, the members of the Supervisory Board receive a variable bonus depending on the net profit for the period in addition to their fixed salary. 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 remuneration of ordinary members. Committee members receive an additional 25 per cent and committee chairmen an additional 50 per cent of these amounts. Remuneration for committee work is subject to the proviso that the committee met at least once in the financial year.

In 2010 Executive Board members received a variable bonus for the year dependent on the operating result in addition to their basic salary. They were also able to take part in the LH-Performance programme, which runs for several years.

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 on p. 48 of the management report. The amounts paid to the individual Executive Board and Supervisory Board members are published in "Note 49" to the consolidated financial statements from p. 210.

In 2010 the Supervisory Board adopted a new remuneration structure for the Executive Board, which applies from the 2011 financial year on. It implements the new rules contained in the Act on Appropriate Executive Board Remuneration (VorstAG) and the German Corporate Governance Code (GCGC). These require publicly listed companies to align their remuneration structures more closely with the sustainable development of the company. The Supervisory Board was also keen to smooth the remuneration of the Executive Board, which in the cyclical airline business had fluctuated far more than average in recent years.

To achieve these aims the Supervisory Board decided to reduce short-term financial incentives in the form of one-year bonuses in the variable component and to base the variable remuneration primarily on performance over several years. Part of the one-year variable bonus is therefore converted into basic salary. The remaining, smaller variable remuneration component will in future be measured by reference to the operating margin. Only 75 per cent of this bonus is to be paid the following year, and therefore on an annual basis. The remaining 25 per cent are 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 retention, which are subject to objective performance indicators. As in future all members of the Executive Board will be obliged to take part in the LH-Performance programme, the duration of which is to be extended from three to four years from 2011, the largely long-term structure of the variable remuneration components is assured.

Based on a ten-year average of historic annual net income and assumptions about future developments the total remuneration has been designed to remain on average at the same level. If remuneration for 2010 had already been based on the new structure, an ordinary member of the Executive Board would have received about EUR 288,000 more in basic salary, but around EUR 640,000 less in variable remuneration. Total remuneration (without LH-Performance) would therefore have been 21 per cent lower. The new remuneration system thus means that on the one hand Executive Board members are rewarded less when the Company performs well but at the same time do not suffer such large salary cuts as in the past when performance is poorer. Only in case of outstanding results the total compensation can increase as the already previously agreed limitation of variable compensation was raised by 12.5 per cent. All members of the Executive Board have accepted the new remuneration system as of the financial year 2011.

**Compliance**
Compliance describes all measures taken to ensure the correct conduct of companies, their management and staff with respect to statutory obligations and prohibitions. The Lufthansa Compliance Programme is intended to prevent our staff from coming into conflict with the law and help them to apply statutory regulations correctly. The Lufthansa Compliance Programme is made up of the following elements: Competition, Capital Markets, Integrity and Corporate Compliance. An ombudsmen system gives staff the opportunity to report any suspicion of criminal activity or breaches of the compliance regulations. The central Compliance Office and the Compliance Officers in Group companies ensure that the compliance programme is enforced throughout the Group. The Audit Committee is informed regularly by means of Compliance Reports.

# Group management report



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

# Company and organisation

↗ Lufthansa has five business segments which are leaders in their markets. ↗ The passenger and airfreight companies in the Group position themselves as quality airlines and constitute the core business segments. ↗ Our aim is to increase the company value sustainably. ↗ The value-based management system also affects the performance-related pay for senior managers. ↗ In 2010 we were able to meet nearly all our financial targets and even surpass many of them.

## Business activities and Group structure

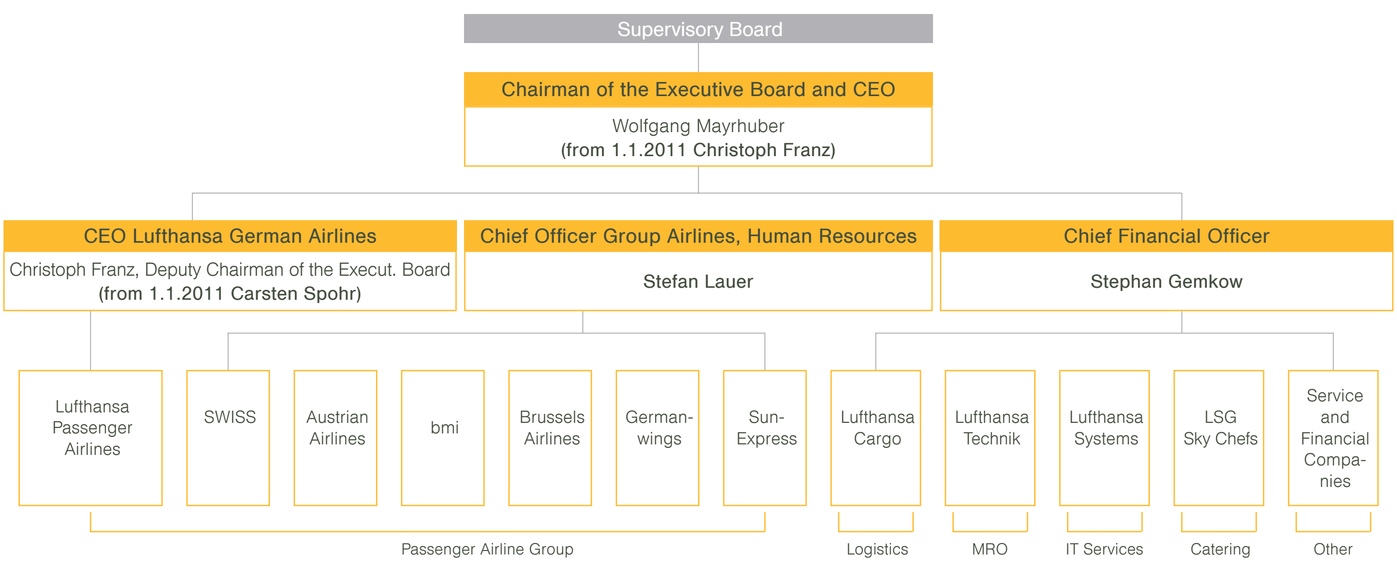
**Global leader in passenger transportation, airfreight and airline services**

Deutsche Lufthansa AG is an aviation company with global operations and a total of more than 400 subsidiaries and associated companies. Its activities in the areas of passenger transport, airfreight and airline services are divided into five business segments: Passenger Airline Group, Logistics, and the aviation services segments MRO, IT Services and Catering. They hold leading positions, or even global market leadership, in their sectors.

The strategic focus is on the airlines in the Lufthansa Group. These airlines are positioned in their segments as quality carriers. Their growth and the ongoing consolidation of the industry brought Lufthansa a much stronger market position in Europe, its home market, in 2010. Measured by passenger numbers and revenue it is now the largest airline in Europe. The Logistics segment is also a market leader in international airfreight.

The MRO, IT Services and Catering segments supplement the spectrum with services for internal and increasingly also external airlines. Lufthansa Technik is a global leader in the maintenance, repair and overhaul of civil aircraft. It covers the whole spectrum

**Group structure**



from one-off jobs to the servicing of entire fleets. With its IT Services segment Lufthansa is one of the leading global IT services providers to the airline industry. The product and services portfolio at Lufthansa Systems ranges from customised IT solutions to the operation of complete infrastructures. The Catering segment, the LSG Sky Chefs Group, has some 130 companies and is the global market leader in airline catering, supplying international, national and regional carriers. Furthermore, LSG Sky Chefs is increasingly positioning itself as a provider of additional services in the areas of development, procurement and logistics of in-flight items and in adjoining markets. Detailed information on the individual business segments can be found on p. 78 – 119. Details of significant equity holdings can be found from p. 220.

In 2010 the Lufthansa Group had an average of 117,066 employees and generated revenue of some EUR 27.3bn.

## Management and supervision

### Two-tier management and supervisory structure

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 value. The Supervisory Board appoints, advises and supervises the Executive Board.

### Changes in the Executive Board

In September 2010 the Supervisory Board appointed the Deputy Chairman of the Executive Board of Deutsche Lufthansa AG, Christoph Franz, to become Chairman of the Executive Board and CEO. As of 1 January 2011 he thereby succeeded Wolfgang Mayrhuber at the head of the Group. Christoph Franz began his career at Lufthansa in 1990. Between 1992 and 1994 he worked in the team, which was responsible for Lufthansa's restructuring and reported directly to Jürgen Weber, CEO at the time and today's Supervisory Board Chairman. In 1994 Christoph Franz moved to Deutsche Bahn AG and later as CEO to Swiss International Air Lines AG. In March 2005 he returned to the Lufthansa Group with the integration of SWISS. In April 2009 he was finally appointed Deputy Chairman of the Executive Board of Deutsche Lufthansa AG and Chairman of Lufthansa Passenger Airlines.

The members of the Supervisory Board also appointed Carsten Spohr to the Executive Board with effect from 1 January 2011. As the board member responsible for Lufthansa Passenger Airlines he will also take over the position of CEO of Lufthansa Passenger Airlines from Christoph Franz. He is succeeded as Chairman of the Executive Board and CEO of Lufthansa Cargo AG by Karl Ulrich Garnadt, who until the end of 2010 was a member of the Lufthansa German Airlines Board.

This means that the Lufthansa Group will continue to be led by four Executive Board members: the Chairman of the Executive Board and Chief Executive Officer, the Chief Officer Lufthansa Passenger Airlines, the Chief Financial Officer and the Chief Officer Group Airlines and Corporate Human Resources. Deutsche Lufthansa AG acts as the parent company and at the same time is the largest single operating company in the Group. The individual business segments are run as separate Group companies, with the exception of parts of the Passenger Airline Group. They have their own profit and operating responsibility and are monitored by their respective supervisory boards, in which members of the Group's Executive Board are also represented. More information is available in the Notes to the consolidated financial statements, "Note 49" on p. 210.

### Performance-related remuneration for managers

Lufthansa has long had incentive programmes for the remuneration of Executive Board members, managers and other employees. Managers receive a two-stage, performance-related bonus in addition to their basic salary.

The LH-Bonus programme consists of a variable remuneration component relating to the reporting period. This is based both on value creation by the Company (as measured by the CVA; see the "Value-based management and targets" from p. 48) and on attaining personal targets. Depending on the management level, between 30 and 60 per cent of variable remuneration is linked to achieving the planned cash value added (CVA). Since 1997 we have also offered our managers an overarching and more long-term component in the form of the LH-Performance programme, which is renewed annually. This programme combines a personal investment by the participants in Lufthansa shares with the granting of appreciation rights.

Since 2002 the Executive Board has also been able to take part in this programme and since 2003 the same also applies to non-payscale staff. Lufthansa gives a discount on shares purchased as part of the LH-Performance programme. In return the shares are subject to a lock-up period of three years until the end of the programme. Since 2007 the appreciation rights have been made up of a performance and an outperformance option. A payment is made on the performance option at the end of the programme if the appreciation of the Lufthansa share over the entire duration exceeds a predetermined threshold, which is based on Lufthansa's cost of equity. The outperformance option generates a payment at the end of the programme if the Lufthansa share has performed better over the course of the programme than a basket made up of the shares of the main European competitors. The amount depends on the level of performance or outperformance, whereby both are capped.

This makes the participants shareholders of Lufthansa, taking on the risks and rewards that this involves. It also rewards them for a particular achievement by the Company that has been acknowledged by the capital markets. More information on our share programmes is available at i www.lufthansa.com/investor-relations.

**Results "LH-Performance"**

| | End of programme | Outperformance as of 31.12.2010 in % | Performance as of 31.12.2010 in % |
|---|---|---|---|
| LH-Performance 2010 | 2013 | 6 | 19 |
| LH-Performance 2009 | 2012 | 16 | 41 |
| LH-Performance 2008 | 2011 | 1 | 30 |
| LH-Performance 2007 | 2010 | 25 | –9 |

### Remuneration report in accordance with Section 315 Paragraph 2 No. 4 HGB

The current structure of Executive Board remuneration is intended to achieve a roughly equal balance between the three components fixed annual salary, variable annual bonus and remuneration with a long-term incentive effect and risk characteristics. This is subject to a satisfactory operating result and a significant performance and/or outperformance of the Lufthansa share. The Supervisory Board members receive fixed payments as well as a variable bonus depending on the net profit for the period, whereby total remuneration may not exceed EUR 100,000. 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 49" from p. 210.

## Value-based management and targets

### Company value to be increased sustainably

For more than ten years Lufthansa has applied a value-based management system to lead and manage the Group. This approach is reflected in all planning, management and control processes, so that the demands made by investors and lenders in terms of sustainable value appreciation of our company are firmly embedded in the whole system of corporate management. Our objective is to create sustainable value over the business cycle.

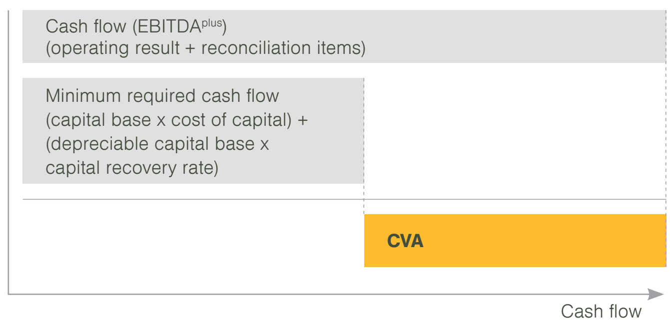
We review performance against targets on a regular basis and incorporate the results in our internal and external reporting. The value-based management system is also reflected in performance-related pay, see "Performance-related remuneration for managers" on p. 47.

### Increase in value is measured by CVA

The Lufthansa Group uses cash value added (CVA) as its main performance indicator. It measures the value contribution generated in the reporting period by the Group as a whole and by the individual business segments.

The CVA is an absolute residual amount, which is calculated by subtracting the cost of capital employed, expressed as the minimum cash flow required to conserve value, from the cash flow generated. If the cash flow generated is greater than the minimum cash flow required, the CVA is positive and reflects the corresponding value creation. The following graph shows how the individual parameters are calculated:

**Calculation of cash value added (CVA)**




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 in turn 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. We calculate the return on capital using the weighted average cost of capital (WACC), which includes both debt and equity. The following table shows the factors making up the cost of capital in the financial year 2010:

**Return on capital 2010**

| in % | |
|---|---|
| Risk-free market interest rate | 4.2 |
| Market risk premium | 5.7 |
| Beta factor | 1.1 |
| Proportion of equity | 50 |
| Proportion of debt | 50 |
| **Cost of equity** | **10.5** |
| **Cost of debt** | **5.4** |

We review these factors every year and update them as required for the following year's corporate planning and performance measurement. In doing so we bear the long-term orientation of the concept in mind and try to smooth short-term fluctuations. As a result the WACC can remain constant in some years even if individual elements change at short notice. This was the case with the regular review of individual parameters for 2010, where the sharp fall in base-rate interest more than offset the effect of higher risk premiums, resulting in a lower figure for WACC. As interest rates were expected to rise again, we nevertheless decided to maintain the WACC at its current figure of 7.9 per cent. It has since been recalculated for 2011 and reduced to 7.0 per cent.

On the basis of our 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. We factor in the different segment risks by means of individual costs of equity, and therefore total costs of capital, in order to ensure that the allocation of capital to projects in the business segments is risk-adjusted. These costs are applied by means of beta factors, which are reviewed every two years.

The following table illustrates the required return on capital for the Group and the individual business segments.

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

| in % | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Group | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 |
| Passenger Airline Group | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 |
| Logistics | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 |
| MRO | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 |
| IT Services | 7.6 | 7.6 | 7.9 | 7.6 | 7.6 |
| Catering | 7.9 | 7.9 | 7.6 | 7.9 | 7.9 |

The minimum required cash flow includes what is known as capital recovery (economic depreciation), in order to reflect the depletion of the Company's non-current assets in the production process. It is derived from depreciable non-current assets and represents the amount that we need to put by every year and invest 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 1.2 per cent of the capital base. The resulting minimum required cash flow for the year 2010 came to EUR 3.2bn (previous year: EUR 2.9bn).

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. We derive the operating portion of EBITDA$^{plus}$ 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 portion of EBITDA$^{plus}$ is added, comprising pro rata pre-tax earnings of non-consolidated equity investments, 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 Lufthansa's EBITDA$^{plus}$ came to EUR 3.3bn (previous year: EUR 2.0bn).

**Reconciliation EBITDA$^{plus}$**

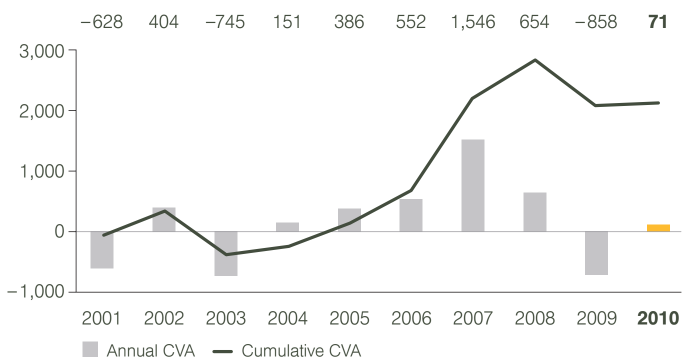
| in €m | **2010** | 2009 |
|---|---|---|
| **Operating result** | **876** | **130** |
| Depreciation and amortisation | 1,609 | 1,387 |
| Result from disposal of property, plant and equipment | 36 | 9 |
| Income from reversal of provisions | 234 | 187 |
| Impairment losses on intangible assets | –82 | –84 |
| Change in pension provisions before interests | 54 | 65 |
| **Operating EBITDA$^{plus}$** | **2,727** | **1,694** |
| Pro rata pre-tax results of non-consolidated equity investments | 181 | 178 |
| Interest income | 175 | 117 |
| Result from disposal of financial assets | 189 | 23 |
| **Financial EBITDA$^{plus}$** | **545** | **318** |
| **EBITDA$^{plus}$** | **3,272** | **2,012** |

In order to obtain the CVA the minimum required cash flow is then deducted from EBITDA$^{plus}$. For the Group this resulted in a CVA of EUR 71m for 2010. With this, we have again created value in the first year after the crisis. The clear improvement on the previous year's figure (EUR –858m) is largely due to the higher earnings, which more than offset the opposing effect of a higher minimum required cash flow. We intend to achieve this again in the current financial year. The outlook for the years ahead has indeed picked up substantially along with earnings development. We will then be able to proceed from the total value of EUR 2.1bn created since the concept was introduced and intend to increase it further.

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

| in €m | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Group | 71 | –858 | 654 | 1,546 | 552 |
| Passenger Airline Group | –198 | –691 | 346 | 768 | 317 |
| Logistics | 233 | –264 | 71 | 59 | 37 |
| MRO | 172 | 164 | 188 | 205 | 85 |
| IT Services | –23 | 3 | 29 | –16 | 32 |
| Catering | –28 | –68 | –17 | 21 | –50 |

**Performance of Lufthansa Group**
Cash value added in €m




We have a number of further financial targets in addition to value creation that are described more closely in the following chapter and in the “Financial strategy” on p. 53.

**We have exceeded many of our targets for 2010**

When we set our targets for the financial year 2010 a year ago (see “Forecast chapter” in the Annual Report 2009 on p. 141) we assumed that demand would improve over the course of the year. There was nevertheless still great uncertainty regarding the timing and the intensity of this recovery. From this perspective, other external factors, such as the oil price for example, could also have helped or hindered the achievement of these targets. It was nevertheless our aspiration to make the best of the situation for the Lufthansa Group, irrespective of the way these external parameters developed, and to cope with our claim to lead the airline industry in terms of profitability.

2010 turned out to be a year in which the economy recovered much more promptly than forecast, albeit at different dynamics depending on region. This recovery was accompanied by a rising oil price and disrupted by many one-off factors, including wide-ranging airspace closures. Thanks to its strong, broad-based formation, its solid financial position and the professional management of these developments in all its segments, the Lufthansa Group was able to use the growth to good advantage.

Throughout the Group we were prepared for the return of demand, unlike many of our competitors. We were helped by the fact that even during the crisis management of recent years we did not lose sight of the medium-term prospects and had prepared for growth opportunities or already seized them. This course was confirmed first by the much smoother management of the crisis in 2009 and now by the performance in the year of recovery in 2010, too.

We were able to hit almost all the financial targets set for the financial year and in some cases even exceed them. Of course there are plenty of challenges still to be faced. We will discuss these in more detail in the following chapters. The Executive Board of Deutsche Lufthansa AG is however highly satisfied with the course of business in 2010 and expresses its sincere thanks to all managers and staff in the Group for their hard work.

The following table gives an overview of the achievement of our argets. The respective chapters deal with individual aspects in more detail.

| **Target** | **Target achievement 2010** |
|---|---|
| Continue the course of profitable growth by increasing revenue and improving the operating result | EUR 27.3bn in revenue (+22.6 per cent) and EUR 876m in operating profit (EUR +746m) |
| Return to an adequate operating margin in the medium term | 4.1 per cent adjusted operating margin (+2.7 percentage points) in the first year after the crisis |
| All business segments maintain their strong competitive position | All segments are profitable, Passenger Airline Group, Logistics and Catering increase their operating margins |
| Restructure the new airlines and realise synergies in the airline group | Earnings improvements at Austrian Airlines and bmi, and wide-ranging cooperation to realise synergies |
| Maintain minimum liquidity of EUR 2.3bn | Liquidity of EUR 5.6bn |
| Maintain a strong balance sheet by having a high proportion of unencumbered aircraft | 68 per cent of the Group fleet is unencumbered, (80 per cent of the core Lufthansa Passenger Airlines and Lufthansa Cargo fleet) |
| Achieve a sustainable equity ratio of 30 per cent in the medium term | 28.4 per cent equity ratio (+4.9 percentage points) |
| Bring gearing back down to the target corridor of 40 to 60 per cent | Gearing: 50 per cent (–29.1 percentage points) |
| Resume dividend payments as soon as the conditions of the dividend policy are met | EUR 0.60 dividend proposal for the financial year 2010 |
| Generate free cash flow despite ongoing fleet renewal | EUR 1.6bn free cash flow at EUR 3.1bn cash flow from operating activities |
| Further funding of pensions with flexible approach | Contribution volume made as planned with Fraport stake and cash |
| Maintain investment grade rating | S&P's: BBB–, outlook improved to stable. Moody's: Ba1, outlook stable |
| Sustainable value creation (positive CVA) over the cycle | EUR 2.1bn CVA since 2000 including EUR 71m CVA in 2010 |

# Group strategy

↗ Global air traffic is increasing, yet is a notably cyclical business. ↗ Lufthansa's course in this industry is set on sustainable, profitable growth. ↗ Our core business segments form the basis for this. ↗ Further growth in the airline business can take place organically or together with partners. ↗ Consistently improving the Group remains a success factor for our strategy. ↗ The financial strategy provides support and creates the leeway for further operating and strategic corporate development.

### ↗ Exploiting opportunities to add value

The international aviation business stands for solid growth rates, but it is also distinctively cyclical. In this environment we have positioned and continue to develop the business segments in the Lufthansa Group with the aim of profitable growth. In economically challenging periods we never lose sight of the long-term goal of creating value, but continue to make use of opportunities in terms of markets and partnerships during crises as well. With foresight we review strategic options for their long-term value contribution to the Group. The growth prospects created in this way together with the increased competitiveness of the Lufthansa Group benefit all stakeholders: our customers, shareholders and employees, and not least the air traffic centres Germany and Europe. Competitive local policies make a major contribution to a balanced mix of mobility options and citizens' prosperity. At the same time, profitability remains our primary objective. As ecology and economy form a particular symbiosis in the aviation sector, we feel responsible for relieving the burden on the environment and conserving resources, for instance by means of extensive investment in a modern, fuel-efficient aircraft fleet.

The course that we have chosen is clearly mapped:

- We will continue to write our success story as one of the most attractive and profitable aviation groups with a global network and range of services.
- We offer our customers excellent quality and innovative service in all segments.
- We systematically align the profile of our processes and products with the needs of our customers and their demand patterns today, and as they are revealed for the future.
- We offer our customers, shareholders and staff attractive, long-term prospects.
- We will continue to grow profitably: organically, in partnerships and by acquisitions.
- We feel bound to create value.

As part of the value-based management, all areas of the Company are managed in line with the cash-value-added concept; see the chapter "Value-based management and targets" from p. 48. Continual cost management has a particular priority in the achieving of our targets. All business segments are making substantial efforts in this regard. The Group initiative Upgrade to Industry Leadership, under which by February 2010 some 140 projects had been identified in all segments with a sustainable annual earnings contribution of around EUR 700m, has meanwhile been brought to a successful close. In addition, we have launched further initiatives in all Group companies to safeguard our competitiveness and improve unit costs. For example the Climb 2011 project at Lufthansa Passenger Airlines aims to achieve a sustainable earnings improvement of EUR 1bn by the end of 2011 see chapter "Lufthansa Passenger Airlines" starting on p. 85.

### ↗ Mobility à la carte – high-quality products in all customer segments

The carriers in the Passenger Airline Group and Lufthansa Cargo offer demand-oriented mobility for passengers and freight in every segment. All customer segments are covered, from the budget flights of our Germanwings subsidiary to the premium product of Lufthansa Private Jet. This gives every Lufthansa customer the products and services that meet their needs on their preferred travel route from a single source.

In addition, our three other business segments MRO, IT Services and Catering offer high-quality services for airline customers inside and outside the Lufthansa Group. All segments derive mutual benefits from the complementary effects of high product standards and Lufthansa's very good reputation in the global air traffic industry. For instance, Lufthansa Technik has a decisive influence on the core Lufthansa brand image in terms of quality, safety and technical reliability.

### ↗ Core competences are a guarantee for sustained success

Thanks to our staff, their outstanding training and our experienced leadership team, we are in a position to deploy resources successfully and optimise them continuously. We are highly proficient in the core processes of air travel, such as operating procedures on the ground and in the air. Our objective is always to improve quality, costs and flexibility continuously – while maintaining our very high safety levels. In the field of innovation too, our companies continue to bring new ideas to market, enabling them to offer new products to all customers. In order to optimise our range of products constantly, our business segments implement customised solutions, for instance with a multitude of local production facilities in the Catering segment or by expanding the route network for our passengers. In the aviation industry the overarching management of networks is of paramount importance. In the past the Lufthansa Group has more than once demonstrated its ability to integrate new partners into the airline group successfully and can build on this in the future.

### ↗ Profitable growth underscores the claim to lead the European airline industry

Our crisis strategy and crisis management activities during the financial and economic turbulence have proven their worth and at the same time prepared the ground for taking part in air transport's current growth spurt. In economically strong phases and recognising the pronounced cyclical nature of our industry we took the necessary decisions that would equip us to deal with an economic downturn. These include the greatest possible degree of flexibility in terms of capacity and costs, rapid reactions to market changes, local entrepreneurship, taking advantage of opportunities and a solid financial profile. At Group and segment level we evaluate the opportunities and risks of the different markets constantly and adjust the growth scenarios flexibly.

We intend to participate in the forecast future growth, particularly in our core business of passenger transportation. This can come about by means of organic growth and also – as far as opportunities to create strategic and economic value arise – via the integration of partners into our airline group or via other partnerships, particularly the Star Alliance. Expanding and enhancing cooperations and alliances has the advantage of offering rapid market access at a modest investment and with a limited market-entry risk. Intensifying the scope of partnerships, as in the transatlantic joint venture Atlantic++, also enables further income and earnings potential to be realised. Further information on the development of the Star Alliance and on Atlantic++ can be found in the chapter "Passenger Airline Group" starting on p. 78.

### ↗ Entrepreneurship and flexibility are key to the Group's successful future development

The development of the Group and its organisational structure remains a fundamental component of our strategy and a success factor, which allows us to rise to the challenges set by constantly changing environmental and market conditions. Since Lufthansa made the extent of its vertical integration more flexible and sharpened its airline profile in the 1990s, the Group has developed into an alliance of operationally independent airlines. In this multi-airline and multi-service group all the partners benefit from the mutual exchange of best practices as well as from wide-ranging cost and revenue synergies. The Airline Development Board, which brings together the Group's Executive Board and the CEOs of the group airlines on a regular basis, permanently refines the airline group. The decentralised structures throughout the Group also promote profit responsibility and entrepreneurialism.

Given the limited financial and management resources it is nevertheless necessary now more than ever to concentrate on core competences. This applies equally to the Group as a whole and to the individual business segments. Their relevance is largely determined by their importance for the competitiveness of, and their interdependency and "competence fit" with, the strategic business segment Passenger Airline Group. If the activities of a business segment are less relevant for the Passenger Airline Group, we also examine solutions for developing this segment outside the Lufthansa Group. In future portfolio management activities we will be guided as hitherto in our decision making by the potential of a transaction for increasing value.

## Financial strategy

### ↗ Strong financial profile complements corporate development

Our financial strategy is aimed at securing the greatest freedom of action for the Group at all times in terms of operating, financial and strategic development. This means the Company's development is accompanied and secured by a strong financial profile.

Lufthansa has enjoyed the benefits of this financial strategy during the global financial and economic crisis of recent years. Equipped with strong liquidity and a sound financial constitution, Lufthansa had a clear advantage over its competitors during the crisis too. They enabled us to maintain our course despite strong headwinds, particularly in our capital expenditure, and to actively shape the future competitive situation while managing the crisis.

The consolidation of the new airlines and the crisis year 2009 had a number of significant effects on the Group's financial profile. As a consequence our target figures for the capital structure were undershot. The satisfying earnings development in the 2010 financial year has had a positive impact on these figures, however. It makes the achievement of the targets – where not already met – look very reachable, thereby preparing the Group for any economic opportunity or turbulence further into the future.

### ↗ Financial strategy follows clearly defined parameters

The financial strategy is an integral part of the overall strategy for the Lufthansa Group. Its main aspects are incorporated into all the Company's important decisions. The financial strategy is implemented via a number of clearly defined targets. In 2010 we added an additional target indicator. The performance indicator "debt repayment ratio" was introduced to assess and plan for a sustainable level of debt for the Group. It indicates the Group's capacity to repay debt. The target figure of 60 per cent was set so that when it is reached, the rating agencies' comparable indicators for an investment grade rating are sustainably met.

Furthermore, the following principles remain in force:

- The Group needs an adequate supply of liquidity to reduce refinancing risks. This is vital, particularly in view of the sometimes volatile customer and financial markets. As a strategic reserve Lufthansa holds minimum liquidity of EUR 2.3bn that is available at any time.
- We deal with the cyclical nature of our industry by means of a strong capital structure:
  – We strive for a sustainable equity ratio of 30 per cent.
  – Gearing including pension liabilities should move within a target range of 40 to 60 per cent.
- We maintain our financial and operating flexibility by having a high proportion of unencumbered aircraft.
- We attach great importance to having good creditworthiness in the eyes of lending institutions and rating agencies. Our aim is to safeguard the investment grade rating.
- We control financial risks by integrated risk management with the aim of smoothing price fluctuations.

**Debt repayment ratio**

| in €m | **2010** | 2009 |
|---|---|---|
| Cash flow from operating activities | 3,075 | 1,991 |
| Change in working capital | –475 | –129 |
| Interest income | 314 | 214 |
| Interest paid | –451 | –281 |
| **Adjusted cash flow from operating activities** | **2,463** | **1,795** |
| **Net indebtedness and pensions** | **4,167** | **4,905** |
| **Debt repayment ratio** in % | **59.1** | **36.6** |

### ↗ Dividend policy keeps the balance between sharing profit and preserving capital

Our dividend policy follows a clear logic and is embedded in our financial strategy: dividend payments are primarily oriented towards the Group's operating profit as reported under IFRS. After successful financial years we have distributed between 30 and 40 per cent of operating profit as a dividend in the past. However, this is subject to the ability to pay a dividend from the net profit for the year reported in the individual financial statements for Deutsche Lufthansa AG under HGB. The proposed amount of the dividend also considers the continued or successive achievement of our financial objectives. The continuity of this dividend policy means that our shareholders share in the success of the Lufthansa Group and we maintain the financial substance of the Company.

**Dividend** in €

| **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| 0.60 | – | 0.70 | 1.25 | 0.70 |

# Economic environment and course of business

↗ Global air transport recovered quickly from the crisis along with the general economic upswing. ↗ Sales grew worldwide in passenger traffic and even more steeply in cargo traffic. ↗ Consolidation is still a defining feature of the sector. ↗ There is still a lack of global solutions in the regulatory sphere, particularly concerning climate protection. ↗ Lufthansa benefited from the positive trend in 2010 and regained its former strength. ↗ The financial year was altogether even more successful than planned.

## Macroeconomic situation

### Global economy recovers faster than expected

After its severe slump in 2009, the global economy recovered surprisingly quickly in 2010, especially in the first half of the year. This was owed largely to expansive monetary and fiscal policies in many countries and an extended inventory cycle. World trade improved considerably at the same time. The economic recovery did not take root equally everywhere, however, and was mainly upheld by emerging economies in Latin America and Asia. The revival flattened out slightly in the second half of the year as impetus created by the inventory clearance dwindled and economic stimulus programmes expired and some countries had to consolidate. The pace of world trade also slackened. Economic developments were overshadowed by international exchange rate conflicts, giving rise to concerns about world trade. Nevertheless, global economic growth is still estimated at 4.1 per cent for the full year 2010 (previous year: –1.9 per cent).

### Regional growth rates vary

The US economy picked up significantly in the first half of the year. The inventory cycle and consumer spending contributed to growth, despite high unemployment and a higher savings rate. The expansive monetary and fiscal policies were pursued in the second half of the year. The US central bank decided to purchase a further USD 600bn in US government bonds by mid 2011 in order to stimulate domestic demand. Growth of 2.9 per cent is expected in 2010 (previous year: –2.6 per cent).

**GDP development**

| in % | 2010[1] | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| World | 4.1 | –1.9 | 1.8 | 4.1 | 4.2 |
| Europe | 2.0 | –4.1 | 0.5 | 3.1 | 3.4 |
| Germany | 3.6 | –4.7 | 0.7 | 2.8 | 3.6 |
| North America | 2.9 | –2.6 | 0.0 | 2.0 | 2.7 |
| South America | 5.6 | –1.9 | 4.1 | 5.4 | 5.4 |
| Asia / Pacific | 7.0 | 1.4 | 3.6 | 6.8 | 5.8 |
| China | 10.1 | 9.1 | 9.6 | 14.2 | 12.7 |
| Middle East | 4.1 | 0.6 | 5.7 | 5.8 | 7.7 |
| Africa | 4.6 | 2.5 | 5.1 | 6.1 | 5.8 |

Source: Global Insight World Overview as of 14.1.2011.
[1] Forecast.

As usual, the Asian economies present a very varied picture in terms of economic performance. In Japan economic growth softened over the course of 2010. The yen's strong rise against the US dollar hampered further exports and new stimulus packages were launched. The boost this gave to consumer spending is not expected to last, however. The Japanese economy is expected to have expanded by 4.3 per cent in 2010 (previous year: –6.3 per cent). The other Asian markets grew strongly over the course of 2010, albeit ever more slowly. Overall growth of 8.2 per cent is expected there for 2010 (previous year: 5.2 per cent). Some countries are therefore acting now to forestall any economic overheating by tightening the monetary reins and raising interest rates for example.

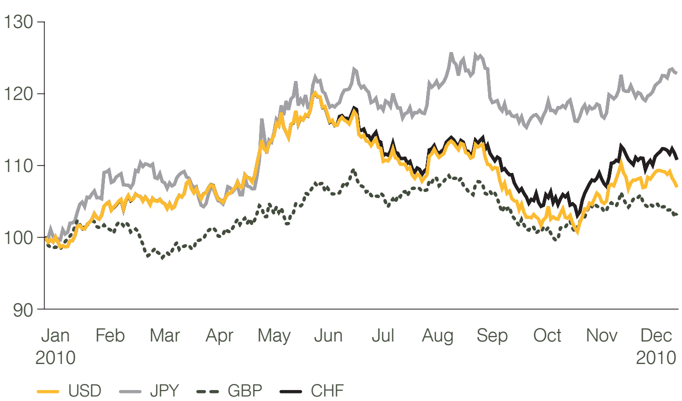
A sharp increase in construction spending and very robust consumer demand put China at the top of the table in terms of its economic performance. The Chinese economy is forecast to have grown by 10.1 per cent in 2010 (previous year: 9.1 per cent). For India an increase of 8.5 per cent in gross domestic product is predicted for 2010 (previous year: 6.8 per cent).

The European economy started the year with a fairly modest performance, partly due to poor weather conditions, but improved from the second quarter. The situation varies considerably between the European countries, however. The recovery of the global economy mainly benefited export-driven economies, above all Germany. Spain, Ireland, Italy and Greece recovered more slowly partly due to their strained public finances and as opportunities were missed to modify their construction and financial sectors. Growth in European gross domestic product is put at 2.0 per cent. Expected growth for Germany is put at 3.6 per cent.

### Exchange rate movements have no significant effect

Worries about government debt in some Euro countries and the USA were reflected in high fluctuation in exchange rate parities. Overall, the US dollar strengthened against the euro compared with the previous year. At year-end the US dollar exchange rate was 7.0 per cent higher than a year ago. On average over the year the rise was 5.1 per cent. The appreciation of the US dollar resulted in a net increase in Lufthansa's costs, especially for fuel and capital expenditure on aircraft.

**Currency development 2010** EUR 1 in foreign currency indexed to 100%




**Currency development** EUR 1 in foreign currency

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| USD | 1.3239 | 1.3945 | 1.4743 | 1.3615 | 1.2565 |
| JPY | 115.94 | 130.39 | 153.59 | 161.04 | 146.14 |
| GBP | 0.8574 | 0.8907 | 0.7901 | 0.6807 | 0.6817 |
| CHF | 1.3780 | 1.5095 | 1.5896 | 1.643 | 1.573 |

Source: Reuters, annual average daily price.

In terms of revenue Lufthansa benefited both from a stronger Chinese renminbi, which rose by an average of 5.7 per cent, and a more robust Japanese yen, which strengthened by an average of 10.9 per cent compared with the previous year. We try to smooth the effects of exchange rate movements by using natural hedges within the Group and structural hedging of the remaining exposure. Details of foreign exchange hedges can be found in "Risk and opportunities report" on p. 141 and in the Notes to the consolidated financial statements "Note 2" from p. 161. Taking these hedges into account, foreign exchange effects had a positive effect of EUR 204m on the operating result overall.

### Short- and long-term interest rates were at historically low levels

Both short- and long-term interest rates hit historically low levels over the course of 2010. In the first quarter 6-month Euribor continued its downward trajectory, falling by 5 basis points to below 1 per cent. The 10-year swap rate shed up to 130 basis points, reaching an all-time low of nearly 2.3 per cent. By the end of the year both yield curves had risen slightly again, however, and short-term rates were even higher than a year ago.

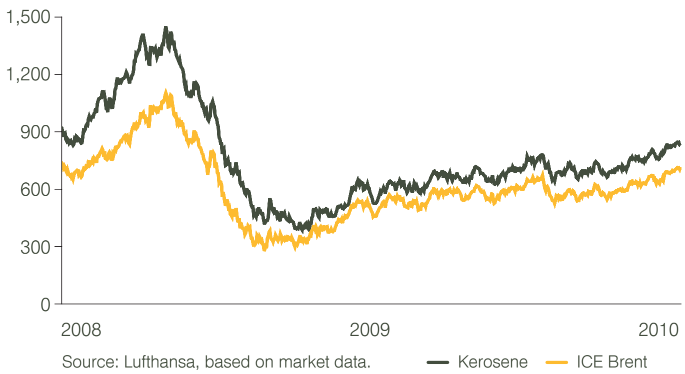
We use the positive correlation between the operating result, which is dependent on the strength of the economy, and short-term interest movements as a natural hedge and hold most of the financial liabilities at floating rates. Details are also included in "Risk and opportunities report" on p. 141.

### Oil price rises sharply again in 2010

Oil prices swung widely in 2010 too: the price for a barrel of ICE Brent moved with great volatility within a spectrum ranging from USD 70/barrel to USD 95/barrel. At year-end the price had risen to nearly USD 95/barrel. The average price was USD 80.36/barrel, around 28 per cent higher than in the previous year (USD 62.74/barrel).

The jet fuel crack, the price difference between crude oil and kerosene, moved between USD 7.50 and USD 12 per barrel in the first half of 2010. At the beginning of the second half of 2010 jet fuel crack broke out of a sideways trend that had lasted for almost 12 months, rising to over USD 13.50/barrel. This swift, steep rise was not sustainable given comfortable stocks of kerosene and solid production by refineries in the third quarter of 2010. Rising demand and the early advent of winter in Europe cemented the price difference between crude oil and kerosene in the fourth quarter at around USD 13/barrel.

**Price development of crude oil and kerosene** in USD/t




Source: Lufthansa, based on market data.

Prices for kerosene also went up over the course of 2010 in conjunction with higher crude oil prices. It fluctuated during the year between USD 625 and USD 845 per tonne. On average over the year the price for kerosene was USD 721 per tonne, making it around USD 160 per tonne, or some 28.5 per cent, more expensive than in 2009. As fuel costs are so important for the Group's profitability we pursue a policy of continuous hedging with the aim of reducing the extent of price fluctuations. Its principles, instruments and effects are explained in more detail in "Risk and opportunities report" on p. 140.

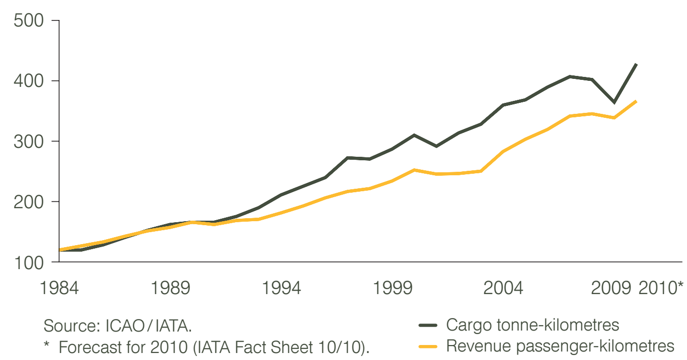
## Sector developments

### Air traffic climbing

In conjunction with the general economic upturn, global passenger and airfreight traffic also recovered swiftly from the crisis in 2010. Despite the European airspace closure in April it has seen whirlwind growth since the beginning of the year. By mid year, sales in global passenger and cargo traffic were back up at their early 2008 levels. According to current reports by IATA the airline industry registered an increase of 8.2 per cent in international passenger traffic and 20.6 per cent in international freight traffic in 2010. Average yields, which collapsed during the crisis, only recuperated hesitantly, however, and in some cases are still well below pre-crisis levels.

Premium business with First and Business Class customers on long-haul routes is the main earnings driver for the network airlines and it bounced back strongly, particularly in Asia. By contrast, the recovery in inner-European air travel was much more sluggish. By November 2010 ticket sales for First and Business Class in international traffic had risen by 9.3 per cent, whereas growth in inner-European traffic only amounted to 3.0 per cent. Overall, and after correcting its forecasts several times, IATA is now predicting a profit for the industry as a whole of USD 15.1bn for the financial year 2010 (previous year: USD –9.9bn).

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




Source: ICAO/IATA.
* Forecast for 2010 (IATA Fact Sheet 10/10).

### Large geographic differences in traffic performance

The strongest growth was observed primarily in Asia, Africa and the Middle East. Of particular note is the expansion of the airlines from the Middle East. In 2010 they registered an increase in passenger traffic of 17.8 per cent. Airlines in Asia and Africa recorded a sales increase in passenger traffic of 9.0 per cent and 12.9 per cent respectively. North America reported relatively modest growth of 7.4 per cent. As a result of the slower economic recovery, various strikes and the temporary airspace closure, sales growth for European airlines only came to 5.1 per cent.

### Whirlwind recovery in airfreight traffic

Thanks to the resurgence of business activity, which feeds through directly into freight traffic, the global airfreight market recovered at lightning speed in 2010. In the first half-year international airfreight traffic saw prodigious growth of 30 per cent. Since the third quarter the growth rate has fallen back as expected, due to the base effect. According to the IATA forecast, international cargo traffic expanded by a total of 20.6 per cent in 2010. Here too, there are regional differences: although most regions saw growth of more than 20 per cent in airfreight volumes, Europe posted comparatively weak growth of 10.8 per cent.

**Sales performance 2010**

| in % compared with previous year | Revenue passenger-kilometres | Cargo tonne-kilometres |
|---|---|---|
| Europe | 5.1 | 10.8 |
| North America | 7.4 | 21.8 |
| Central and South America | 8.2 | 29.1 |
| Asia / Pacific | 9.0 | 24.0 |
| Middle East | 17.8 | 26.7 |
| Africa | 12.9 | 23.8 |
| **Industry** | **8.2** | **20.6** |

Source: IATA Carrier Tracker 12 / 10.

### Consolidation of the sector continues

Airlines are increasingly trying to strengthen their strategic positions by means of mergers and alliances and thus to extend their networks. In March 2010 Air China became majority stakeholder of Shenzhen Airlines. In September the two American Star Alliance members United and Continental joined forces. In Latin America LAN Airlines and the Brazilian airline TAM are planning a merger. A transatlantic alliance was also signed between the three Oneworld members British Airways, American Airlines and Iberia, with British Airways and Iberia merging to form one of the world's largest airlines.

Star Alliance extended its presence on the South American continent by welcoming three Latin American carriers TAM, Avianca-TACA and Copa Airlines. The accession of Aegean Airlines and recognition of Air India and Ethiopian Airlines as future members also contribute to a further reinforcement of this alliance's route network. In 2010 Air Berlin and the Russian carrier S7 Airlines announced that they would join the Oneworld alliance. Skyteam also announced new members: Shanghai Airlines, Garuda Indonesia and Aerolineas Argentinas.

2010 also saw a number of insolvencies in the airline industry, however. They included Japan Airlines (JAL), the German companies Blue Wings and Hamburg International, and Air Slovakia.

More information on the sectors of relevance to our business segments can be found in the respective comments starting on p. 78.

## Regulatory and other factors

The business segments in the Lufthansa Group are subject to numerous legal and regulatory influences. Tentative progress was made in some areas in 2010, such as the Single European Sky. In many cases there is still a need for clarification and correction, however, in order to avoid one-sided solutions that distort competition. This applies particularly to climate protection.

**Varying international security standards**

In international air traffic the security measures required vary from country to country. This leads to a permanent increase in the amount of information about passengers and crew that has to be sent to the relevant authorities. This development not only leads to continuous alterations in airlines' operating processes, but also causes considerable additional expense as well as lingering legal uncertainty due to conflicting legal norms. Lufthansa and other partners are therefore lobbying for a harmonisation of frameworks and procedures worldwide. After the incidents in airfreight traffic, the focus is also shifting to air safety measures in other countries outside the EU. Lufthansa advocates that national and European authorities should increase their surveillance of air safety processes in other countries.

**Regional unilateralism instead of necessary global solutions to protect the climate**

The topic of climate protection continues to have a high priority for the airline industry. It is therefore the first industry worldwide to have set itself targets for reducing $CO_2$ emissions – based on the comprehensive four-pillar strategy that Lufthansa helped to elaborate. The essence and advantage of this IATA Global Approach is that it represents a global solution to a worldwide problem.

The EU emissions trading scheme that begins for air transport on 1 January 2012 has also defined climate protection as a goal, but only constitutes a regulatory instrument at regional level. Distortion of competition and inefficiencies are accepted as necessary. Furthermore, Lufthansa believes the EU and its member states have a lot more work to do concerning the transposition of the directive into national law, for example on the basis for evaluation in light of the distortions in the base year 2010 and in terms of uniform reporting standards. For instance the 17 companies in the Lufthansa Group that are affected by emissions trading have to report to seven different national authorities – using different formats and standards in each case. This produces considerable extra costs for the companies, on top of many other individual expenses. In line with the objectives defined by the German federal government in its coalition agreement, competitive neutrality is still of the utmost importance for the Lufthansa airline group when emissions trading in air traffic is introduced.

In spite of the sometimes difficult circumstances, preparations for emissions trading are well advanced in all companies of the Lufthansa Group. Together with the entire air transport industry, Lufthansa continues to call for a global approach – and has already achieved some initial success. The International Civil Aviation Organisation (ICAO) in collaboration with industry representatives was the first UN organisation to adopt worldwide aspirational targets for reducing $CO_2$. Until 2020, efficiency gains of 2 per cent per year and a further 2 per cent per year from 2021 are to be achieved. From 2020 emissions are intended to remain constant, despite expected growth in traffic. Air transport is therefore the first sector to have given global undertakings on this subject – with the leading involvement of Lufthansa. It is now the responsibility of national governments to take this promising approach further, particularly those of the USA, China, India, Russia and Brazil, and those in the European Union.

The introduction of a national air traffic tax as adopted by the German federal government from 1 January 2011 does not contribute to a global solution. The unilateral taxation of departures from Germany at a rate depending on the distance to be flown will have a massively negative impact on the competitive playing field for German companies involved in air transport, exports and tourism.

**Progress achieved on the way towards a Single European Sky**

Cross-border organisation of airspace management of flight safety is a vital pillar of a comprehensive climate and sustainability policy. In 2004 the EU adopted the Single European Sky (SES) initiative for this very purpose, but its implementation is still very slow. In 2009 the EU passed a regulation revising SES (SES II), which is intended to expand the scope of SES and expedite its realisation. In 2010 a procedure was introduced establishing performance targets for air traffic controllers. Furthermore, in December 2010 Germany, Belgium, France, Luxembourg, the Netherlands and Switzerland signed an international treaty to establish the Functional Airspace Block Europe Central (FABEC). This is intended to subsequently make European airspace management considerably more efficient. At the same time the aim is to compel providers of air traffic control services to be more efficient. If this succeeds, for Lufthansa it will mean more airspace capacity, fewer delays, more stable flight plans, lower air traffic control fees and considerable savings in fuel and emissions.

**Frankfurt hub still burdened by potentially restrictive night flight rule**

Implementing the approved expansion of Frankfurt Airport is highly important for securing further growth of air transport in Germany. The official approval of the plan, however, contains operational regulations that do not adequately meet the requirements of Lufthansa Group companies as brought forward in the administrative proceedings to date. Among other things, the number of night flights between the hours of 11 p.m. and 5 a.m. is limited to 17. These are to be used by carriers based at Frankfurt Airport, with priority for pure cargo flights.

Deutsche Lufthansa AG and Lufthansa Cargo AG appealed to the administrative court in Kassel against the restriction of night flights but the appeals were dismissed in a ruling issued on 21 August 2009. The court upheld the expansion plans. In the opinion of the court, even the flight movements permitted by the official approval documents do not give sufficient consideration to the statutory right to peace and quiet during the night. According to the Kassel administrative court there is virtually no scope for approving scheduled flights during this period. Both the opponents of the expansion and the federal state as respondent were given leave to appeal against the ruling insofar as it annulled the night flight regulations, but Lufthansa was not. The federal state has appealed against the ruling. Lufthansa is attempting to obtain leave to appeal by initiating the appropriate legal proceedings. At present it is not possible to predict the outcome of the proceedings with any degree of certainty.

**Consumer protection law is tightened further**

Consumers' rights are protected by numerous legal regulations. They stipulate for instance that ticket prices must show all costs clearly and that price discrimination between customers in Europe is not permitted. The internet also creates pricing transparency and thereby increases the influence of consumers. For Lufthansa this means reinforcing our market position as a quality provider with tailored products and excellent service for different customer groups. The pricing practice common in the industry has been investigated in the German courts in response to litigation by consumer protection agencies. The terms and conditions at issue stated that tickets may only be used in full and in the order booked. Otherwise the tickets lost their validity and the price was recalculated for the route actually taken.

In April 2010 the Federal Court of Justice ruled that this clause was invalid. The court's reasoning nevertheless opened up the possibility of making transport dependent on payment of a surcharge based on the actual route. All in all, the court has therefore vindicated Lufthansa's wish to prevent the system of fares from being undermined. As the disputed rule on the order of flight coupons is standard in the industry and included in the IATA guidelines, the definitive and ultimately positive ruling has no adverse consequences for Lufthansa.

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. According to a ruling by the ECJ in November 2009, airlines are also obliged to pay this compensation if arrival is delayed by more than three hours. The ruling is legally disputed as the court interpreted the DBC regulation (Regulation (EC) 261/2004) in a way contrary to its wording, which constitutes interference in the powers of the legislature. This is made worse by the fact that the interpretation has a retroactive effect, which is against the principle of legality. No appeals are possible against the ruling. The High Court in London referred the matters in dispute back to the ECJ in summer 2010.

National courts are generally restrictive in admitting exoneration due to technical problems and only accept this argument in narrowly defined cases. Claims for compensation for delays will not be heard in the United Kingdom following the referral. Otherwise, most national courts now apply the regulation in the event of delays as well. There is hope that other national courts will refer cases back to the ECJ as well. Whether the ECJ will change its ruling is impossible to predict. The situation is exacerbated by the fact that increasing public pressure has led the German Federal Aviation Authority to treat every breach of the regulation on DBC as an administrative offence, imposing 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. Particularly given the ECJ ruling, it is not possible to say how many cases are to be expected and to what extent Lufthansa will be able to defend itself successfully against the German Federal Aviation Authority or by seeking judicial review from the courts.

**Regulation of over-the-counter derivatives trading**
In both Europe and America efforts are currently being made to regulate over-the-counter (OTC) derivatives. For Lufthansa the use of derivatives for hedging is an essential part of risk management, as it enables fluctuations in oil prices, exchange rates and interest rates, in aircraft financing for example, to be smoothed. To date Lufthansa has been able to carry out these transactions directly. The discussion, which also applies to 'real' transactions, such as commodities hedging, as to whether to require the use of central counterparties or margin accounts, has not yet come to a final conclusion. Both would represent a cash expense for the Company. Lufthansa continues to lobby for a specific set of rules for companies that are not part of the financial sector and only use derivatives to hedge the underlying exposure from their industrial businesses.

## Overview of the course of business

**Lufthansa recovers swiftly from the financial and economic crisis**
The Lufthansa Group benefited from the global economic upswing in 2010, quickly regaining its former strength after the crisis year in 2009. The main drivers behind this successful financial year were gratifying sales and revenue trends in cargo and intercontinental passenger business, the positive effects of cost-cutting measures and increasing use of synergy potential in the airline group.

At the beginning of the year, the incipient market recovery was marred by various turbulent, albeit non-recurring factors. The hard winter and the flight cancellations due to the pilots' strike and airspace closure both weighed on the result. Rapid growth rates in sales, load factors and pricing then carried the Group to record earnings in the third quarter. Lufthansa Passenger Airlines reacted to the economic revival by adjusting capacities, without having to reduce prices. Lufthansa Cargo benefited particularly well from resurgent demand, reporting record profits in 2010. The resurgent oil price and rising pricing pressure in European traffic held back the airborne companies.

In aggregate the earnings contribution from the non-flying companies was fairly stable. As a late-cycle business, Lufthansa Technik experienced a decline in its operating result compared with the record level of 2009, as was expected. Lufthansa Systems also reported lower earnings and is countering the ongoing structural shifts in its market with a wide-ranging restructuring programme launched in 2010. By contrast, LSG Sky Chefs benefited particularly from the rally in premium business, generating an operating profit that even exceeded the figure for 2009 which included a positive one-off effect.

In line with expectations, bmi and Austrian Airlines, which were consolidated last year, continued to weigh significantly on the result. The restructuring is going to plan, however, and has already achieved a number of initial successes. The cost-cutting measures being implemented in the Group are also to be continued, in order to increase the level of profitability sustainably and create value.

## Significant events

**Portfolio adjustments strengthen balance sheet and cash flow**
The Lufthansa Group reinforced its equity ratio and cash flow in 2010 by means of several adjustments to its investment portfolio. In April 2010 the initial public offering of Amadeus IT Holding S.A. delivered a EUR 464m boost to shareholders' equity. At the time of the IPO Lufthansa held a stake of around 11.6 per cent in the Spanish company. The sale of shares as part of the flotation reduced this stake to around 7.6 per cent at present. This generated additional revenue of EUR 97m and a book gain of EUR 67m. As of 31 December 2010 the equity investment in Amadeus IT Holding S.A. had a market value of EUR 534m.

At the end of June Lufthansa transferred some 8.5 per cent of its Fraport shares to the pension fund to back up its pension obligations. A book gain of EUR 94m was realised. Another contribution was made in cash in the second half-year.

The improvement in our financial profile and the economic environment for the airline industry led to an upgrade in our rating. The rating agency Standard & Poor's improved its outlook for Deutsche Lufthansa AG's credit rating (BBB–/A-3) from negative to stable.

### One-off effects impact course of business in the first half-year

The severe winter weather in January and in December had a considerable impact on flight operations and resulted in numerous cancellations. They generated additional expenses, such as the extra cost of de-icing aircraft for instance. In February a one-day strike by cockpit staff caused severe disruption to flight operations.

The eruption of the Icelandic volcano Eyjafjallajökull in April precipitated wide-ranging airspace closures throughout Europe. Some countries shut their airports altogether and in Germany, too, some airports were closed, with only limited take-off and landing possible at others. At times, the authorities issued a blanket ban on all air traffic. It took five days for flight operations to get back to normal again. Altogether 10,562 flights had to be cancelled at Lufthansa Passenger Airlines alone in April.

### Key decisions taken on future management and capital expenditure

In September 2010 the Supervisory Board of Deutsche Lufthansa AG appointed Christoph Franz, then Deputy CEO, to the post of Chairman of the Executive Board and CEO with effect from 1 January 2011. He thereby succeeds Wolfgang Mayrhuber as CEO. Also with effect from 1 January 2011, Carsten Spohr was made Executive Board member responsible for Lufthansa Passenger Airlines. Detailed information on the changes in the Executive Board is provided on p. 47.

The Supervisory Board also approved orders for new aircraft that will advance the renewal and expansion of the Group fleet. Overall, Lufthansa ordered 56 new aircraft for the Group's airlines in the reporting year. They are to be delivered successively from 2012 onwards. More information on the Lufthansa Group fleet can be found from p. 74.

## Overall assessment of business performance

In the opinion of the Executive Board the Lufthansa Group delivered a very good performance in 2010. Despite the resurgent oil price and numerous non-recurring expenses, such as the pilots' strike and the airspace closures, the Group generated a profit that was much better than expected and higher than that of many competitors. All business segments have supported this success with positive earnings contributions, and some have been able to harness the recovery in demand in their markets to achieve impressive earnings growth.

The foundations for this performance were laid during the crisis management of recent years, which for all its focus on effective short-term cost and capacity measures, never lost sight of medium-term development opportunities. This is a basis which the business segments in the Group can now build on. Lufthansa was able to manage the crisis and make use of the upswing thanks to its financial stability, the flexibility of its cost and capacity base, and above all the energy and commitment of the Group's managers and staff.

The Group's financial profile improved in line with earnings. Adjustments to the investment portfolio (e.g. Amadeus, Fraport) also played their part. The equity ratio of 28.4 per cent is only just short of the target. Net indebtedness and gearing are both lower. The stronger financial profile also brought an improvement in the rating outlook.

Cash value added, the main indicator for value creation in the Group, improved sharply year on year as a result of this performance, to EUR 71m. With this, in the first year after the crisis, a return on the cost of capital was earned and value was created again. All efforts in the segments remain directed at keeping costs under control, exploiting growth opportunities and achieving a continued increase in profitability.

## Standards applied

The consolidated financial statements for 2010 and the quarterly reports are prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union (EU). The commercial law provisions of Section 315a Paragraph 1 of the German Commercial Code (HGB) have also been applied. All mandatory standards and interpretations for the 2010 financial year were respected.

On 1 January 2010 it became compulsory to use the amendments to IAS 39 Financial Instruments: Recognition and Measurement. This led to changes in the reporting standards. To facilitate comparison, previous years' figures presented in this report have been calculated as if the amended standards had already been applied last year. The other standards and interpretations applicable for the first time as of 1 January 2010 did not have a significant effect on the Group's net assets, financial and earnings position in the reporting period. For more information see "Notes to the consolidated financial statements" from p. 156.

## Earning position

↗ Strong business performance and a larger group of consolidated companies led to an increase of 20 per cent in operating income to EUR 30bn. ↗ This growth stems largely from higher traffic revenue. ↗ Operating expenses went up at the much slower rate of 17 per cent. ↗ All business segments generated an operating profit; the figure for the Group came to EUR 876m. ↗ Lufthansa achieved earnings per share of EUR 2.47.

### Revenue and income

**Traffic figures of the Lufthansa Group's airlines***

| | | 2010 | 2009 | Change in % |
|---|---|---|---|---|
| Passengers carried | thousands | 91,157 | 77,315 | 17.9 |
| Available seat-kilometres | millions | 235,837 | 208,226 | 13.3 |
| Revenue seat-kilometres | millions | 187,000 | 162,286 | 15.2 |
| Passenger load factor | % | 79.3 | 77.9 | 1.4 pts |
| Freight/mail | thousand tonnes | 2,023 | 1,712 | 18.2 |
| Available cargo tonne-kilometres | millions | 15,430 | 14,372 | 7.4 |
| Revenue cargo tonne-kilometres | millions | 10,491 | 8,706 | 20.5 |
| Cargo load factor | % | 68.0 | 60.6 | 7.4 pts |
| Total available tonne-kilometres | millions | 39,000 | 35,469 | 10.0 |
| Total revenue tonne-kilometres | millions | 29,033 | 24,943 | 16.4 |
| Overall load factor | % | 74.4 | 70.3 | 4.1 pts |
| Flights | number | 1,021,266 | 899,928 | 13.5 |

* Lufthansa Group without Germanwings.

The considerable improvement in the course of business and the effects of the larger group of consolidated companies propelled the Lufthansa Group's operating income up by EUR 5.1bn to EUR 30.1bn (+20.4 per cent). Adjusted for the consolidation changes the increase came to 12.6 per cent. This performance stems primarily from the positive development of traffic revenue. But other revenue and other operating income also rose in the reporting year.

**Traffic revenue grew by 26.5 per cent**

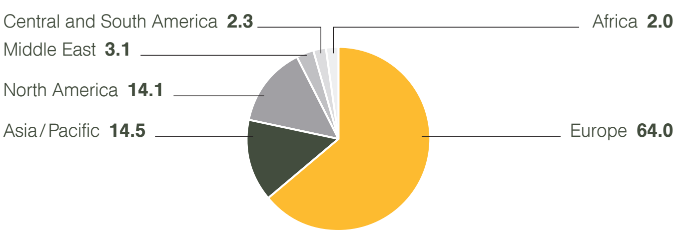
Traffic revenue for the Group climbed steeply by 26.5 per cent to EUR 22.3bn (adjusted for consolidation changes: +16.2 per cent). This increase in revenue was attributable to developments in volumes (7.3 per cent), currency effects (4.6 per cent) and changes in the group of consolidated companies (10.3 per cent). Higher prices led to a revenue increase of 4.3 per cent.

**Revenue and income**

| | 2010 in €m | 2009 in €m | Change in % | Adjusted for changes in the group of consolidated companies in % |
|---|---|---|---|---|
| Traffic revenue | 22,268 | 17,604 | 26.5 | 16.2 |
| Other revenue | 5,056 | 4,679 | 8.1 | 7.6 |
| **Total revenue** | **27,324** | **22,283** | **22.6** | **14.4** |
| Changes in inventories and work performed by the entity and capitalised | 165 | 225 | −26.7 | −26.7 |
| Other operating income | 2,655 | 2,531 | 4.9 | 0.1 |
| **Total operating income** | **30,144** | **25,039** | **20.4** | **12.6** |

The Passenger Airline Group business segment accounts for the largest share of traffic revenue at 86.2 per cent. It reported a total of around EUR 19.2bn, a rise of 24.3 per cent on the previous year. Greater volumes and the previous year's additions to the group of consolidated companies accounted for 5.5 per cent and 11.3 per cent of the increase respectively. Higher prices (+3.2 per cent) and positive exchange rate movements (+4.3 per cent) also contributed to the rise.

**Traffic revenue Group** in %



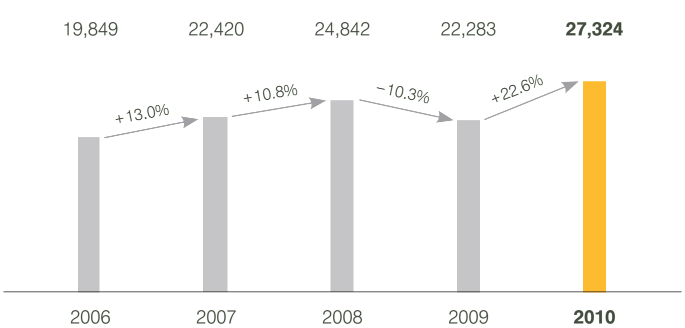

In the Logistics business segment the powerful economic recovery drove traffic revenue up even more steeply, by 42.8 per cent to EUR 2.6bn. Increased volumes accounted for 19.9 per cent and higher prices for 14.8 per cent. Foreign exchange movements added 8.1 per cent to traffic revenue. Overall, the Group's traffic revenue now makes up 81.5 per cent of its total revenue (previous year: 79.0 per cent).

### Other revenue up by 8.1 per cent

Other revenue is primarily generated in the MRO, Catering and IT Services segments, and to a lesser extent in the Passenger Airline Group and Logistics as well. It came to EUR 5.1bn, or 8.1 per cent above the figure for the previous year.

The MRO segment increased its other revenue to EUR 2.4bn (+3.3 per cent) and Catering to EUR 1.7bn (+8.0 per cent). Revenue in the IT Services segment fell by 4.9 per cent to EUR 232m. The airborne companies in the Passenger Airline Group and Logistics segments contributed EUR 1.2bn (+34.7 per cent, adjusted for consolidation changes: +32.0 per cent) to other revenue.

**Development of revenue** in €m
**Change in revenue** in %




**External revenue by segment**

| 2010 | External revenue in €m | Year on year change in % | Share of total revenue in % |
|---|---|---|---|
| Passenger Airline Group | 20,233 | 24.7 | 74.0 |
| Logistics | 2,770 | 43.7 | 10.1 |
| MRO | 2,373 | 3.3 | 8.7 |
| IT Services | 232 | –4.9 | 0.9 |
| Catering | 1,716 | 8.0 | 6.3 |

### Revenue dominated by Passenger Airline Group

The Group's external revenue increased in total by 22.6 per cent to EUR 27.3bn. The Passenger Airline Group's share of total revenue went up to 74.0 per cent, largely due to the better course of business and changes in the group of consolidated companies. While the revenue share of the Logistics segment rose to 10.1 per cent, the other segments' shares fell accordingly.

A regional breakdown of revenue by sales location is given in the segment reporting, see the Notes to the consolidated financial statements "Note 47" from p. 204. 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 on p. 82 and p. 97.

### Other operating income lifted by book gains

Other operating income rose by 4.9 per cent to EUR 2.7bn. The increase is largely due to book gains of EUR 246m on asset disposals (previous year: EUR 51m). This includes realised gains on the transfer of 8.5 per cent of the Fraport shares to the Lufthansa Pension Trust (EUR 94m) and book gains of EUR 67m on the sale of 6.2 million shares in Amadeus IT Holding S.A.. Included in the EUR 39m income from write-backs (previous year: EUR 14m) were reversals of EUR 15m on previously impaired loan receivables and EUR 9m of appreciation on loans in foreign currencies due to exchange rate factors. Income from write-backs of provisions rose to EUR 234m (previous year: EUR 187m).

Income from compensation for damages of EUR 67m (previous year: EUR 132m) includes income of EUR 25m in insurance payments in connection with Lufthansa Cargo's MD-11 incident in July 2010. In the previous year, this included compensation payments for the internet system FlyNet and income from insurance payments in connection with an LSG Sky Chefs claim in Scandinavia totalling EUR 69m. Exchange rate gains on the translation of receivables and liabilities denominated in foreign currencies and from realised currency hedges were down by EUR 72m. Corresponding exchange rate losses are accounted for in other operating expenses. Income from computerised distribution systems also fell by EUR 34m.

Other items did not vary significantly compared with the previous year. "Note 6" on p. 168 in the Notes to the consolidated financial statements contains a detailed list of other operating income.

## Expenses

Operating expenses rose by 16.7 per cent, much less than earnings did, to EUR 28.9bn. Adjusted for the expansion of the group of consolidated companies the previous year the increase came to 8.3 per cent. The effects of consolidating bmi and Austrian Airlines for the full year are visible in all items of operating expenses, particularly in the cost of materials and services and staff costs.

**Higher fuel expenses drive up the cost of materials and services**

The cost of materials and services went up by 21.0 per cent to EUR 15.4bn in the financial year 2010 (adjusted for consolidation changes: +11.7 per cent). This was overwhelmingly due to higher fuel expenses. The enormous increase of 41.5 per cent to EUR 5.2bn accounts for the higher prices (including fuel hedging) of 21.2. per cent and the change in the group of consolidated companies accounts for 11.2 per cent. In addition, 1.9 per cent greater volumes and the stronger US dollar (+7.2 per cent) also nudged up expenses. Price hedging cut fuel costs by a total of EUR 21m in the financial year.

Other raw materials, consumables and supplies were up by 7.0 per cent to EUR 2.6bn. Adjusted for changes in the group of consolidated companies they rose by 4.3 per cent.

Fees and charges rose by 21.8 per cent, largely due to consolidation effects, to EUR 4.6bn. Without the airlines newly consolidated last year, the increase was 6.9 per cent, mainly due to higher handling charges (+7.1 per cent) and higher air traffic control charges (+6.9 per cent). Other purchased services were up by 5.8 per cent to EUR 3.1bn, almost solely due to the enlarged consolidation base.

**Expenses**

| | **2010** in €m | 2009 in €m | Change in % | Percentage of operating expenses in % | Adjusted for changes in the group of consolidated companies in % |
|---|---|---|---|---|---|
| Cost of materials and services | 15,370 | 12,700 | 21.0 | 53.2 | 11.7 |
| of which fuel | 5,158 | 3,645 | 41.5 | 17.8 | 30.3 |
| of which fees and charges | 4,582 | 3,762 | 21.8 | 15.9 | 6.9 |
| of which operating lease | 246 | 281 | −12.5 | 0.9 | −27.0 |
| Staff costs | 6,659 | 5,996 | 11.1 | 23.0 | 4.4 |
| Depreciation | 1,682 | 1,475 | 14.0 | 5.8 | 5.2 |
| Other operating expenses | 5,193 | 4,597 | 13.0 | 18.0 | 5.1 |
| of which sales commissions paid to agencies | 500 | 447 | 11.9 | 1.7 | 0.9 |
| of which indirect staff costs and external staff | 780 | 777 | 0.4 | 2.7 | −5.3 |
| of which rental and maintenance expenses | 789 | 717 | 10.0 | 2.7 | 2.5 |
| **Total operating expenses** | **28,904** | **24,768** | **16.7** | **100.0** | **8.3** |

**Staff costs rise by 11.1 per cent**
Staff costs rose by 11.1 per cent to EUR 6.7bn. On average over the year, the Group had 117,066 employees, 4.2 per cent more than the year before. Excluding consolidation changes, staff costs rose by 2.2 per cent, while the average number of employees was 4.4 per cent lower. The rise stemmed primarily from higher additions to pension provisions, higher performance-related pay and special payments and additional expenses due to exchange rate movements.

**Depreciation and amortisation up by 14.0 per cent**
Depreciation, amortisation and impairment came to EUR 1.7bn in the financial year (+14.0 per cent). Depreciation of aircraft, mainly due to new purchases from 2009 and 2010, and consolidation changes accounted for EUR 197m of the increase. Out of total impairment losses of EUR 72m, EUR 47m was incurred on five Boeing B737-500s, two Airbus A330-200s, one Airbus A321-200, 18 Canadair Regional Jet 200s and four Cessna Citations. Some of these aircraft have already been retired, others are to be successively decommissioned or sold by the end of 2011 due to the current corporate plans. Further write-downs of EUR 16m on aircraft and repairable spare parts for aircraft, which are shown in the balance sheet under assets held for sale, are included in other operating expenses. Moreover, other impairment charges relate to the loss of an MD-11 at Lufthansa Cargo in July 2010 (EUR 9m) as well as to EUR 15m from irrecoverable intangible assets in preparation.

**Other operating expenses increase by 13.0 per cent**
Other operating expenses rose by 13.0 per cent, or 5.1 per cent adjusted for consolidation changes. Additional exchange rate losses of EUR 216m were behind the increase, largely owing to the higher US dollar rate. Corresponding exchange rate gains are accounted for in other operating income. On the other hand, lower expenses for computerised distribution systems, (EUR –31m), fewer losses on current financial investments and receivables (EUR –37m) and reduced spending on advertising and sales promotion all kept the increase in check. Staff-related other expenses also fell by EUR 41m. Extending the group of consolidated companies increased other operating expenses by 7.9 per cent. The other items did not vary significantly compared with last year.

## Earnings development

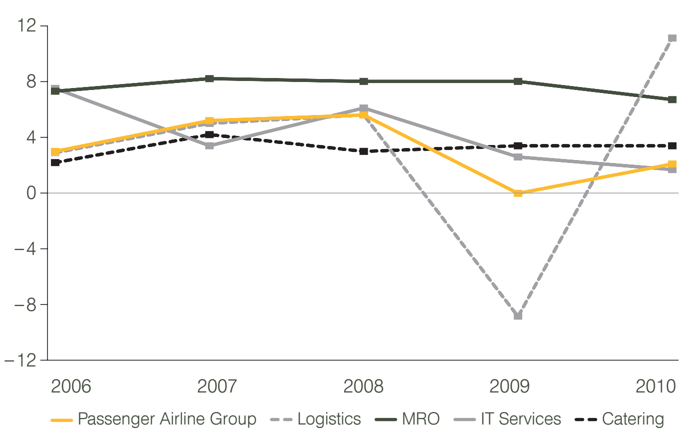
The operating performance indicators reflect the improvement in the course of business, especially for the airborne companies. All business segments were able to report an operating profit.

**Operating result substantially positive at EUR 876m**
The profit from operating activities in line with IFRS improved in the reporting year by EUR 969m to EUR 1.2bn. As in prior years, 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 are shown in the table on p. 67. In 2010 net income of EUR 364m (previous year: EUR 141m) was eliminated in this way.

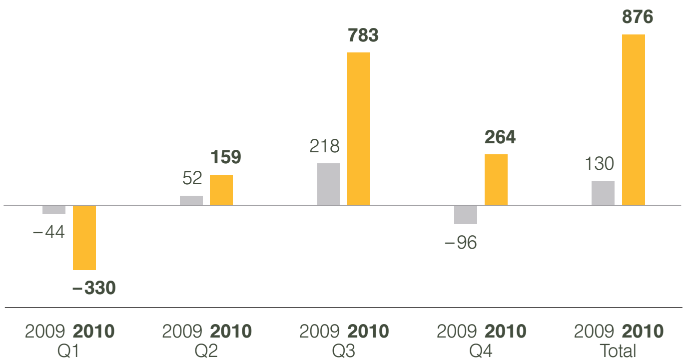
After these adjustments the operating profit came to EUR 876m (previous year: EUR 130m). The adjusted operating margin, calculated by adding write-backs of provisions, was 4.1 per cent (previous year: 1.4 per cent).

The contribution of the individual business segments to the operating profit varied enormously. The sharp improvement in earnings in the business segments Passenger Airline Group and Logistics was one important aspect. While the Passenger Airline Group recovered from a slight loss of EUR 8m the previous year to post a substantial profit of EUR 436m, Logistics even turned an operating loss of EUR 171m in the previous year into a record-breaking profit of EUR 310m. The Catering segment also reported a 5.6 per cent rise in operating profit to EUR 76m. The operating results for the segments MRO and IT Services were also positive at EUR 268m (–15.2 per cent) and EUR 10m (–37.5 per cent) respectively, albeit lower than in the previous year. The other Group companies, which under IFRS 8 do not require separate reporting, and the central Group functions reduced the operating result by a total of EUR 226m (previous year: EUR –134m).

**Different cycles stabilise earnings**
Operating margins for the Lufthansa business segments in %



**Development of operating result by quarter** in €m




The variation in seasonal earnings was extremely pronounced. The individual business segments in the Group also have their own variations and ranges of fluctuation. Overall, this had a stabilising effect, however, laying a foundation of operating earnings for the Group. On this basis Lufthansa was able to benefit from the strong economic revival in 2010, achieving a consolidated operating result that even in comparison with its competitors was impressive.

### Financial result improves again

The financial result improved by EUR 143m to EUR –262m. The result from equity investments went up, largely due to the negative equity result from bmi the previous year and to some considerable improvements in earnings from equity investments in the Logistics and MRO segments, by EUR 46m to EUR 104m. Net interest dropped by EUR 32m to EUR –357m (previous year: EUR –325m). The main reason was new borrowing in 2009 and the effects of expanding the group of consolidated companies. Expenses from other financial items fell by EUR 129m to EUR 9m. Positive changes in the value of hedging instruments, which are considered as trading under IAS 39, accounted for income of EUR 25m. The change in the fair value of options used for hedging, which since 1 January 2010 is also to be included in the financial result, see "Notes to the consolidated financial statements" on p. 182, resulted in a charge of EUR 18m. The previous year, other financial items also contained a write-down of EUR 140m on the Fraport shares.

The internationally prevalent earnings before interest and taxes (EBIT) came to EUR 1.3bn and was therefore EUR 1.1bn higher than the previous year. It includes the profit from operating activities, the result from equity investments and miscellaneous financial items. Adding depreciation and amortisation results in EBITDA of EUR 3.0bn, 65.9 per cent higher than in the previous year.

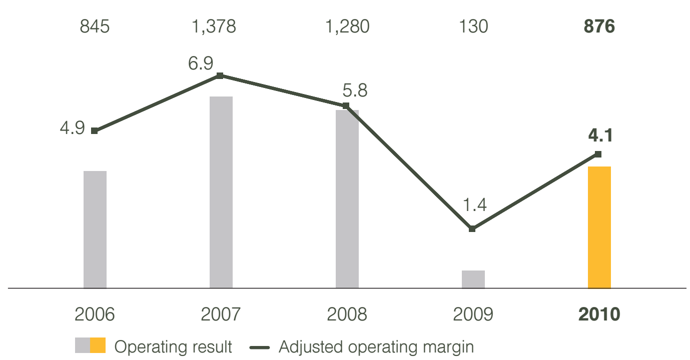
**Profit breakdown of the Lufthansa Group**

| | **2010** in €m | 2009 in €m | Change in % |
|---|---|---|---|
| Operating income | 30,144 | 25,039 | 20.4 |
| Operating expenses | –28,904 | –24,768 | 16.7 |
| **Profit from operating activities** | **1,240** | **271** | **357.6** |
| Financial result | –262 | –405 | 35.3 |
| **Profit / loss before income taxes** | **978** | **–134** | |
| Income taxes | 165 | 112 | 47.3 |
| Profit / loss attributable to minority interests | –12 | –12 | 0.0 |
| **Net profit / loss attributable to shareholders of Deutsche Lufthansa AG** | **1,131** | **–34** | |

### EUR 1.1bn net profit includes one-off tax effect

The total of profit from operating activities and financial result gave a substantial profit before income taxes of EUR 978m (previous year: EUR –134m). This was EUR 1.1bn higher than the negative result for the previous year. Income taxes gave rise to income of EUR 165m. Despite the fact that the result before taxes was positive, the use of previously unrecognised tax loss carry-forwards from the LSG Sky Chefs USA group in the course of the financial restructuring of the Catering segment as well as from receivables waived in this context generated a tax relief of around EUR 400m in total. The previous year saw income of EUR 112m. This brought net profit after income taxes to EUR 1.1bn (previous year: EUR –22m). Deducting net profit attributable to minority interests of EUR 12m (previous year: EUR 12m) resulted in a net profit for the period attributable to shareholders of Deutsche Lufthansa AG of EUR 1.1bn (previous year: net loss of EUR 34m).

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



Earnings per share and diluted earnings per share came to EUR 2.47 (previous year: EUR −0.07), see also p. 172 in the Notes to the consolidated financial statements.

### Long-term overview of earnings

Over recent years Lufthansa has shown that it can combine greater stability in a crisis with the use of opportunities in an upswing. Before the financial and economic crisis arrived, the Group generated record earnings from operations of EUR 1.4bn. In the crisis year 2009 the Company was one of the few airlines still to report an operating profit. In the first year of the upturn the Group recovered quickly, earning an operating result of EUR 876m, which even in comparison with its competitors was impressive. Lufthansa is thus pursuing its course of sustainable, profitable growth.

## Profit distribution and financial statements of Deutsche Lufthansa AG

Lufthansa's dividend policy is based on the principle of continuity in terms of distributing a stable percentage of the operating result. This is subject to a dividend payment being 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, see chapter "Financial strategy" p. 53. The relevant financial statements for the dividend payment are those drawn up in accordance with HGB for Deutsche Lufthansa AG as the parent company of the Group, which show a net profit for the 2010 financial year of EUR 483m. Transferring EUR 208m to other retained earnings leaves a distributable profit of EUR 275m. Executive Board and Supervisory Board will put forward a proposal at the Annual General Meeting to be held on 3 May 2011 to distribute this profit by means of a dividend of EUR 0.60 per share.

**Reconciliation of results**

| in €m | 2010 Income statement | 2010 Reconciliation with operating result | 2009 Income statement | 2009 Reconciliation with operating result |
|---|---|---|---|---|
| **Total revenue** | **27,324** | **–** | **22,283** | **–** |
| Changes in inventories | 165 | – | 225 | – |
| Other operating income | 2,655 | – | 2,531 | – |
| of which book gains and current financial investments | – | −275 | – | −83 |
| of which income from reversal of provisions | – | −234 | – | −187 |
| of which write-ups on capital assets | – | −39 | – | −14 |
| of which period-end valuation of non-current financial liabilities | – | −52 | – | 0* |
| **Total operating income** | **30,144** | **−600** | **25,039** | **−284** |
| Cost of materials and services | −15,370 | – | −12,700 | – |
| Staff costs | −6,659 | – | −5,996 | – |
| of which past service cost | – | 19 | – | −6 |
| Depreciation, amortisaton and impairment | −1,682 | | −1,475 | – |
| of which impairment losses | – | 72 | – | 88 |
| Other operating expenses | −5,193 | | −4,597 | – |
| of which impairment losses on assets held for sale – non-operating | | 16 | – | 4 |
| of which expenses incurred from book losses and current financial investments | – | 53 | – | 51 |
| of which period-end valuation of non-current financial liabilities | – | 76 | – | 6 |
| **Total operating expenses** | **−28,904** | **236** | **−24,768** | **143** |
| **Profit/loss from operating activities** | **1,240** | **–** | **271** | **–** |
| Total from reconciliation with operating result | – | −364 | – | −141 |
| **Operating result** | **–** | **876** | **–** | **130** |
| Result from equity investments | 104 | – | 58 | – |
| Other financial items | −9 | – | −138 | – |
| **EBIT** | **1,335** | **–** | **191** | **–** |
| Write-downs (included in profit from operating activities) | 1,682 | – | 1,475 | – |
| Write-downs on financial investments (incl. at equity) | 32 | – | 172 | – |
| **EBITDA** | **3,049** | **–** | **1,838** | **–** |

* Rounded below EUR 1m.

**Abbreviated income statement for Deutsche Lufthansa AG in accordance with the German Commercial Code**

| | **2010** in €m | 2009 in €m | Change in % |
|---|---|---|---|
| **Total revenue** | **13,792** | **12,199** | **13.1** |
| Other operating income | 1,976 | 1,854 | 6.6 |
| Operating income before reversal of special items | 15,768 | 14,053 | 12.2 |
| Operating expenses before addition to special items | 15,538 | 14,457 | 7.5 |
| **Profit / loss from operating activities before net changes in special items** | **230** | **–404** | **–** |
| Financial result | 488 | 298 | 63.8 |
| **Profit / loss from ordinary activities** | **718** | **–106** | **–** |
| **Extraordinary result** | **–37** | **0** | **–** |
| Other taxes | –26 | –42 | 38.1 |
| **Profit / loss before income taxes** | **655** | **–148** | **–** |
| Income taxes | –172 | 0 | – |
| **Net profit / loss for the year** | **483** | **–148** | **–** |
| Transfers from retained earnings | 0 | 148 | –100.0 |
| Transfers to retained earnings | –208 | 0 | – |
| **Net result** | **275** | **0** | **–** |

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

| | **31.12.2010** in €m | 31.12.2009 in €m | Change in % |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 140 | 138 | 1.4 |
| Aircraft | 4,338 | 3,828 | 13.3 |
| Property, plant and other equipment | 101 | 110 | –8.2 |
| Financial investments | 8,583 | 11,128 | –22.9 |
| **Non-current assets** | **13,162** | **15,204** | **–13.4** |
| Inventories | 27 | 24 | 12.5 |
| Receivables and other assets | 2,120 | 2,007 | 5.6 |
| Liquid funds and securities | 3,057 | 1,922 | 59.1 |
| **Current assets** | **5,204** | **3,953** | **31.6** |
| **Balance sheet total** | **18,366** | **19,157** | **–4.1** |
| **Shareholders' equity and liabilities** | | | |
| Issued capital | 1,172 | 1,172 | 0.0 |
| Capital reserve | 857 | 857 | 0.0 |
| Retained earnings | 1,567 | 1,318 | 18.9 |
| Net result | 275 | 0 | – |
| **Shareholders' equity** | **3,871** | **3,347** | **15.7** |
| Pension provisions | 1,823 | 4,853 | –62.4 |
| Non-current liabilities | | | |
| Time to maturity > 5 years | 2,087 | 1,786 | 69.5 |
| Time to maturity 1 to 5 years | 3,027 | 2,901 | –28.1 |
| **Non-current capital** | **10,808** | **12,887** | **–16.1** |
| Provisions for flight documents and Miles & More | 2,339 | 1,967 | 18.9 |
| Other provisions and deferred income | 2,227 | 2,111 | 5.5 |
| Other liabilities | 2,992 | 2,192 | 36.5 |
| **Current capital** | **7,558** | **6,270** | **20.5** |
| **Balance sheet total** | **18,366** | **19,157** | **–4.1** |

# Assets and financial position

↗ Lufthansa continues to invest in the future and pursued its extensive fleet renewal programme in 2010. ↗ Cash flow from operating activities of EUR 3.1bn meant that substantial free cash flow was generated again. ↗ The capital structure was improved further. ↗ Our unencumbered fleet of aircraft is the Group's largest asset. ↗ The funding of pensions was continued. ↗ The improved financial profile led to an upgrade in our rating outlook.

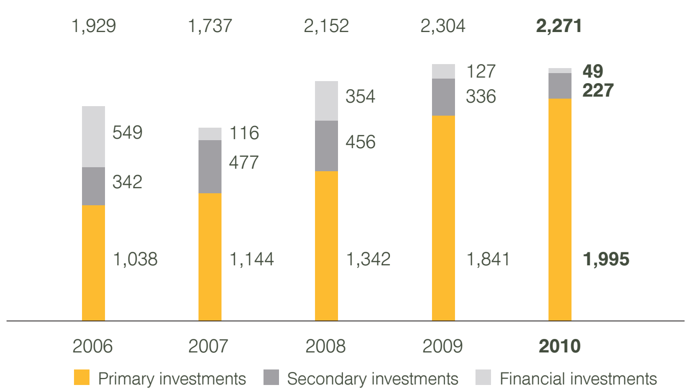
## Capital expenditure

**Lufthansa continues to invest in the future**
While continuing its strict cost management, the Lufthansa Group made important investments last year in order to open up additional prospects for the future. The extensive fleet renewal programme continued throughout 2010 in order to further improve the cost basis by means of fuel-efficient aircraft. Capital expenditure for the Group was 5.5 per cent lower than the previous year at EUR 2.3bn. This includes primary investment, i.e. down payments and final payments for aircraft and aircraft overhauls, equipment and reserve engines, which in fact increased by 8.4 per cent to EUR 2.0bn.

By contrast capital expenditure for other items of property, plant and equipment and for intangible assets, known collectively as secondary investment, was reduced by 32.4 per cent to EUR 227m. Property, plant and equipment, such as technical equipment and machinery, operating and office equipment, accounted for EUR 173m of the total (previous year: EUR 261m). EUR 54m (previous year: EUR 75m) was invested in intangible assets such as licences and goodwill.

A total of EUR 49m (previous year: EUR 127m) was spent on financial investments such as capital contributions to equity investments, other lending and smaller share purchases.

**Primary, secondary and financial investments** in €m*




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

In 2010 the Passenger Airline Group segment again accounted for the largest share of capital expenditure at EUR 2.0bn (previous year: EUR 1.9bn). Expenses were primarily on new aircraft and down payments for aircraft. Capital expenditure in the 2010 financial year related to four Airbus A380s, five Airbus A330s, four Airbus A321s, ten Airbus A320s, ten Airbus A319s, one Boeing B737, seven Bombardier CRJ900s, one Embraer 195, eight Embraer E190s, one ATR 700, one ATR 42-500 and three Dash 8-400s.

Capital expenditure in the Logistics business segment fell to EUR 21m (previous year: EUR 25m) as the programme to stabilise earnings restricted new investment. In the MRO segment, too, capital expenditure declined to EUR 67m (previous year: EUR 121m). The fall was due to high capital spending the previous year for the purchase of reserve engines and equipment for the A380 maintenance hangar.

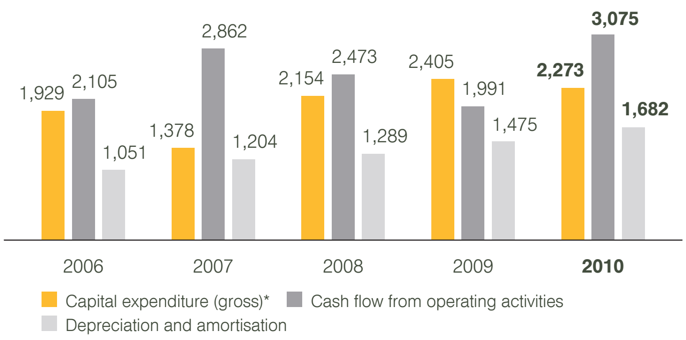
Capital expenditure in the business segment IT Services was lowered to EUR 36m (previous year: EUR 52m) and served principally to safeguard existing business. The Catering segment scaled back its capital expenditure again in the 2010 financial year. In 2010 it came to EUR 38m (previous year: EUR 58m). Here, too, the funds were used particularly to secure existing production facilities.

## Cash flow

### EUR 3.1bn generated in cash flow from operating activities

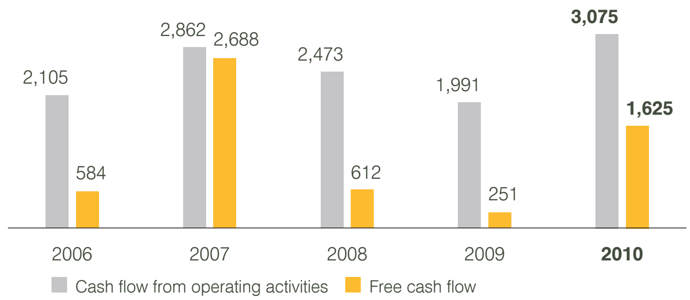
The improved operating performance was reflected in the highest cash flow from operating activities in the Company's history of EUR 3.1bn. This was EUR 1.1bn or 54.4 per cent higher than a year ago. This increase is due particularly to the EUR 1.1bn higher profit before income taxes. The sustained recovery in operations also led to an improvement in working capital, which in turn had a positive effect of EUR 346m on cash flow compared with last year. On the other hand, income tax payments represented a drain of EUR 158m on cash flow. Book gains from asset disposals included in profit before income taxes are attributed to investing activities.

**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.

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




### Free cash flow much higher at EUR 1.6bn

Gross capital expenditure for the Lufthansa Group came to EUR 2.3bn. This includes the primary, secondary and financial investment mentioned above as well as repairable spare parts for aircraft.

Asset disposals, including disposals of non-consolidated equity interests, generated proceeds of EUR 511m. Aircraft disposals accounted for EUR 205m of the total, securities for EUR 129m and repayment of lending for EUR 45m. The sale of 6.2 million A shares and the calling-in of existing B shares in Amadeus IT Holding S.A. generated proceeds of EUR 97m.

Interest and dividend income rose by 34.7 per cent to EUR 388m. Overall, net cash of EUR 1.5bn was used for investment activities (previous year: EUR 1.7bn).

After deducting net cash used for investing activities, this resulted in a much improved free cash flow of EUR 1.6bn for the financial year 2010 (previous year: EUR 251m). The proportion of capital expenditure financed from cash flow, known as the internal financing ratio, came to 135.3 per cent (previous year: 82.8 per cent).

### Financing requirement down on previous year

In the financial year ended we retained our policy of funding our pension obligations flexibly over the medium term. To conserve the Company's liquidity we made one of two scheduled contributions to the Lufthansa Pension Trust in the form of 8.5 per cent of the shares in Fraport, valued at EUR 283m. A total of EUR 407m was used for further funding of pension obligations in Germany and abroad. The purchase of securities for EUR 2.3bn and the sale of securities for EUR 823m resulted in a net cash outflow of EUR 1.4bn (previous year: EUR 1.8bn).

The balance of financing activities was a net cash outflow of EUR 300m (previous year: net cash inflow of EUR 1.3bn). It was made up largely of new borrowing (EUR 925m), especially for aircraft financing, scheduled debt repayment (EUR 756m, of which EUR 93m was for bond redemptions) and interest payments (EUR 451m). Dividend payments to minority shareholders of other Group companies came to EUR 18m.

### Cash and cash equivalents rise by 21.2 per cent

Cash and cash equivalents fell by EUR 39m over the financial year to around EUR 1.1bn. They include an increase of EUR 64m in cash and cash equivalents due to exchange rate movements. Overall, liquid funds (including current securities) came to EUR 5.4bn, which was 21.2 per cent higher than in the previous year.

## Assets

### Balance sheet total up to EUR 29.3bn

At the end of the financial year 2010 the consolidated balance sheet total came to EUR 29.3bn and therefore was EUR 2.9bn above the figure for the previous year. Non-current assets rose by EUR 1.3bn to EUR 19.0bn, while current assets increased by EUR 1.6bn to EUR 10.3bn.

Within non-current assets the item aircraft and reserve engines went up by EUR 709m to EUR 11.2bn. Following the stock market flotation of Amadeus IT Holding S.A. in April 2010, the stake in Amadeus IT Holding S.A. held in the 2009 financial statements at cost (EUR 34m) is now shown in the consolidated balance sheet at its market value. As of 31 December 2010 this market value was EUR 534m. Lufthansa sold 6.2 million A shares in the course of the public offering and, including the calling-in of existing B shares, reaped proceeds of around EUR 97m.

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

| | **2010 in €m** | 2009 in €m | Change in % |
|---|---|---|---|
| Profit/loss before income taxes | 978 | −134 | |
| Depreciation and amortisation/reversals | 1,688 | 1,708 | −1.2 |
| Net proceeds on disposal of non-current assets | −209 | −27 | 674.1 |
| Net interest/result from equity investments | 253 | 267 | −5.2 |
| Income tax payments | −110 | 48 | |
| Change in working capital | 475 | 129 | 268.2 |
| **Cash flow from operating activities** | **3,075** | **1,991** | **54.4** |
| Investments and additions to repairable spare parts | −2,349 | −2,570 | −8.6 |
| Proceeds on the sale of shares/disposal of assets | 511 | 542 | −5.7 |
| Interest income and dividends paid | 388 | 288 | 34.7 |
| **Net cash used in investing activities** | **−1,450** | **−1,740** | **−16.7** |
| **Free cash flow** | **1,625** | **251** | **547.4** |
| Purchase/disposal of securities/fund investments | −1,428 | −1,823 | −21.7 |
| Capital increase | – | 6 | |
| Non-current borrowing and repayment of non-current borrowing | 169 | 1,879 | −91.0 |
| Dividends paid | −18 | −333 | −94.6 |
| Interest paid | −451 | −281 | 60.5 |
| **Net cash from used in investing activities** | **−300** | **1,271** | |
| Changes due to currency translation differences | 64 | −7 | |
| **Cash and cash equivalents 1.1.** | **1,136** | **1,444** | **−21.3** |
| **Cash and cash equivalents 31.12.** | **1,097** | **1,136** | **−3.4** |

In the second quarter, 8.5 per cent of the shares in Fraport (carrying amount: EUR 283m) were transferred to the Lufthansa Pension Trust as part of the ongoing funding of pension obligations. The item other equity investments increased by a total of EUR 250m as a result. The positive market values of derivative financial instruments (mainly from currency and interest rate hedges) also rose by EUR 95m. Loans and receivables went up too, by EUR 114m, whereas non-current securities declined by EUR 99m, largely due to disposals.

Within current assets receivables climbed by EUR 368m, especially due to the positive course of business. Market values of current financial derivatives (primarily from fuel and currency hedges) were up by EUR 232m. Cash and cash equivalents – consisting of current securities, bank balances and cash-in-hand – rose by EUR 941m to EUR 5.4bn.

### Capital structure much improved

On the equity and liabilities side of the balance sheet, shareholders' equity (including minority interests) rose by EUR 2.1bn (+34.5 per cent) to reach EUR 8.3bn as of the reporting date. This growth is principally due to the positive post-tax result of EUR 1.1bn, the first-time market valuation of the stake in Amadeus IT Holding S.A. (EUR +524m) in 2010, changes in the market value of other financial assets (EUR +170m), and positive currency translation differences (EUR +311m). The equity ratio rose as a result to 28.4 per cent (year-end 2009: 23.5 per cent) and is therefore getting closer again to its medium-term target of 30 per cent.

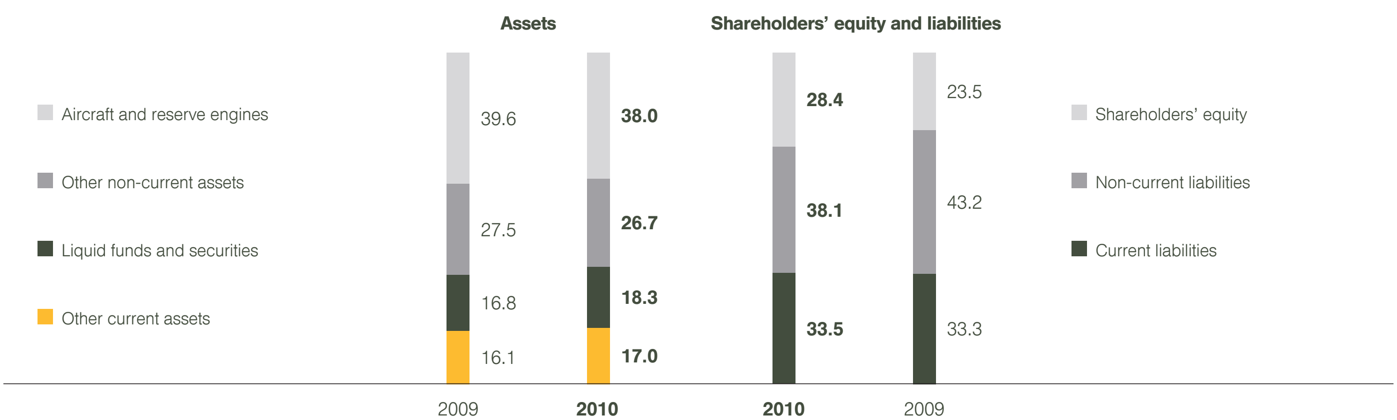
**Development of earnings, equity and equity ratio**

| | | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| Result* | €m | 1,143 | −22 | 552 | 1 760 | 897 |
| Equity* | €m | 8,340 | 6,202 | 6,594 | 6,900 | 4,903 |
| Equity ratio* | % | 28.4 | 23.5 | 29.4 | 30.9 | 25.2 |

* Incl. minority interests.

Non-current liabilities and provisions went down by EUR 260m to EUR 11.2bn, while current borrowing stepped up by EUR 1.1bn to EUR 9.8bn. Under the non-current liabilities, financial borrowing rose by EUR 118m, largely due to aircraft financing, while the negative market values of derivative financial instruments (principally from currency and interest rate hedging) declined by EUR 114m. Pension provisions fell by EUR 139m to EUR 2.6bn in line with further funding of commitments. The reduction of EUR 258m in deferred income tax obligations is largely due to the effects of financial restructuring in the Catering segment.

**Balance sheet structure** in %



**Return on equity** in %


The increase in current liabilities is primarily attributable to higher trade payables and other financial liabilities (EUR +397m) as well as to higher liabilities from unused flight documents (EUR +483m). This performance stems from the considerable increase in operating business. The decline of EUR 241m in other provisions stems partly from payments made in the course of restructuring and obligations under early retirement agreements. Current borrowing rose by EUR 264m, largely as a result of shifting maturities.

The non-current proportion of the balance sheet total, consisting of shareholders' equity and long-term liabilities, is 66.5 per cent (previous year: 66.7 per cent). Non-current financing now covers 102.8 per cent of non-current assets (previous year: 99.5 per cent).

The Group's net indebtedness was reduced to EUR 1.6bn by the end of the financial year 2010. At year-end 2009 the figure was EUR 2.2bn. Net indebtedness is the balance of gross financial debt and available financial assets plus non-current securities that can be liquidated at short notice.

Gearing fell to 50.0 per cent (previous year: 79.1 per cent) and was therefore back inside the target corridor of 40 to 60 per cent. The figure expresses the ratio of net indebtedness plus pension provisions to shareholders' equity. A ten-year overview of the main performance indicators can be found in the chapter "Ten-year overview" from p. 230.

**Calculation of net indebtedness and gearing**

| | **2010** in €m | 2009 in €m | Change in % |
|---|---|---|---|
| Liabilities to banks | 1,925 | 1,909 | 0.8 |
| Bonds | 2,177 | 2,264 | −3.8 |
| Other non-current borrowing | 3,082 | 2,629 | 17.2 |
| | **7,184** | **6,802** | **5.6** |
| Other bank borrowing | 23 | 58 | −60.3 |
| **Group indebtedness** | **7,207** | **6,860** | **5.1** |
| Cash and cash equivalents | 1,097 | 1,136 | −3.4 |
| Securities | 4,283 | 3,303 | 29.7 |
| Non-current securities (liquidity reserve)* | 231 | 226 | 2.2 |
| **Net indebtedness** | **1,596** | **2,195** | **−27.3** |
| Pension provisions | 2,571 | 2,710 | −5.1 |
| **Net indebtedness and pensions** | **4,167** | **4,905** | **−15.0** |
| | | | |
| **Gearing** in % | **50.0** | **79.1** | **−29.1 pts** |

* Realisable at any time.

# Fleet

**New planes to make Group fleet more modern and environmentally friendly**
By far the largest asset in the Lufthansa Group's balance sheet is its fleet of aircraft. It is the core operating asset and at the heart of the value chain in the Group's airlines. A balanced fleet structure is the basis from which we provide flight capacities in line with demand. The Group fleet is thus largely made up of aircraft manufactured by Airbus and Boeing, as well as by Bombardier and Embraer in the regional segment.

As of the reporting date the Group fleet comprised 710 aircraft with an average age of 10.9 years. Specific fuel consumption fell further by 2.4 per cent to 4.20 litres per 100 pkm in the reporting year thanks to the ongoing modernisation. For example the withdrawal from the segment of 50-seater regional planes adopted in 2009 as part of the Climb 2011 programme to safeguard earnings has been taken to an advanced stage. These smaller aircraft, which are at a disadvantage compared with larger planes in terms of efficiency, have been replaced by the latest, more environmentally friendly models with a much higher seating capacity. This is a key example of how capital expenditure on the fleet actively serves environmental protection – not only by means of lower specific fuel consumption and therefore $CO_2$ emissions, but also by a considerable reduction in the noise footprint.

**Group fleet – Number of commercial aircraft and fleet orders**
Deutsche Lufthansa AG (LH), SWISS (LX), Austrian Airlines (OS), British Midland (bmi), Germanwings (4U), Lufthansa CityLine (CLH), Air Dolomiti (EN), Eurowings (EW) and Lufthansa Cargo (LCAG) as of 31.12.2010

| Manufacturer/type | LH | LX | OS | bmi | 4U | CLH | EN | EW | LCAG | **Group fleet** | of which finance lease | of which operating lease | Change compared with 31.12.09 | Additions 2011 to 2016 | Additional options |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Airbus A300 | 0 | | | | | | | | | 0 | | | −6 | | |
| Airbus A310 | 2[4] | | | | | | | | | 2 | | | −1 | | |
| Airbus A319 | 30 | 7 | 7 | 11 | 30 | | | | | 85 | 4 | 21 | +8 | 14 | |
| Airbus A320 | 46 | 23 | 8 | 7 | | | | | | 84 | 10 | 5 | +5 | 27 | 10[3] |
| Airbus A321 | 44 | 7 | 6 | 7 | | | | | | 64 | 5 | 5 | +1 | 22 | |
| Airbus A330 | 15 | 16 | 1[4] | 2 | | | | | | 34 | | 7 | +4 | 10 | 3 |
| Airbus A340 | 51 | 13 | 2[2] | | | | | | | 66 | 2 | 2 | −1 | | |
| Airbus A380 | 4 | | | | | | | | | 4 | | | +4 | 11 | 5 |
| Boeing 737 | 63 | | 11 | 14 | | | | | | 88 | 1 | 13 | −3 | | |
| Boeing 747 | 30 | | | | | | | | | 30 | | | – | 20 | |
| Boeing 767 | | | 6 | | | | | | | 6 | | 2 | – | | |
| Boeing 777 | | | 4 | | | | | | | 4 | | | – | | |
| Boeing MD-11F | | | | | | | | | 18 | 18 | | | −1 | | |
| Bombardier CRJ | 24[1] | | 3 | | | 40 | | 10 | | 77 | | 10 | −13 | 7 | |
| Bombardier C-Series | | | | | | | | | | 0 | | | – | 30 | 30 |
| Bombardier Q-Series | | | 19 | | | | | | | 19 | 1 | | −1 | | |
| ATR | 5[1] | | | | | | 8 | 3 | | 16 | | 8 | −8 | | |
| Avro RJ | | 20 | | | | 16 | | | | 36 | | 17 | −2 | | |
| BAe 146 | | | | | | | | | | 0 | | | −8 | | |
| Embraer | 24[1] | 4[4] | 3[4] | 18 | | | | | | 49 | 3 | 8 | +10 | 14 | |
| Fokker F70 | | | 9 | | | | | | | 9 | 1 | | – | | |
| Fokker F100 | | | 15 | | | | | | | 15 | | | – | | |
| Cessna Citation | 4[2] | | | | | | | | | 4 | | | – | | |
| **Total aircraft** | **342** | **90** | **94** | **59** | **30** | **56** | **8** | **13** | **18** | **710** | **27** | **98** | **−12** | **155** | **48** |

[1] Let to Lufthansa regional airlines.
[2] Let to SWISS.
[3] A320 family.
[4] Leased to company outside the Group.

**Fleet orders**

| | | Deliveries |
|---|---|---|
| **Long-haul fleet** | | |
| 11 | Airbus A380 | 2011 to 2015 |
| 20 | Boeing 747-8i | 2012 to 2015 |
| 3 | Airbus A330 | 2012 |
| 7 | Airbus A330 | 2011 to 2013 (SWISS) |
| **Short-haul fleet** | | |
| 46 | Airbus A320 family | 2011 to 2015 |
| 8 | Airbus A320 family | 2012 to 2014 (Germanwings) |
| 6 | Airbus A320 family | 2011 to 2014 (SWISS) |
| 3 | Airbus A320 family | 2012 (bmi) |
| **Regional fleet** | | |
| 30 | Bombardier C-Series | 2014 to 2016 (SWISS) |
| 14 | Embraer EMB190 family | 2011 to 2012 |
| 7 | Bombardier CRJ900 | 2011 |

This continuous modernisation and expansion of the fleet in line with planned future requirements safeguards and enhances our future competitiveness. Our fleet and order policy also allows us to respond as well as possible to the fluctuations in demand that characterise our industry. The majority of the fleet is owned by the Group companies and moreover is financially unencumbered; the proportion of aircraft leased externally is kept low. This permits the Group to draw rapidly on available aircraft at times of strong demand. When demand falls, we can reduce costs by scaling back capacities accordingly. For this reason we arrange for aircraft orders to be delivered in phases. According to demand, we can then decide whether to continue using existing aircraft or to replace them with new ones.

Whereas all deliveries in 2009 served to replace aircraft already in use, new deliveries in the reporting year were again destined for growth. This and expected traffic volumes are the yardstick for the number and size of aircraft ordered. Across the Group long-haul, medium-haul and short-haul planes are ordered depending on where they are to be employed, so that we can deploy the right aircraft for each route served. As the configuration of the aircraft is largely harmonised, this gives us the greatest possible flexibility to deploy them within the airline group.

This creates the necessary flexibility for coordinating capacity with demand in the individual target markets.

As well as ordering new aircraft, we also follow technical developments closely and modify the existing aircraft continuously. This means that the constant renewal of the fleet in terms of fuel consumption, noise emissions and reliability not only takes place via new orders, but is also rolled out consistently to the existing fleet. Lufthansa's Boeing 737 fleet is being refitted for instance, and adapted to meet current technical standards, see p. 127.

In May 2010 we took delivery of our first Airbus A380-800, the new flagship of our fleet. By the end of the year four A380s had been put into service on routes to Asia and South Africa with high passenger numbers. This ultra-modern aircraft offers favourable unit costs as well as clear benefits for the environment and supports us in our efforts to reduce the specific fuel consumption of the entire fleet sustainably.

The four A380s are just some of a total of 47 new aircraft delivered to the Lufthansa Group in the reporting year. These were mostly short- and medium-haul planes. For 2011 we are currently anticipating delivery of a further 34 aircraft, of which around half will be from the Airbus A320 family.

The Supervisory Board approved orders for a total of 56 new aircraft in 2010: eight wide-bodied Airbus A330s as well as 32 planes from the A320 family and 16 regional aircraft. This takes total orders though to the year 2016 to 155 aircraft, including 20 Boeing 747-8 Intercontinentals, as another ultra-modern wide-bodied jet.

## Financing

### Financial management carried out centrally

Lufthansa's financial strategy is aimed at securing permanent freedom of action for the Group in terms of its operating, financial and strategic development see chapter "Financial strategy" on p. 53. It enables the Company to develop irrespectively of the financial market environment. One essential foundation for efficient financial management is therefore to optimise short- and medium-term cash flows. This is why the Lufthansa Group has a central financial management, where all cash flows are pooled and excess liquidity is invested or new funds are raised externally, as required.

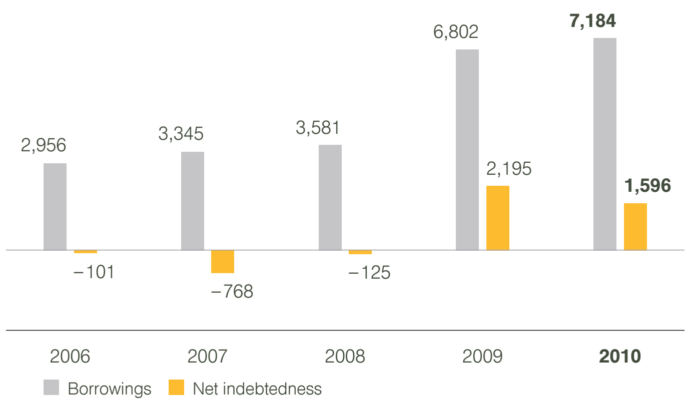
The integrated financial and liquidity planning for the whole Group ensures that the Company and its business segments always have sufficient liquidity. A centralised financial reporting system provides all the companies in the Lufthansa Group with information on their actual financial status and forecast cash flows. At the end of every month the cash flow planning for all Group companies is entered for the next 24 months. This produces an up-to-date picture of future developments in Group liquidity at all times. The inter-Group financial equalisation mechanism and a cash management system reduce the borrowing requirement and optimise the investment of the Group's liquid funds.

### Our financing mix ensures stability and favourable funding terms

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

The pillars of our financial strategy basically determine the choice of financing instruments in each case. The financing mix is aimed at optimising the terms of funding and maintaining a balanced term structure and diversified base of investors and lenders.

**Development of borrowings and net indebtedness** in €m




Thanks to our good rating compared with the industry average we have access to the full range of different financing instruments. Aircraft financing plays an important role because in combination with the good rating it is available on particularly favourable terms. We are still expecting to take delivery of a large number of aircraft in the years ahead and so aircraft-backed financing will continue to be a central component of our funding arrangements.

Furthermore we carry out successful capital market transactions regularly in order to broaden our portfolio of investors, lenders and financing instruments. Our creditor relations activities enable us to stay in permanent contact with lenders and therefore strengthen our investor base in addition.

A number of banks have also granted us bilateral credit lines with a maturity of one year. At the end of the financial year 2010 credit lines amounting to some EUR 1.9bn were available.

Lufthansa mainly refinances its business in euros, the reporting currency. 85 per cent of financial liabilities should be at floating interest rates. More information can be found in the Notes to the consolidated financial statements "Note 46" from p. 200. The Group's financial leverage at the end of the year came to 5.4 per cent (previous year: 8.3 per cent). The current financing structure can be found in the Notes to the consolidated financial statements "Note 39" on p. 196. Deutsche Lufthansa AG's main financial liabilities do not include covenants.

### Aircraft financing is in focus

In 2009 two bonds and a borrower's note loan made up a large part of the Lufthansa Group's external financing, but in 2010 the focus was back on aircraft financing.

We raised a total of around EUR 800m in the reporting year in several transactions of this type. They primarily include two financing deals in which two of the new Airbus A380s were assigned to what is known as French lease structures. Lufthansa arranged financing of this kind for the first time as it enables long-term borrowing to be secured on very favourable terms. In 2010 we again successfully took out a number of Japanese operating leases. In a total of seven transactions, one Airbus A340-600, five A320s and one A319 were provided for this proven and attractive type of funding. We also raised further borrowing in the form of two bank loans secured against two Airbus A321 and fourteen Bombardier CRJ900 aircraft.

In 2010 we continued the funding of pension obligations begun in 2004 by transferring 8.5 per cent of the Fraport shares as well as a cash sum. Hedges of the assets previously transferred to the fund were fully unwound as of year-end 2009. This enabled fund assets to participate in full in the performance of the markets in 2010.

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 "Note 21" from p. 179 in the Notes to the consolidated financial statements.

### Our rating has stabilised and the outlook was upgraded

**Development of ratings**

| Rating / outlook | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Standard & Poor's | BBB– / stable | BBB– / negative | BBB / negative | BBB / stable | BBB / stable |
| Moody's | Ba1 / stable | Ba1 / stable | Baa3 / stable | Baa3 / positiv | Baa3 / stable |

With its current credit ratings Lufthansa is the best rated European airline and one of three airlines worldwide to hold an investment grade rating. In November 2010 Standard & Poor's raised its outlook for Lufthansa's credit ratings from negative to stable. This reflects the better financial profile due to the improvement in the economic environment for the airline industry, the recovery at Lufthansa Cargo, the stable contribution from other business segments and the efficient cost control. According to the agency a sustained industrial upturn combined with further improvements in the Lufthansa Group's financial profile could give the rating a further boost.

**Lufthansa's credit ratings**

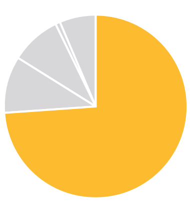
| **Standard & Poor's** (21 December 2010)* | **Moody's Investors Service** (19 July 2010)* |
|---|---|
| Long-term: BBB–<br>Short-term: A-3<br>Outlook: stable | Long-term: Ba1<br>Short-term: Not Prime<br>Outlook: stable |
| **Strengths** | **Strengths** |
| + One of the world's leading airlines with a strong position at hubs in Frankfurt and Munich, large route network | + One of the largest airlines in the world |
| + Diversification of revenue as one of the leading European providers of freight transport, maintenance, repair and overhaul services and airline catering | + Robust business profile with a diversified route network and business segments |
| + Strong liquidity, focus on cost control | + Solid liquidity, large proportion of the fleet is owned, comparatively low leverage |
| + Strong position in profitable long-haul business and premium traffic | + Climb 2011 initiative to safeguard long-term competitiveness and improve cost structure and income |
| + Growth potential from strong position in the profitable and fast-growing Asia / Pacific region | |
| **Weaknesses** | **Weaknesses** |
| – Profitability depends on volatile fuel costs | – Cost structure strongly influenced by fuel costs, conservative hedging strategy leads to reduced flexibility during recessionary phases |
| – Difficult environment, cyclical industry, strong price competition and capital intensity | |
| – Acquisition of loss-making Austrian Airlines and bmi | – Margins affected by non-passenger business and acquisitions |
| – Home and European market have strong competition, pressure from no-frills carriers | – Growth of no-frills carriers with better cost structures |

* Latest report.

# Passenger Airline Group business segment

↗ We continue to expand our core business segment of passenger transportation on the basis of the successful integration and airline group concept. ↗ In spite of negative one-off factors, the recovery in demand prevailed in 2010. ↗ Sales, load factors and traffic revenue all increased considerably. ↗ The business segment again generated an operating profit. ↗ The various restructuring and cost-cutting measures are to be pursued unchanged.

**Share of Group revenue 74.0%**



↗ Leading European quality carrier

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

| | | **2010** | 2009 | Change in % | **2010** (Lufthansa Passenger Airlines[2]) | Change in % (Lufthansa Passenger Airlines[2]) |
|---|---|---|---|---|---|---|
| Revenue | €m | 20,912 | 16,798 | 24.5 | 13,986 | 13.4 |
| of which with companies of the Lufthansa Group | €m | 679 | 573 | 18.5 | | |
| Operating result | €m | 436 | –8 | – | 382 | – |
| Adjusted operating margin | % | 3.0 | 0.8 | 2.2 pts | 3.5 | 3.5 pts |
| Segment result | €m | 572 | 78 | – | | |
| EBITDA[3] | €m | 2,601 | 1,430 | 81.9 | 1,988 | 87.0 |
| CVA | €m | –198 | –691 | 71.4 | | |
| Segment capital expenditure | €m | 2,047 | 1,898 | 7.9 | | |
| Employees as of 31.12. | number | 57,157 | 58,083 | –1.6 | 37,689 | 1.2 |
| Average number of employees | number | 57,226 | 52,317 | 9.4 | 37,257 | –0.9 |
| Passengers carried[1] | thousands | 91,157 | 77,315 | 17.9 | 58,841 | 5.9 |
| Available seat-kilometres[1] | millions | 235,837 | 208,226 | 13.3 | 163,178 | 3.1 |
| Revenue seat-kilometres[1] | millions | 187,000 | 162,286 | 15.2 | 129,630 | 5.4 |
| Passenger load factor[1] | % | 79.3 | 77.9 | 1.4 pts | 79.4 | 1.7 pts |

[1] Lufthansa Passenger Airlines, SWISS (from 2010 incl. Edelweiss Air), British Midland (from July 2009) and Austrian Airlines (from September 2009), not including Germanwings.
[2] Including regional partners.
[3] Before profit/loss transfer from other companies.


Revenue of EUR 20.9bn

Operating result of EUR 436m

## Business and strategy

**Leading group of European quality carriers**

Passenger transportation is the core business of the Lufthansa Group. The business segment Passenger Airline Group includes Lufthansa Passenger Airlines, SWISS, Austrian Airlines, bmi, Germanwings and the equity investments in Brussels Airlines, JetBlue and SunExpress. Through the joint efforts of its members, this airline group realises significant synergies, as proven by the integration of SWISS into the Lufthansa Group five years ago. The underlying integration and group concept has therefore also become a model for incorporating new airlines into the Group. The partners' operating autonomy and local management are intended to ensure that they stay as close to their markets as possible and keep the local companies with profit-making responsibilities. In the Airline Development Board the Executive Board and the CEOs of the individual airlines meet to work on permanently developing the airline group.

Lufthansa's declared aim is to build on its position as a leading autonomous group of European quality carriers and exploit the opportunities offered by the recovery of the global economy. Priority is given to safety, punctuality, reliability and professional service. All companies in the airline group strive for profitable growth. This is a prerequisite for investments in modern fleets, financial stability in a volatile industry and secure jobs with attractive development prospects. At the same time the companies assume their responsibility for conserving natural resources by their sustainable business practices.

**Further development of the market position**

The establishment and evolution of the airline group follows a clear logic: Lufthansa's home market is Europe, whereby as the largest single market the core location is Germany. By contrast, growth potential comes from the global long-haul markets. In order to optimise connections between them and the home market, the key is to safeguard and expand the position in the home market. Because a leading position in Europe makes the range of services more and more attractive to customers and in addition increases the group's relevance as a partner for opening up growth markets outside Europe.

The multi-hub strategy in turn makes it possible to offer a comprehensive route network for the respective hubs. Feeder flights from neighbouring European airports also improve the load factors for intercontinental flights and expand the range of destinations on offer to local customers. Growth is enhanced by continuous and sustainable reduction of unit costs, for instance by renewing the fleet and increasing its productivity. In this context Lufthansa particularly enjoys the benefits of its largely unencumbered fleet and the related flexibility in terms of capacity and cost management.

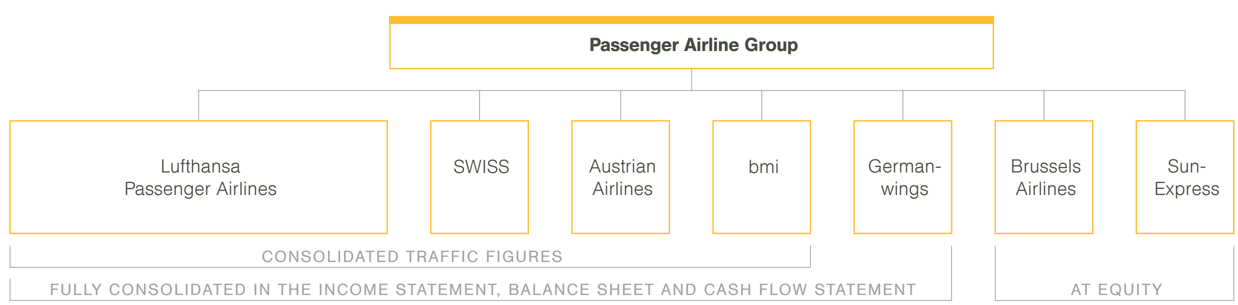
**Network strategy aligned with sales markets**

Lufthansa and the group airlines follow a coordinated network strategy in their individual sales markets. In Europe it is based on multiple hubs and catchment areas. The megahub Frankfurt offers a comprehensive range of destinations, maximising transfer opportunities. In addition the hubs in Munich, Zurich, Vienna, Brussels and Dusseldorf focus principally on local demand and offer a route network that is aligned with the relevant source market. In the main German catchment areas of Hamburg, Stuttgart and Berlin an attractive range of short- and medium-haul destinations is also covered by direct flights.

Cooperation programmes and alliances are to be developed at the same time. In 2010 TAM from Brazil and Aegean Airlines from Greece joined the Star Alliance, the largest and most successful global airline grouping. In 2011 they will be joined by Air India and Ethiopian Airlines as well as the Latin American carriers Avianca (Columbia), TACA (El Salvador) and Copa Airlines (Panama). The Star Alliance network currently covers 1,160 destinations in 181 countries.

The establishment of Atlantic++ constitutes another important building block for the route network to North America. It is the largest transatlantic joint venture and was founded by Lufthansa, Air Canada, Continental and United Airlines. The close cooperation relates to all traffic between North America and Europe, Africa, the Middle East and the Indian subcontinent. At its core the collaboration consists of around 280 daily transatlantic flights to 61 destinations in 23 countries at 15 hubs. Atlantic++ has a market share of 29 per cent and generates revenue of more than EUR 7bn.

**Reporting Passenger Airline Group**



Capacity in Asia was scaled up by the deployment of the Airbus A380 on routes to Tokyo and Beijing. In the Middle East/Africa traffic region the structure of capacity was improved by more direct flights and Pointe Noire was included as a new destination in West Africa. On the African continent the focus of growth remains on the oil and energy sector. The portfolio of destinations in South America was expanded with Lufthansa flights to Bogotá in cooperation with the code-sharing partner Avianca.

## Markets and competition

### A developed, balanced network

The regional exposure of traffic flows has grown strongly, but has also become much more balanced than just a few years ago.

Competitors include Air Berlin in Germany and in Europe Air France-KLM and British Airways as well as no-frills carriers such as Ryanair and Easyjet. In intercontinental traffic the main competitors are American carriers such as American Airlines and Delta Airlines, as well as fast-growing companies from the Middle East and Asia. Nevertheless, with its position in the market, its product and service portfolio, its global network and the pooling of its strengths, as in the Atlantic++ joint venture, the segment is well placed to take part in global competition.

## Sales and customers

### Miles & More counts more than 20 million members

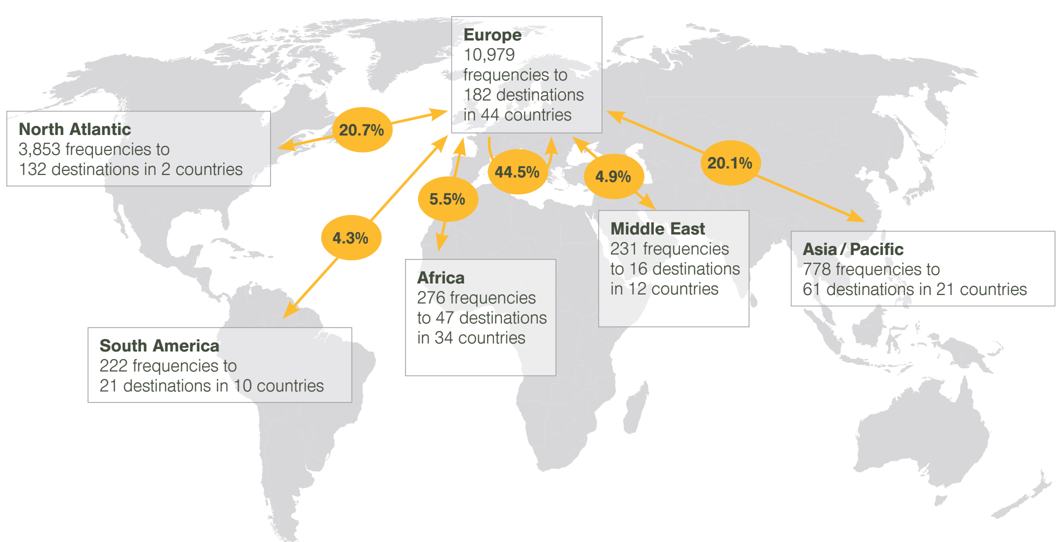
As part of the airline group strategy the airlines align their distribution channels with the markets in which the airlines operate. Comments on the customer base and distribution channels for the individual companies can therefore be found starting on p. 85. In its seventeenth year the overarching customer loyalty programme Miles & More continued to grow. With now more than 20 million members and over 250 cooperation partners it has strenghtened its role as leading European frequent flyer programme. Customers were thrilled by the new function for collecting miles on all Germanwings flights, improved conditions on bmi flights and the recently introduced social marketing activities. In 2011 the internationalisation of Miles & More is to be accelerated in strategic markets like China and India with new local partnerships.

## Course of business

### Economic recovery and non-recurring effects

The fundamentally positive economic performance in 2010 was muted by several events, including the pilots' strike, the airspace closures and the severe winter. The airspace closures alone cost the Passenger Airline Group a three-figure million euro amount in

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




* Frequencies per week, Lufthansa incl. code-shares.

Share of revenue of the Passenger Airline Group.

lost revenue and earnings. In the second half of the year the economic recovery prevailed, however. This involved both recovering premium passengers and adding significantly to sales volumes – especially in Europe. Lufthansa Passenger Airlines benefited in particular from the especially strong rebound in long-haul traffic, expanding its market share. Austrian Airlines and bmi are pursuing their restructuring programmes with vigour. At the same time, all airline group companies are realising vital synergies by cooperating and coordinating their networks.

## Operating performance

### Resurgent demand and consolidation

The positive economic developments and the consolidation of the new companies resulted in a sharp rise in sales and load factors in the reporting period. The Passenger Airline Group (excluding Germanwings) carried a total of 91.2 million passengers (+17.9 per cent). Adjusted for consolidation effects the increase amounted to 6.1 per cent.

Capacity at the Passenger Airline Group rose by 13.3 per cent in the reporting period – adjusted for the effects of consolidation by just 4.6 per cent. Sales went up by 15.2 per cent in the same period (adjusted: +7.1 per cent), which translated into an increase of 1.4 percentage points in the passenger load factor to 79.3 per cent. This positive trend was largely influenced by developments at Lufthansa Passenger Airlines, see comments starting on p. 86.

The extraordinary events at the beginning of the year could not lastingly spoil the positive development of traffic revenue. Increased demand in the premium segment as a result of the economic recovery lifted average yields by a total of 8.4 per cent compared with a year ago. An increase of 6.6 per cent year on year in the fourth quarter added to this development.

### Revenue up in all traffic regions

A look at the individual traffic regions shows that revenue was up considerably in all regions. Capacity was expanded sharply in Europe, largely due to the consolidation of Austrian Airlines and bmi, by 19.8 per cent (adjusted: +4.3 per cent). As sales rose by 23.3 per cent at the same time (adjusted: +7.3 per cent), the passenger load factor improved by 2.0 percentage points to EUR 71.4 per cent. Average yields were down 3.6 per cent year on year. Traffic revenue by contrast went up 18.9 per cent to EUR 8.2bn (adjusted: +4.7 per cent).

Capacity in North and South America increased by 7.4 per cent (adjusted: +4.2 per cent). A sales surge of 7.9 per cent (adjusted: +4.9 per cent) meant that capacity was sold in full, taking the passenger load factor up by 0.3 percentage points to 85.0 per cent. At the same time average yields went up by 17.9 per cent. This is also reflected in the 27.2 per cent rise in traffic revenue (adjusted: +24.2 per cent).

A similarly strong performance was reported in the Asia/Pacific traffic region, where capacity went up by 7.7 per cent due to consolidation (adjusted: –0.3 per cent). Thanks to a sales increase of 11.7 per cent (adjusted: +4.2 per cent), the passenger load factor climbed by 3.1 percentage points to 84.9 per cent. Average yields also climbed by 17.6 per cent. Traffic revenue was up by 31.4 per cent (adjusted: +24.8 per cent).

In the Middle East/Africa traffic region capacity grew by 16.6 per cent as a result of consolidation, while sales soared by 19.3 per cent. The passenger load factor improved by 1.7 percentage points to 75.4 per cent as a result. Adjusted for consolidation, capacity was up 6.3 per cent and sales 8.6 per cent. As average yields improved by 8.3 per cent, traffic revenue soared by 29.3 per cent (adjusted: +15.7 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 % | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | Change in % | **2010** | Change in % | **2010** | Change in % | **2010** | Change in % | **2010** | Change in pts |
| Europe | 8,172 | 18.9 | 70,472 | 19.0 | 77,574 | 19.8 | 55,400 | 23.3 | 71.4 | 2.0 |
| America | 4,594 | 27.2 | 8,415 | 7.5 | 72,960 | 7.4 | 62,016 | 7.9 | 85.0 | 0.3 |
| Asia/Pacific | 3,698 | 31.4 | 5,817 | 11.3 | 53,380 | 7.7 | 45,323 | 11.7 | 84.9 | 3.1 |
| Middle East/Africa | 1,920 | 29.3 | 5,257 | 22.8 | 27,941 | 16.6 | 21,075 | 19.3 | 75.4 | 1.7 |
| **Total scheduled services** | **18,384** | **24.3** | **89,961** | **17.5** | **231,855** | **12.4** | **183,814** | **14.4** | **79.3** | **1.4** |
| Charter | 181 | 145.3 | 1,196 | 55.9 | 3,982 | 97.2 | 3,186 | 95.3 | 80.0 | –0.8 |
| **Total** | **18,565** | **24.9** | **91,157** | **17.9** | **235,837** | **13.3** | **187,000** | **15.2** | **79.3** | **1.4** |

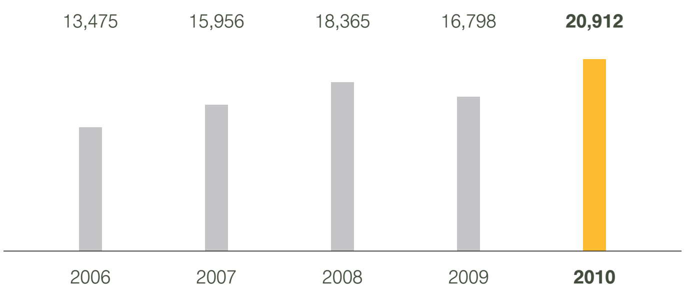
* Incl. Lufthansa Passenger Airlines, SWISS (from 2010 incl. Edelweiss Air), Austrian Airlines (from September 2009) and British Midland (from July 2009), not including Germanwings.

## Revenue and earnings development

### Revenue up by around a quarter

The positive course of business and additions to the group of consolidated companies took traffic revenue for the Passenger Airline Group up year on year by 24.3 per cent to EUR 19.2bn. After adjustment, the increase came to 13.0 per cent. In addition to growth from extra consolidation the rise of 5.5 per cent in sales volumes (adjusted for consolidation), higher prices (+3.2 per cent) and positive exchange effects of 4.3 per cent also pushed up income. In total, revenue climbed to EUR 20.9bn (+24.5 per cent, adjusted: +13.3 per cent).

**Revenue Passenger Airline Group** in €m




After adjustment for consolidation, other operating income declined by a total of EUR 91m to EUR 1.2bn due partly to lower income for computerised distribution systems (EUR −38m) and less income from compensation for damages (EUR −27m). In the previous year the latter item had included, amongst others, a compensation of EUR 29m for the FlyNet internet system cancelled by Boeing. Total operating income rose by 22.3 per cent to EUR 22.1bn. Without the consolidation of Austrian Airlines and bmi the increase would have amounted to 11.5 per cent.

### Expenses up by 19.8 per cent

Operating expenses rose year on year by 19.8 per cent to EUR 21.7bn. On an adjusted basis the increase was 8.4 per cent. The reasons for the increase were the much higher cost of materials and services of EUR 13.3bn (+21.5 per cent, adjusted: +9.8 per cent), itself due largely to the EUR 1.4bn or 41.8 per cent rise in fuel costs to EUR 4.8bn (adjusted: +29.7 per cent). In addition to the 20.7 per cent rise in fuel prices (after hedging), additional expenses stemmed from the larger group of consolidated companies (+12.1 per cent) and the stronger US dollar (+7.2 per cent). Volumes only had a minor effect on fuel expenses, however, adding just 1.8 per cent. Fees and charges soared – largely due to consolidation changes as well as higher handling and air traffic control charges – by a total of 22.0 per cent to EUR 4.3bn (adjusted: +6.3 per cent). Other purchased services went up by 3.5 per cent to EUR 3.8bn, solely due to the change in the group of consolidated companies. On an adjusted basis they fell by 3.8 per cent, owing partly to lower purchased MRO services (−3.6 per cent).

**Expenses Passenger Airline Group**

| | **2010** in €m | 2009 in €m | Change in % | Adjusted for changes in the group of consolidated companies in % |
|---|---|---|---|---|
| Cost of materials and services | 13,250 | 10,904 | 21.5 | 9.8 |
| of which fuel | 4,793 | 3,381 | 41.8 | 29.7 |
| of which fees | 4,335 | 3,552 | 22.0 | 6.3 |
| of which MRO services | 1,869 | 1,790 | 4.4 | −3.6 |
| of which operating lease | 247 | 281 | −12.1 | −26.7 |
| Staff costs | 3,829 | 3,330 | 15.0 | 3.9 |
| Depreciation and amortisation | 1,261 | 1,032 | 22.2 | 10.4 |
| Other operating expenses | 3,310 | 2,805 | 18.0 | 7.3 |
| of which agency commissions | 433 | 356 | 21.6 | 8.1 |
| of which external staff | 539 | 499 | 8.0 | −0.4 |
| **Total operating expenses** | **21,650** | **18,071** | **19.8** | **8.4** |

The average number of employees went up by 9.4 per cent to 57,226 in the reporting year, whereby staff costs rose by 15.0 per cent to EUR 3.8bn. Without the new companies staff costs rose by 3.9 per cent and the average number of employees was 1.9 per cent lower. Higher additions to pension provisions, higher performance-related pay and increases due to exchange rate movements were all responsible.

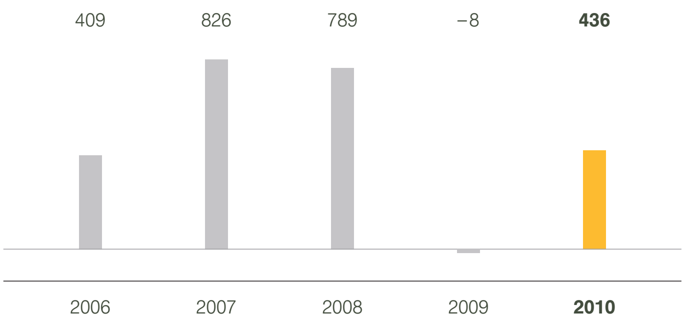
Depreciation and amortisation rose by 22.2 per cent to EUR 1.3bn. The adjusted increase of 10.4 per cent stemmed mainly from new aircraft deliveries this year and last.

Other operating expenses climbed by 18.0 per cent to EUR 3.3bn. Adjusted for consolidation the rise came to 7.3 per cent. This is the result of higher exchange rate losses (EUR +216m), as well as agency and credit card commissions (EUR +62m). By contrast, expenses were lower for computerised distribution systems (EUR −36m) and for advertising and sales promotion (EUR −14m).

### Improved operating result

The segment's operating result improved smartly year on year thanks to the strong business performance. Despite considerable one-off burdens the Passenger Airline Group generated an operating profit of EUR 436m for the financial year 2010, compared with a slight loss of EUR −8m in the previous year.

**Operating result Passenger Airline Group** in €m




The earnings contributions from Austrian Airlines and bmi sliced a total of EUR 211m from the operating result. In the previous year the first-time consolidation of bmi and Austrian Airlines – including the negative goodwill reversed through income – had reduced earnings by EUR 23m in total.

Other segment income picked up by EUR 61m to EUR 244m, especially from higher write-backs of provisions (EUR +55m) and book gains (EUR +25m). Other segment expenses came to EUR 98m. Impairment losses of EUR 47m out of a total of EUR 49m were incurred on five Boeing B737-500s, two Airbus A330-200s, one Airbus A321-200 and 18 Canadair Regional Jet 200s. Some of these aircraft have already been retired, others are to be successively decommissioned or sold by the end of 2011 due to the current corporate plans. Other segment expenses also include write-downs of EUR 16m on aircraft and repairable spare parts for aircraft, which are shown in the balance sheet under assets held for sale.

The result of the equity valuation of EUR –10m (previous year: EUR –9m) relates particularly to SunExpress (EUR –9m) and SN Airholding (EUR –2m). The segment result improved overall by EUR 494m to EUR 572m.

### Segment capital expenditure up 7.9 per cent

Segment capital expenditure rose by EUR 149m to EUR 2.0bn, largely for the purchase of aircraft, see p. 74.

### Long-term overview shows considerable volatility

The long-term overview shows clearly the profitability of the segment, but also the effects on earnings development of the economic cycle. Between 2005 and 2007 profitability increased steadily. In 2008 too, the segment reported a strong positive result despite the impact of the financial crisis in many regions. In the financial year 2009, however, the full weight of the global economic crisis was unleashed on the Passenger Airline Group. The segment nevertheless recovered quickly, reporting a decent operating result right in the first year after the crisis.

## Outlook

### Further recovery in sight

For 2011 a return to normal economic growth is expected, with a correspondingly positive upturn in demand for passenger traffic. This recovery will primarily benefit those airlines which are well placed not only in Europe but also in long-haul traffic and can retain customers' loyalty by means of a broad network and products tailored to their needs. At the same time, further oil price rises must be anticipated, which in extreme scenarios could even exceed the previous high-water marks. The Group's systematic hedging policy will reduce the effects on earnings. Other one-off expenses from 2010 should not have any comparable effects. However, the German and Austrian governments have introduced and announced a new kind of burden – the air traffic tax – which may have an adverse effect on demand for the airlines affected from 2011. It is too early to make a firm forecast of the effects it will have. Further risks to the Company's development lie in the growing capacities of the Gulf carriers and in intensifying competition with no-frills airlines.

All the companies in the airline group are responding to persistent price pressure with tailor-made programmes to safeguard earnings that are to be continued in 2011. The measures taken to cut unit costs make an important contribution to developing the sector's capacity. The restructuring of Austrian Airlines and bmi are being pursued with vigour in 2011.

All the airlines will continue to strengthen their position in the markets, benefiting both from their own activities to improve efficiency and from deeper cooperation within the airline group. These structural developments will give a foreseeable lasting boost to the business segment and its profitability. The Passenger Airline Group is thus expected to again increase both its revenue and its operating result in 2011. Based on current predictions of future economic growth, this trend should also continue in 2012. Earnings development for the segment will be particularly driven by Lufthansa Passenger Airlines as by far the largest airline in the group.

## Lufthansa Passenger Airlines

### Lufthansa Passenger Airlines benefits from resurgent demand

Lufthansa Passenger Airlines considers itself to be a quality carrier and pursues a full-line distribution strategy. The route network covers 206 destinations in 82 countries. Its main hubs are in Frankfurt and Munich. They are supported by a local hub in Dusseldorf and direct flights throughout Europe. The performance and financial figures for Lufthansa Passenger Airlines include the fully consolidated production companies in regional traffic (for example Lufthansa CityLine and Air Dolomiti) as well as Lufthansa Italia.

The global economic recovery and the revival of the German export economy were the defining features of 2010 for Lufthansa Passenger Airlines. Disruption caused by the pilots' strike and by the airspace closures marred the positive general trend. Overall, however, the better economic climate had a very positive impact on demand. Customer-focused offers, high market penetration in the corporate and private customer segment, and the loyalty programmes in the corporate customer segment all enabled Lufthansa Passenger Airlines to derive above-average benefit from the recovery in demand. While intercontinental traffic saw a strong resurgence in premium demand and therefore average yields, pricing in European traffic remained at the low level of the crisis year 2009 due to structurally changing customer preferences.

### Important progress achieved with Climb 2011

Prompted by the global economic recession and the long-term changes in market conditions, Lufthansa Passenger Airlines had initiated the cost-cutting programme Climb 2011 in summer 2009. The steps taken as part of its focus areas are intended to improve earnings sustainably by a total of EUR 1bn annually. In 2010 the established projects made an earnings contribution of EUR 230m. The Lean Management project was also launched in 2010.

**Climb 2011: focus topics with a clear emphasis on cost savings**

| | |
|---|---|
| **Fleet structure** | **Suppliers** |
| **Capacities** | **Administration** |
| **Staff productivity** | **Income** |

**1. Fleet structure and capacities:**
The withdrawal from the 50-seater segment and the switch to more efficient aircraft types in the regional segment, such as the Bombardier CRJ900 and the Embraer 195, will be completed by summer 2011.

The fleet rollover underway in decentralised traffic since October 2009 has increased the average aircraft size from 76 to 91 seats. This resulted in significant improvements in unit costs. The additional seats were fully sold in 2010. The impressive sales performance demonstrates that as a quality airline Lufthansa is also perceived as a relevant and successful provider in the price-sensitive customer segment.

- EU-DIRection project: In decentralised traffic a different approach to market, adjustments to capacity management and strict cost management have been identified in order to reduce unit costs by 40 per cent. The new marketing strategy produced strong growth in passenger numbers and increased Lufthansa's attractiveness in Europe.
- Regional future project: As part of the realignment of Lufthansa Passenger Airlines' regional companies (CityLine, Eurowings and Air Dolomiti), unit costs are being reduced sustainably by making full use of synergy effects and optimising their production and maintenance sites.

**2. Staff productivity:**
The aim is to reduce unit staff costs by 10 per cent. The wage settlements reached in 2010 represent an important step towards this goal. The wage freezes and especially the flexibility clause in the 95-seater rule for the regional segment are of great significance in maintaining competitiveness there over the long term.

**3. Suppliers:**
Joint projects with external and internal suppliers are underway to optimise processes and cut costs. Initial success has been achieved by reducing sales costs and handling charges in other European countries. New contracts were signed with LSG Sky Chefs, which will enable significant cost savings over the next three years. Savings will also be made with Lufthansa Technik, largely by aligning the supplier relationship with requirements at the individual hubs.

**4. Administration:**
Reducing 400 jobs (around 20 per cent) in administrative areas by the end of 2011 is intended to bring further improvements to the fixed-cost base. By the end of 2010 nearly 300 voluntary and socially responsible settlements had been reached on the basis of severance payments or partial retirement.

**5. Income:**
The revised cabin layout and the resulting increase in seating capacity thanks to the installation of a new seat model for the European fleet is expected to bring additional income of up to EUR 276m per year. The first refitted aircraft was presented to the public in December 2010 and the entire European fleet is due to follow by the end of 2011.

**Expansion of the hubs continues apace**

Lufthansa Passenger Airlines continued its successful system partnership with Fraport at the hub in Frankfurt. Following the topping-off ceremony for the A-Plus pier currently under construction, negotiations were completed in 2010 in a spirit of partnership for major commercial agreements such as the purchase of ground handling services. The long-term planning certainty this provides creates a solid base for future growth at Frankfurt Airport.

With passenger numbers up by 8.9 per cent, the Munich hub was the most dynamic growth driver for Lufthansa Passenger Airlines in 2010. The airport won the title of Europe's best airport for the fifth year since 2005. Preliminary planning for the extension of Terminal 2 to include a satellite terminal, due to open in 2015, was completed in collaboration with the Munich airport operator and a long-term agreement was signed on the joint operation of Terminal 2. The route network of the Munich hub was extended by four long-haul destinations in 2010, with a focus on improved profitability.

The decentral point-to-point traffic outside the hubs is under particularly strong competitive pressure. The measures taken as part of Climb 2011 already began to take effect in 2010. Retiring all the turbo-prop planes and successively replacing the 50- and 70-seaters by larger aircraft such as the Bombardier CRJ900, Embraer 195 and Airbus A320 enabled unit costs to be reduced by 14 per cent. Intercontinental traffic from Dusseldorf took off well. Since switching to the Airbus A330 it has reconquered the market leadership in surrounding Ruhr region for traffic to North America.

In its second year of operations Lufthansa Italia carried around 1.2 million passengers to 15 destinations in Italy and Europe with nine Airbus A319s. Prague was included as new destination in the winter timetable 2010/2011. As part of the restructuring of the Italian business Lufthansa Italia is to pool its strengths with Air Dolomiti in future, in order to combat the intensive competition in Italy even more effectively.

**Traffic and earnings performance greatly improved**

Lufthansa Passenger Airlines registered a growth in passenger numbers of 5.9 per cent to 58.8 million. Capacity was extended by 3.1 per cent while the number of flights was reduced by 2.9 per cent at the same time. This reflects the restructuring of the European fleet. Sales climbed by 5.4 per cent, lifting the passenger load factor to 79.4 per cent (+1.7 percentage points). Thanks to an improvement of 7.6 per cent in average yields, Lufthansa Passenger Airlines increased its traffic revenue by 13.4 per cent to EUR 12.9bn in the reporting period.

Total income rose to EUR 14.0bn (+13.4 per cent). Despite numerous non-recurring expenses and a resurgent oil price, Lufthansa Passenger Airlines was able to improve its operating result by EUR 489m to a profit of EUR 382m just one year after the financial and economic crisis.

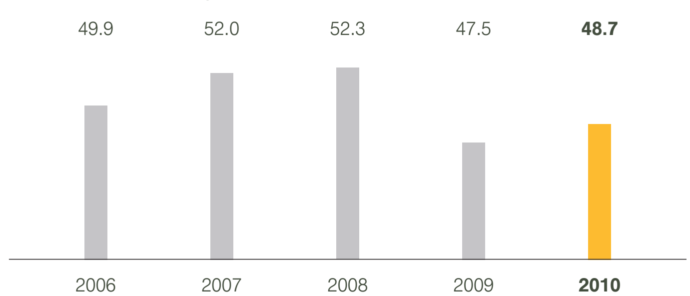
**Lufthansa customers enjoy the benefit of innovative products**

Despite its plans for sustainable cost savings, Lufthansa Passenger Airlines continues to invest in expanding its in-flight and ground products. The reintroduction of the FlyNet system in December 2010 now gives customers the full communications freedom of the internet above the clouds and restores the airline to its leading global position in terms of in-flight connectivity.

First Class showed off its new look for the first time in mid 2010 with the introduction of the Airbus A380. The entire cabin product, including the seating concept, the design of cabin and wash rooms, and the entertainment programme were all upgraded as part of the modernisation. Economy Class was also developed further in this respect and now has personal screens with an extensive entertainment programme. In the future the entire Airbus fleet will be equipped with the new First Class. Since March 2010 the Airbus fleet has had personal screens in Economy Class. In 2011 additional Boeing 747-400s are to be fitted with a new First Class and the new Economy Class.

The ground product does not stop developing either. The largest Senator Lounge was opened in Frankfurt, with an integrated Jet Friends area for children. The Lounge experience has also been enhanced by two Sports Corners for frequent flyers who are also sports fans. In Munich the number of Senator Lounges was doubled and the first Lufthansa indoor beer garden was opened with a panorama view of the Alps.

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



This focus on the customer pays off: in 2010, Lufthansa received the Skytrax World Airline Award as the best airline in Europe. This followed commendations as Best Business Class on German and European Flights and Best Airline Website for Business Travellers from the readers of the magazine Business Traveller Deutschland.

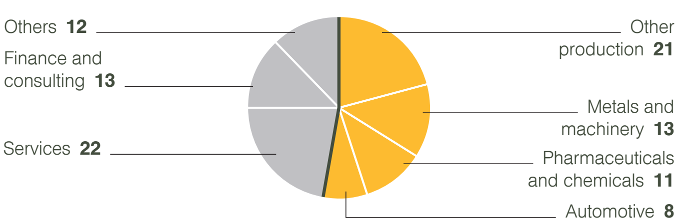
## Sales strategy is based on four pillars

The Lufthansa Passenger Airlines marketing strategy in 2010 was based on four pillars: a focus on corporate customer management, the systematic expansion of high-value market segments, the continued exploitation of high-volume demand for private travel in growth markets such as the USA, China and India, and the realisation of sales synergies within the airline group.

Various marketing and customer acquisition measures successfully increased revenue in the corporate customer segment. Lufthansa can point to a very balanced mix of industries in its corporate customer relations. Revenue from corporate customers rose by 12 per cent in 2010, driven by strong growth in Asia and North America as well as a higher percentage of Business and First Class bookings. Business and First Class revenue as a percentage of traffic revenue was well above that of the crisis level at around 40 per cent. In long-haul traffic the number of passengers rose overall by 5 per cent in 2010; the number of premium passengers even went up by 12 per cent compared with the previous year. Around 49 per cent of traffic revenue in long-haul traffic is generated by Premium passengers, which account for 18 per cent of total passenger numbers.

Furthermore, the focus on high-volume sales channels set in 2009 was sharpened. Online ticket sales climbed sharply to 26 per cent thanks to focussed marketing activities.

**Sector origin of Lufthansa Passenger Airlines' corporate customers** in %




**Organisational structure of the Executive Board, Lufthansa German Airlines** (since 2011)

**CEO Lufthansa German Airlines**
Carsten Spohr

- Finance and Human Resources
  Roland Busch
- Sales and Revenue Management
  Jens Bischof
- Frankfurt and Flight Operations
  Kay Kratky
- Munich and Direct Services
  Thomas Klühr

## New organisational structure for Lufthansa Passenger Airlines

As of 1 January 2011 Carsten Spohr took over as Chairman of the Lufthansa German Airlines Board from Christoph Franz and this was followed by modifications to the organisational structure as of 1 April 2011 that are to reflect the altered market environment. They are intended to facilitate a sharper focus on customers and competition as well as to expedite internal decision-making and management processes. At the same time Lufthansa Passenger Airlines are using the reorganisation to pursue their divisional strategy.

## Outlook Lufthansa Passenger Airlines

The initiatives launched and the positive earnings trend are to be continued. Further improvement in revenue and operating result is expected for 2011. The steps to cut unit costs and the collaboration with its partner airlines will strengthen the position of Lufthansa Passenger Airlines in European traffic sustainably. Climb 2011, too, will be continued unchanged and the full potential of the EUR 1bn programme will become apparent in the key financial indicators for 2012. For 2011 an earnings contribution of at least EUR 350m is planned. The extent to which it is possible to recoup rising fuel costs and the air traffic tax introduced in 2011 via surcharges for passengers can have a significant effect on earnings. This also applies to the negotiations and results of collective bargaining, which is back on the agenda in 2011, starting with the wage agreement for cockpit staff that expires at the end of March.

The ongoing renewal of the fleet plays a special role for cost savings and for growth. Thirty-one aircraft are to be delivered to Lufthansa Passenger Airlines in 2011, including four more Airbus A380s. Development of the hubs holds additional potential. With the opening of the new runway in Frankfurt planned for late 2011 and the agreed extension with the satellite terminal in Munich, Lufthansa's development prospects are unique among its European competitors.

## SWISS

**SWISS***

| | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 3,459 | 24.9 |
| Operating result | €m | 298 | 220.4 |
| EBITDA | €m | 531 | 90.9 |
| Passengers carried | thousands | 15,153 | 6.8 |
| Employees as of 31.12. | number | 7,640 | 6.2 |

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

### SWISS can look back on a successful year 2010

Swiss International Air Lines (SWISS) can look back on a highly successful year 2010. In its winter flight plan 2010/2011 the company serves 72 destinations in 39 countries from its hub Zurich and from airports in Basel, Geneva and Lugano. With a modern product it positions itself in all three classes as a quality airline and premium brand. As the national airline of Switzerland and a member of the Star Alliance, SWISS embodies the brand values of personal service, superlative quality, reliability and Swiss hospitality. The target group for SWISS is principally business travellers, but it also has a strong presence in the leisure travel segment. In this segment it is supplemented by the holiday airline Edelweiss Air, whose numbers are also consolidated in the SWISS group. In March 2010 SWISS celebrated the fifth anniversary of its successful engagement with the Lufthansa Group as a largely autonomous airline. Since 2005 SWISS has increased annual passenger numbers by 50 per cent and hired around 1,000 new people.

### Strong revenue development in its home market

The success of SWISS is due largely to effective cost management, but also to strong demand and the upswing in intercontinental and freight business, as well as strong sales in the domestic Swiss market. The gratifying growth in bookings was especially pronounced in the premium, long-haul segment. In European traffic average yields remained under heavy pressure, however. SWISS therefore continues to promote strict cost discipline and flexibility in order to respond swiftly to fluctuations in demand.

In October the one-hundred-millionth SWISS passenger was recorded since the company was established in early 2002. In 2010 SWISS (without Edelweiss Air) carried more than 14 million passengers – a record in the company's history. Capacities were adjusted over the course of the year flexibly, precisely and in line with demand. Altogether they were increased by 4.4 per cent compared with 2009. The flights were fuller than in the previous year, with an average load factor of 82.3 per cent – a high figure even compared with the Passenger Airline Group and the sector as a whole.

Since mid 2010 SWISS has operated a new long-haul service from Zurich to San Francisco, registering a high load factor on the route from the first month onwards. Furthermore, since early 2010 SWISS has been flying six times a day from Geneva to London Heathrow. In December the route Geneva–Madrid was opened. Frequencies from Zurich and Geneva to other destinations were also ramped up. This doubled capacity at Geneva over the last five years. SWISS offers new routes from Basel to London Heathrow in cooperation with bmi as well as to Copenhagen and Rome. This increases capacities from Basel by about 70 per cent.

### Changes in Board of Directors

In September the SWISS Board of Directors lost Dr Rolf Jetzer, its respected president of many years, who died unexpectedly at the age of 59. In November Dr Bruno Gehrig, president of the Swiss Air Transport Foundation, was appointed as the new President of the Board of Directors to replace him.

### SWISS continues to expand its fleet and to invest in its product

SWISS is committed to a careful use of resources and demonstrates its involvement at various levels. It has reduced specific fuel consumption continually over the last five years. This course is being pursued by means of investment in technological innovations to renew and expand the fleet. As part of this fleet programme SWISS is expecting delivery of seven Airbus A330-300s and five Airbus A320s in the years ahead. From 2014 it is to replace its Avro-RJ regional fleet completely by more environmentally friendly and noticeably quieter aircraft from the Bombardier C-Series. Altogether SWISS has 42 aircraft on its order list.

Furthermore, until mid 2011 SWISS will be investing in an integrated and modern three-class product for its entire long-haul fleet. Alongside capital expenditure in Business and First Class the company also invested in Economy Class in 2010. The undiminished focus on a high-quality product is paying off: in the first half-year SWISS received several awards, including the Skytrax 2010 World Airline Award for Staff Service Excellence in Europe. In early 2011 SWISS was voted best European airline by the readers of Business Traveller magazine and commended for the best Business Class range in routes to North and South America.

### Sustainable growth track to be pursued consistently

After a difficult start, the financial year 2010 developed extremely well. SWISS generated revenue of EUR 3.5bn (+24.9 per cent) and an operating profit of EUR 298m (previous year: EUR 93m). SWISS intends to improve earnings moderately again in 2011 and is to pursue its course of sustainable growth consistently.

## Austrian Airlines

**Austrian Airlines** [1) 2)]

| | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 2,033 | – |
| Operating result | €m | –66 | – |
| EBITDA | €m | 169 | – |
| Passengers carried | thousands | 10,895 | – |
| Employees as of 31.12. | number | 6,943 | – |

[1)] Further information on Austrian Airlines can be found at www.aua.com.
[2)] Austrian Airlines has been fully consolidated since 3 September 2009.

### Three airlines with Austria as their home market

Austrian Airlines AG consists of three airlines: Austrian Airlines, Lauda Air and Tyrolean Airways. Alongside the domestic Austrian market, where the company is market leader with the highest revenue of any airline, it has successfully specialised in the growth regions of Central and Eastern Europe and the Middle East. Overall, Austrian Airlines operates a worldwide route network with more than 130 destinations, which is gradually being expanded. After the expected return to profitability, the focus will shift to profitable growth. From summer 2011 two Airbus A320s will reinforce the short-haul fleet.

As part of the recently established central sales coordination at Austrian Airlines progress was made on developing proprietary sales, especially via internet, and by means of specific marketing campaigns. The greater presence in all relevant sales channels as a result of the integration with the Lufthansa Group also improved customer satisfaction. The focus on crisis-resistant market segments contributed to growth in passenger numbers. Revenue also improved in the corporate customer segment thanks to the introduction of the group sales strategy and joint corporate contract management within the Lufthansa airline group.

### Restructuring and synergies deliver initial success

The financial year 2010 was dominated by the restructuring and integration of Austrian Airlines within the Lufthansa Group. Consequently, the cost base was cut by EUR 250m, internal processes were improved and the workforce was reduced from 7,600 full-time positions in 2008 to around 6,000. Step by step, savings are also being achieved by negotiations with suppliers. The Austrian Next Generation programme is vital for the restructuring and rests on three pillars: cutting the cost base, introducing an active new market strategy and using synergies with the Lufthansa airline group.

With the measures to reduce costs Austrian Airlines is bringing its expenses down to a competitive level. The new market strategy is intended to increase the number of passengers by 1 million per year. Synergies are already being exploited intensively, by integrating sales activities and cooperating with Lufthansa and the other companies in the airline group.

The financial year 2010 saw the first significant successes from these measures: Austrian Airlines was able to further improve its market position at the Vienna hub, increasing its market share by 1.4 percentage points to 50.9 per cent. The revenue level in European traffic is still below expectations, however. On the other hand, long-haul traffic showed clear signs of recovery. The upturn in corporate customer business here led to a positive development in average yields.

The Supervisory Board appointed Thierry Antinori as Chairman of the Executive Board of Austrian Airlines with effect from 1 April 2011. At the time being he is on the Lufthansa German Airlines Board, responsible for marketing and sales. This will bring the number of Executive Board members for Austrian Airlines to three.

### Restructuring success improves the bottom line

The effects of the comprehensive restructuring were clearly visible in the 2010 financial year. Merging Austrian Airlines' sales with Lufthansa's distribution network in particular lifted the load factor by 2.8 percentage points year on year to 76.8 per cent. A total of 10.9 million passengers were transported, nearly one million more than in 2009. The necessary capacity only rose slightly, by 0.3 per cent. Revenue was kept stable at EUR 2.0bn. In line with the period of consolidation the previous year's consolidated financial statements for Lufthansa included just EUR 665m in revenue for Austrian Airlines. The operating result for Austrian Airlines was still negative in 2010 at EUR –66m, but this was nevertheless a considerable improvement. The previous year the operating result for the period September to December alone, included in Lufthansa's consolidated financial statements, came to EUR –31m.

### Operating profit expected for 2011

Austrian Airlines has set itself the goal of generating a positive operating result in 2011 and is confident of meeting this target. The restructuring is to be used systematically to this end, whereby the system partners are also contributing to the necessary sustainable growth. Despite the recently introduced air traffic tax in Austria, Austrian Airlines intends to meet this target in 2011. The effects of this levy are not yet foreseeable, however.

## British Midland

**British Midland** [1) 2)]

| | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 896 | – |
| Operating result | €m | –145 | – |
| EBITDA | €m | –117 | – |
| Passengers carried | thousands | 6,194 | – |
| Employees as of 31.12. | number | 3,613 | – |

1) More information on British Midland can be found at www.flybmi.com.
2) British Midland has been fully consolidated since 1 July 2009.

**bmi successfully integrated into the Lufthansa Group**
Since November 2009 Lufthansa has been the sole shareholder of British Midland Ltd. (bmi) via the British holding company LHBD Holding Ltd. In 2010 the company was successfully integrated into the Lufthansa Group. At the same time extensive restructuring was carried out to bring bmi to profitability in the medium term.

**Three airlines with the UK as their core market**
The bmi group consists of three airlines – British Midland International, bmi Regional and bmibaby, which each cover different markets and customer groups. The core markets for all three airlines are situated in the UK.

British Midland International is a classical airline and its route network covers destinations in its domestic UK market, Europe, the CIS states, the Middle East and Africa from London Heathrow. The slots at London Heathrow airport are of considerable strategic value for the group. Over the course of the reporting year routes within the UK were abandoned in favour of new routes to neighbouring countries and to the Middle East in order to correspond with the earnings-optimised reorientation of the network.

With its Embraer fleet bmi Regional offers short-haul flights within the UK and Europe. Its high-quality product and excellent punctuality are aimed particularly at business travellers. The airline's charter business delivers positive earnings contributions.

With 14 aircraft from the Boeing 737 family, bmibaby operates as a low-cost airline, primarily from East Midlands airport and Birmingham airport, where it has a strong market presence. In 2010 flights from East Midlands to Germany were also added to the route network.

**Restructuring efforts show results**
The restructuring of bmi progressed to plan in the reporting year. This involved reducing the number of planes by 10 and cutting capacity significantly. The productivity of the aircraft has been increased at the same time. The redundancies linked to the restructuring were completed over the course of the year; a total of around 750 jobs were cut. Further cost-cutting measures also started to be effective and contributed to the earnings improvement.

The targets set for revenue were not met in full, partly because of extraordinary external factors (for example the repeated airspace closures and weather-related airport closures). Economic developments in the UK are still subject to a high degree of uncertainty. This, together with the strong presence of no-frills carriers in the domestic UK market, means that average yields there are persistently low. On the other hand, routes to Europe, the Middle East and the CIS states are continuing to report positive performances. As its route network is limited to short-haul and medium-haul routes, bmi has not been able to benefit from the global upswing in intercontinental traffic, however.

Furthermore, flight cancellations due to the airspace closures and the disadvantageous pound sterling exchange rate both depressed earnings. Overall bmi generated revenue equivalent to EUR 896m in 2010 and reported an operating loss of EUR 145m.

Over the course of the year the sales integration with the Lufthansa Group was completed in all major markets outside the UK, so that in future the company will be able to benefit from Lufthansa's larger distribution network. In addition, capital expenditure on product quality was planned, particularly for fleet and cabin equipment as well as IT management systems.

The company's financial profile was strengthened in July 2010 via the conversion of a short-term loan of GBP 45m from Lufthansa into equity.

The strategy of replacing loss-making short-haul routes with more profitable ones in neighbouring markets and in medium-haul is to be pursued. At the same time steps will be taken to ensure that the company's slots at London Heathrow are preserved. The plan to fly with bmi Regional from England to the Lufthansa Group hubs has been intensified.

**The medium-term outlook is positive**
Due to the structural situation at bmi the operating result for 2011 is still expected to be negative, while the target of returning to profitability in the medium term has been reiterated.

## Germanwings

**Germanwings***

| | | 2010 | Change in % |
|---|---|---|---|
| Revenue | €m | 630 | 8.6 |
| Operating result | €m | –39 | |
| EBITDA | €m | –9 | –113.5 |
| Passengers carried | thousands | 7,730 | 7.9 |
| Employees as of 31.12. | number | 1,272 | 14.5 |

* Further information on Germanwings can be found at www.germanwings.com.

### Germanwings extends its offer in the low-cost segment

With its current fleet of 30 Airbus A319s Germanwings offers flights from its five locations, Cologne/Bonn, Stuttgart, Berlin-Schönefeld, Hanover and Dortmund, to 75 European destinations. To strengthen its long-term competitiveness, the company stationed three aircraft at Hanover-Langenhagen airport in April 2010 and expanded this site as a new base. In the main travel season Germanwings flies non-stop to 14 European destinations from Hanover. By transferring at Stuttgart passengers were able to reach a further 13 destinations from here.

In 2010 Germanwings sparked a new industry trend with the introduction of a new pricing structure in Germany. Travellers have the option of choosing between three different rates: Basic, Best or Flex. The new Best fare offers passengers a clear price advantage and enables them to combine a number of additional services into a single package. For customers this combination is advantageous, as the additional services are 25 per cent cheaper than if the individual components were booked separately.

Furthermore, Germanwings is constantly increasing its attractiveness to passengers. Since 1 September 2010 Miles & More members have been able to collect miles for the Miles & More programme on all Germanwings flights. The same number of miles will apply here as for Lufthansa flights. Since December 2009 Miles & More participants have also been able to redeem their miles for flights on the entire Germanwings route network.

Germanwings received several awards also in 2010. The company was voted Germany's most productive airline by Profiles International. In the current Flugatlas survey organised by Mobil in Deutschland e.V., Germanwings won the test with top marks in the categories punctuality, frequent flyer programme, price and ease of booking.

### Result under pressure from non-recurring factors

Inner-European flight traffic remains dogged by stiff competition and low average yields. In this environment the operating result for Germanwings in the first half of 2010 received another blow from exogenous effects such as the pilots' strike and the temporary airspace closures. Start-up costs were also incurred at the station in Hanover-Langenhagen. In December the treacherous winter weather landed another punch. In this market environment it was not possible to sell capacities in full. The measures taken to safeguard earnings were not able to offset the one-off effects at the end of the year.

Despite of the one-off factors described, Germanwings was able to continue on its growth path. Germanwings saw an increase of 7.9 per cent in passenger numbers to 7.7 million in 2010. At 77.2 per cent, the passenger load factor nearly matched the previous year's high level. Revenue rose to EUR 630m (+8.6 per cent). Overall, however, for the financial year 2010 Germanwings reported an operating result of EUR –39m (previous year: EUR +24m) influenced by the one-off effects.

### New sales cooperation and earnings improvement in 2011

For 2011 Germanwings is expecting pressure on demand and earnings to remain high due to the government's new air traffic tax, persistent overcapacities and the resurgent oil price.

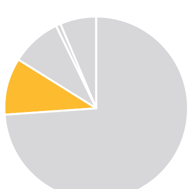
In order to stabilise average yields and demand, Germanwings will continue to expand its sales structures in the year ahead. Fares for Germanwings and Lufthansa can be combined as of 2011 and the two airlines will work together even more closely in the corporate customer business. This will enable customers to benefit from a joint product range in future. In the future Germanwings can also be booked via all global distribution systems. Germanwings has launched the WIN4U programme to safeguard earnings, which covers cost savings as well as structural cost-cutting measures such as strategic collaboration with Lufthansa Technik. Revenue and operating result for the financial year 2011 are thus expected to be higher than last year.

Alongside this permanent earnings improvement, Germanwings is continuing to invest in its product; in new high-quality seats, for instance, in order to make it even more comfortable on board and to offer customers an improved seating configuration. The fleet, too, is to see further development. Eight new Airbus A319s will be added successively to the existing fleet between 2012 and 2014.

# Logistics business segment

↗ All sales markets recovered in 2010, especially China and America. ↗ Lufthansa Cargo was in a prime position to exploit the dynamic movement. ↗ Strong traffic revenue drove revenue up by 43 per cent. ↗ The operating result set a new record. ↗ Innovations and partnerships resulted in higher productivity and customer loyalty. ↗ Although the outlook remains bright, cost management is still an important topic.

**Share of Group revenue 10.1%**



↗ One of the largest cargo airlines

**Key figures Logistics**

| | | **2010** | 2009 | Change in % |
|---|---|---|---|---|
| Revenue | €m | 2,795 | 1,951 | 43.3 |
| of which with companies of the Lufthansa Group | €m | 25 | 23 | 8.7 |
| Operating result | €m | 310 | –171 | – |
| Adjusted operating margin | % | 11.4 | –8.0 | 19.4 pts |
| Segment result | €m | 330 | –152 | – |
| EBITDA | €m | 445 | –28 | – |
| CVA | €m | 233 | –264 | |
| Segment capital expenditure | €m | 21 | 25 | –16.0 |
| Employees as of 31.12. | number | 4,517 | 4,488 | 0.6 |
| Average number of employees | number | 4,469 | 4,568 | –2.2 |
| Freight and mail | thousand tonnes | 1,795 | 1,519 | 18.2 |
| Available cargo tonne-kilometres | millions | 12,564 | 11,681 | 7.6 |
| Revenue cargo tonne-kilometres | millions | 8,905 | 7,425 | 19.9 |
| Cargo load factor | % | 70.9 | 63.6 | 7.3 pts |


Revenue of EUR 2.8bn

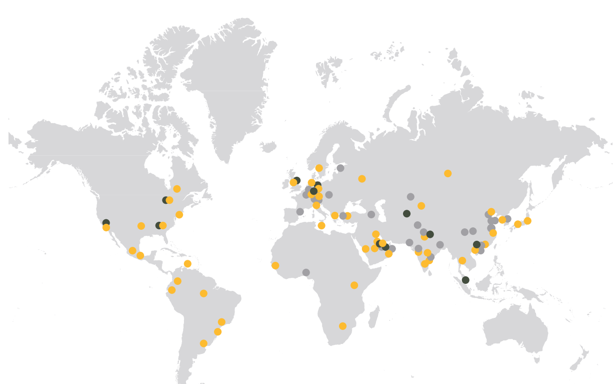
Operating result of EUR 310m

## Business and strategy

**One of the largest cargo airlines in the world**
Lufthansa Cargo is the service provider for the logistics business in the Lufthansa Group. With 18 MD-11 freighters of its own, joint ventures such as AeroLogic and Jade Cargo International as well as additional freight capacities on passenger aircraft, the company is one of the largest cargo airlines in the world. Cargo shipments are transported by aircraft or truck, by means of road feeder services. These are principally used for feeder transports. Lufthansa Cargo Charter Agency specialises in ad hoc charter solutions for particularly individual shipments such as freight with unusual dimensions. Lufthansa Cargo's product portfolio covers standard and express freight, with special freight as a key component. This includes live animals, valuable cargo, airmail, dangerous goods and also the transport of temperature-sensitive goods.

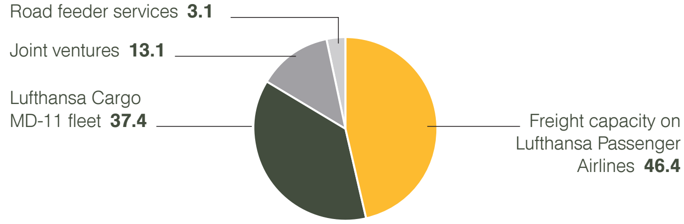
**Worldwide network with multiple providers**
All product segments benefit from Lufthansa Cargo's dense worldwide network and its production platforms with over 300 destinations in more than 100 countries. The company derives around 37 per cent of this capacity from its MD-11 fleet. In addition, Lufthansa Cargo markets freight capacities on board the aircraft operated by Lufthansa Passenger Airlines, which contribute around 46 per cent of its total capacity. Further freight capacities come from joint ventures such as AeroLogic in Leipzig, in which Lufthansa Cargo and DHL Express each hold 50 per cent of the shares. The Jade Cargo International joint venture in Shenzhen, China, serves with six Boeing 747F aircraft especially routes to and from China. In 2010 it flew transpacific routes from Asia to the USA for the first time. Lufthansa Cargo holds 25 per cent of Jade Cargo; the other shareholders are Shenzhen Airlines with 51 per cent and Deutsche Entwicklungsgesellschaft with 24 per cent.

**Locations Lufthansa Cargo**



● Lufthansa Cargo destinations ● Jade Cargo International destinations
● AeroLogic destinations

**Composition of Logistics capacity** in %




Since 1 July 2010 the network has been augmented by the Austrian Airlines cargo business, especially in Eastern Europe. Vienna airport has been developed into a further cargo hub, alongside the existing hubs. There is also close collaboration with the Group companies SWISS, bmi and Brussels Airlines, which all market their freight capacities themselves.

The Supervisory Board of Lufthansa Cargo AG appointed Karl Ulrich Garnadt, previously Board member at Lufthansa German Airlines, to succeed Carsten Spohr as Chairman of the Executive Board and CEO of Lufthansa Cargo AG with effect from 1 January 2011.

**Equity investments reflect strategic focus**
Lufthansa Cargo has built up important subsidiaries and equity investments over recent years. They include Jettainer GmbH, a global management company for loading aids such as containers and pallets, or handling counts GmbH, which employs around 300 staff in freight handling at Frankfurt Airport.

In the growth market China Lufthansa Cargo has a strong position thanks to its equity investments and joint ventures, too. As well as Jade Cargo, the investments in Shanghai Pudong International Airport Cargo Terminal, the International Cargo Center Shenzhen, and Tianjin Aircargo Terminal Ltd. are all pillars of the China strategy.

## Markets and competition

**Lufthansa Cargo benefits particularly from market recovery**
All sales markets experienced a strong recovery in 2010. For Lufthansa Cargo, Asia/Pacific remained the most important sales market with around 50 per cent of traffic revenue. The upswing that began in China back in the fourth quarter of 2009 continued throughout the reporting period. The Americas traffic region also registered a significant revival in demand. The volume of freight transported rose even faster here than in Asia.

The global slump in demand during the recession caused many cargo airlines to reduce their capacities in the preceding years. Aircraft were grounded at Lufthansa Cargo as well. This meant that the overcapacities diminished and considerably higher average prices could be charged when the economy began to pick up again. Lufthansa Cargo has made precise use of the market opportunities that arose since the end of the crisis. Since the Japanese airline JAL withdrew its freighter service, freighter capacity to Japan has been expanded substantially for instance.

Lufthansa Cargo competes with other international cargo airlines such as Air France-KLM, Cargolux and Korean Airlines. In altogether intense competition, Lufthansa Cargo is traditionally one of the largest cargo airlines in the world and grew again in line with the market in 2010. In its home market Germany Lufthansa Cargo remains the undisputed market leader, with a market share of well over 20 per cent.

## Sales and customers

**Growing and raising quality together with partners**

After the crisis year 2009, which was marked by partnership and great loyalty, Lufthansa Cargo was able to start expanding strategic and long-term partnerships again in 2010. The Global Partnership Program plays a vital role in this respect. In 2010 Lufthansa Cargo generated around 51 per cent of its revenue with its twelve global partners. The aim of the programme is to participate jointly in the global growth of the airfreight market. At the eighth Global Partner Council annual meeting, UPS was awarded the Planet Award of Partner Excellence. Small- and medium-sized hauliers are also very important to Lufthansa Cargo and are therefore served by a special key account management in the Business Partnership programme.

In 2010 Lufthansa Cargo awarded a quality prize for the first time to the freight forwarder with the best delivery quality in Germany. Around 30 hauliers took part in the competition, with the first prize going to Streck Transport. The ranking was based on key parameters such as adherence to the scope of delivery, punctuality or careful handling. The aim is to avoid process errors with an adverse impact on quality right at the beginning of the transport chain. This enables Lufthansa Cargo to set vital incentives for sustainably higher quality.

**Innovations introduced for the future**

The development and implementation of innovations has a high priority at Lufthansa Cargo. Last year, great progress was made on extending paperless airfreight (e-freight) and integrating numerous new stations into the e-freight network. The introduction of the electronic airway bill (eAWB) in early 2011 is a further milestone on the way to paperless airfreight processes. Tests on the world's largest pilot facility for tracking and identification using passive RFID technology in the air transport sector were also completed successfully. Further successful tests with lightweight containers will enable significant savings of fuel and $CO_2$ in the future. Lufthansa Cargo provided clear evidence of its technological leadership in February 2010 when no fewer than three of the company's projects were chosen for the German federal government's excellence cluster competition, which is aimed at promoting innovative projects.

One focus of the global sales force in 2010 was on developing the sales organisation. This enabled relations to existing customers to be intensified and new business to be generated at the same time. Progress was also made on migrating bookings for standard consignments to the company's own electronic channels, such as the online platform eServices. In 2010 as many as 45 per cent of bookings were made via this channel. In 2011 the figure is to rise to more than 50 per cent.

The services and the quality offered by Lufthansa Cargo were acknowledged in 2010 both by direct customer feedback and in the form of major prizes. In May the company won the sought-after prize at the Cargo Airline of the Year Awards in London. Just one month later Lufthansa Cargo was also voted best European cargo airline in Asia at the Asian Freight & Supply Chain Awards.

## Course of business

**Market recovery and cost management bring about earnings improvement**

Last year Lufthansa Cargo benefited considerably from the upturn in the global economy and the German export boom. The wide-ranging steps to secure earnings staunched the losses in 2009 and also had a positive effect in 2010. As the cost-cutting measures remained in force and demand for freight went up, even the first quarter closed well above expectations. The price adjustments made back in autumn 2009 were maintained in spring and autumn 2010.

As demand for airfreight services grew, so did Lufthansa Cargo's capacity needs. The joint venture AeroLogic expanded its fleet over the course of the year by four Boeing 777 freighters as planned and started direct flights from Leipzig to Hong Kong, Chicago and Atlanta as well as other new destinations. At the same time, Lufthansa Cargo continued the precise adjustments to the route network and focussed additions to capacity. The Chinese metropolis Tianjin was included in its route network for the first time and customers were offered more flights, to Mumbai, Hyderabad, São Paulo and Atlanta for example. Lufthansa Cargo also nearly doubled the number of weekly connections from Frankfurt to Tokyo and Osaka.

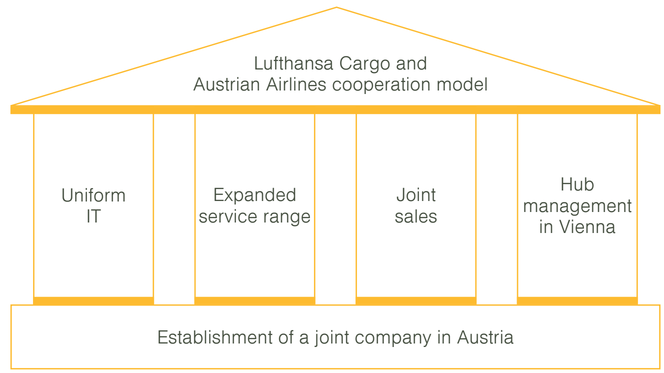
The good economic performance made it possible gradually to reduce the cutbacks relating to staff. Reduced working hours, which had been in place for all ground staff in Germany since March 2009, were scaled back from 25 to 20 per cent in February, then suspended in April and finally shelved altogether. The dynamic upturn also made it possible to reactivate the four freighters that had been temporarily laid up. After the return of the first plane to Frankfurt in May, the other three MD-11s followed by the end of the year.

The positive news surrounding Lufthansa Cargo was undermined in July by the total loss of an MD-11. The aircraft crashed on landing in Riyadh and was damaged irrecoverably. Fortunately, both pilots were able to escape from the plane and are now flying again for Lufthansa Cargo. The financial damages resulting from the accident were covered by insurance.

**Lufthansa Cargo group is being constantly refined**

The integration of Austrian Airlines' cargo business was a milestone for the Lufthansa Cargo group. Austrian Lufthansa Cargo GmbH, headquartered in Vienna, was set up together with Austrian Airlines as of 1 July 2010. The company markets the freight capacities of Austrian Airlines and Lufthansa Cargo in the Austrian market and is responsible for all freight handling at Austrian airports. In all other countries the freight activities have been pooled under the aegis of Lufthansa Cargo. The cooperation adds to Lufthansa Cargo's capacities. Particularly in the Eastern Europe growth region, customers have benefited from an even denser route network and more flexibility since July 2010.

**Cornerstones of the cooperation model**



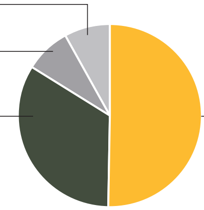

Growing demand for temperature-controlled transport meant that product development in this segment was accelerated. In summer 2010 Lufthansa Cargo presented the Opticooler, the most modern refrigerated container in the airfreight business, to its customers from the pharmaceutical industry. A letter of intent was also signed with Hyderabad airport in December to turn the airport into the most important hub in South Asia for temperature-controlled shipments. With this partnership Lufthansa Cargo intends to gain additional market share and generate profitable growth in the fast expanding and highly profitable segment.

**Security has the highest priority**

Increased security standards in the airfreight industry were a central topic for Lufthansa Cargo in 2010. New regulations in the EU and the USA made numerous changes necessary in spring and summer. The discussion flared up again after the prevented parcel bombings in October. Many countries tightened their security regulations, which led to sometimes considerable changes in procedures for cargo airlines and their customers. Lufthansa Cargo has nevertheless given the subject of security the highest priority for many years and took the appropriate measures at an early stage. This meant that the company was able to implement the new standards without any major difficulties. Lufthansa Cargo also held two conferences on security again in Frankfurt and New York in 2010. In the autumn experts from Lufthansa Cargo were the only representatives of a foreign airline invited to testify on matters of airfreight security before the US Congress. The company intends to use this permanently refined expertise to maintain its industry-leading role in questions of airfreight security.

In addition to its operating business, social responsibility was again an important topic for Lufthansa Cargo last year. The company provided free cargo flights to transfer aid packages both to the earthquake victims in Haiti and to the people suffering from the catastrophic flooding in Pakistan. The aid project Cargo Human Care in Nairobi, which was founded by employees of Lufthansa Cargo, also continued to receive substantial support.

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




## Operating performance

The Logistics segment recovered well in 2010, reaching its pre-crisis levels in terms of cargo tonnage; volumes rose by 18.2 per cent compared with 2009, with sales up 19.9 per cent. Capacity was increased by 7.6 per cent and the load factor climbed by 7.3 per cent, slowed only slightly by poor weather conditions in December.

The Americas traffic region recorded the fastest growth of all traffic regions with an increase of 24.9 per cent over the previous year. Traffic to America was the driving force behind this performance. Capacity was extended by 6.1 per cent and the load factor rose by 9.9 percentage points.

The Asia/Pacific region also put in an above-average performance with growth of 20.6 per cent in cargo tonnage, in this case from traffic in both directions. The above-average profitability of traffic from Asia meant that this was where capacity increased most compared with the previous year, by 10.7 per cent. The load factor was 7.1 percentage points up on the previous year, making it the best of all traffic regions.

Demand in the Middle East/Africa traffic region was flat compared with 2009 – tonnage transported and load factors were stable. Kenya and South Africa, the main markets, still show no signs of recovery, which is largely due to lost production of perishable goods as a result of the drought.

Freight volumes within Europe rose by 15.8 per cent. Sales rose by 11.2 per cent, which was even more than capacity growth of 7.2 per cent, improving Lufthansa Cargo's load factor by 1.7 percentage points.

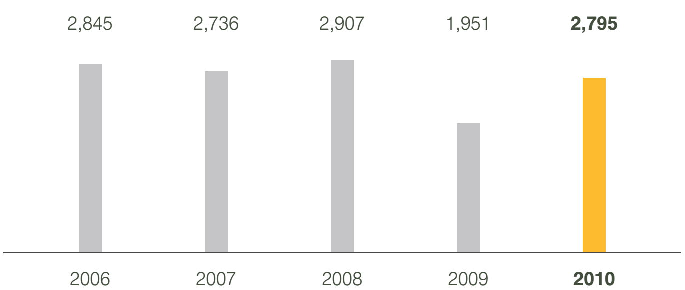
**Trends in traffic regions**
Lufthansa Cargo

| | 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 % | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | Change in % | **2010** | Change in % | **2010** | Change in % | **2010** | Change in % | **2010** | Change in pts |
| Europe | 215 | 28.5 | 616 | 15.8 | 792 | 7.2 | 368 | 11.2 | 46.4 | 1.7 |
| America | 886 | 58.3 | 525 | 24.9 | 5,013 | 6.1 | 3,676 | 22.7 | 73.3 | 9.9 |
| Asia/Pacific | 1,328 | 54.0 | 515 | 20.6 | 5,595 | 10.7 | 4,169 | 22.3 | 74.5 | 7.1 |
| Middle East/Africa | 205 | 25.0 | 139 | 0.1 | 1,164 | 0.0 | 693 | 0.5 | 59.5 | 0.3 |
| **Total** | **2,634** | **50.2** | **1,795** | **18.2** | **12,564** | **7.6** | **8,905** | **19.9** | **70.9** | **7.3** |

## Revenue and earnings development

**Revenue recovers smartly**
Lufthansa Cargo's revenue soared by 43.3 per cent to EUR 2.8bn in the reporting period. The main component and driver of this growth was traffic revenue, which was 42.8 per cent higher than the previous year at EUR 2.6bn. Exchange rate movements had a benign effect, contributing 8.1 per cent. Price movements added 14.8 per cent to traffic revenue. As the cargo flights carried out until mid 2009 by Lufthansa Cargo for DHL are now handled by the joint subsidiary AeroLogic, charter income included in traffic revenue fell by 54.3 per cent to EUR 71m.

**Revenue Logistics** in €m




Other revenue came to EUR 145m (+60.5 per cent). Revenue from ad hoc aircraft charters and freight handling were major components.

Other operating income fell by 14.4 per cent to EUR 95m, principally due to lower exchange rate gains. By contrast the amount received in compensation for damages went up, particularly due to the insurance payment of EUR 25m in connection with the accident in Riyadh.

Total operating income was up year on year at EUR 2.9bn (40.2 per cent).

**Operating expenses increase by much less than revenue**
Operating expenses climbed by 15.5 per cent in the reporting period to EUR 2.6bn, but were still well behind the increase in revenue. The main reason was the sharp increase in the cost of materials and services. Volumes and prices drove fuel expenses up by 37.0 per cent to EUR 363m. Fees and charges rose to EUR 282m (+18.5 per cent) due to the increased traffic.

Charter expenses climbed by 21.5 per cent to EUR 996m. In addition to the extra transport capacity provided by AeroLogic, higher expenses for cargo capacities on aircraft flown by Lufthansa Passenger Airlines and Austrian Airlines also had an influence.

**Operating expenses Logistics**

| | **2010** in €m | 2009 in €m | Change in % |
|---|---|---|---|
| Cost of materials and services | 1,846 | 1,511 | 22.2 |
| of which fuel | 363 | 265 | 37.0 |
| of which fees | 282 | 238 | 18.5 |
| of which charter expenses | 996 | 820 | 21.5 |
| of which MRO services | 125 | 114 | 9.6 |
| Staff costs | 338 | 311 | 8.7 |
| Depreciation and amortisation | 107 | 123 | –13.0 |
| Other operating expenses | 289 | 288 | 0.3 |
| **Total operating expenses** | **2,580** | **2,233** | **15.5** |

MRO expenses increased by 9.6 per cent to EUR 125m as a result of reactivating the laid-up MD-11 freighters and of more flights, to new and re-adopted destinations.

Staff costs rose by 8.7 per cent to EUR 338m, mainly due to the suspension of reduced working hours and higher performance-related bonuses. On average over the year the Logistics segment had 4,469 employees. This is equivalent to a reduction of 2.2 per cent.

Depreciation and amortisation was 13.0 per cent lower than the previous year at EUR 107m. This was due to the end of depreciation for the cargo aircraft purchased in 1998.

Other operating expenses remained stable year on year at EUR 289m. Although exchange rate losses and travel expenses, to name but two, were higher than the previous year, agency commissions and additions to write-downs were lower.

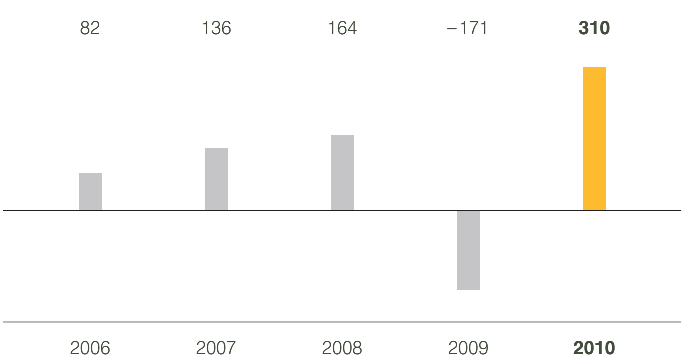
**Record operating profit of EUR 310m**
After sustaining an operating loss of EUR 171m the previous year, Lufthansa Cargo achieved an impressive turnaround in 2010, reporting an operating profit of EUR 310m. The segment benefited not only from higher sales prices in sales volumes, but also from the cost-cutting measures initiated the previous year.

Other segment income dwindled to EUR 9m (previous year: EUR 15m), largely due to lower write-backs of provisions. Other segment expenses rose in contrast to EUR 12m (previous year: EUR 1m). This includes the impairment charge of EUR 9m for the wrecked MD-11 as well as past service costs of EUR 2m. Higher earnings contributions were received from all subsidiaries accounted for under the equity method, taking the equity result up to EUR 23m (previous year: EUR 5m). The segment result for the financial year was EUR 330m (previous year: EUR –152m).

**Segment capital expenditure down by 16 per cent**
Segment capital expenditure was lower at EUR 21m (–16.0 per cent) and related mainly to maintenance inspections requiring capitalisation and investment in operating and office equipment.

**The long-term overview shows the volatility of the results**
Logistics is the most volatile business segment in the Lufthansa Group. Despite this, over the past five years the segment only incurred an operating loss in 2009. After steady earnings improvements from 2006 to 2008 the operating result fell in 2009 to EUR –171m. In the course of the sharp recovery in the market Lufthansa Cargo was able to report record earnings of EUR 310m in even the following year.

**Operating result Logistics** in €m




## Outlook

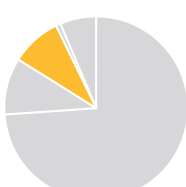
**Outlook remains positive**
After a record year in 2010, Lufthansa Cargo is also optimistic about the financial year 2011. Demand trends are forecast to remain positive. Therefore, Lufthansa Cargo again made considerable additions to capacity over the course of the last year, partly by reactivating four MD-11 freighters that had been retired. With this extra capacity and the extension of profitable transport segments, 2011 is expected to see the market position and revenue develop further.

Even after having overcome the economic crisis, cost management remains a high priority for Lufthansa Cargo. This should make it possible for a substantially positive operating result to be generated again in 2011. A repeat of the record result in 2010 should not be expected, however, as this was due in large measure to catch-up effects following the global economic crisis. For the year 2012 Lufthansa Cargo is also currently expecting positive revenue and earnings developments.

## MRO
## business segment

↗ With a delay compared to the rest of the economy, the MRO market also began to recover. ↗ Over the course of the year Lufthansa Technik was increasingly able to benefit from the revival. ↗ Revenue was slightly up on the previous year. ↗ Lufthansa Technik again delivered a high earnings contribution for the Group, albeit lower than the record set in 2009. ↗ With its comprehensive range of products and international production framework, Lufthansa Technik is well equipped to increase revenue and earnings again in the future.

**Share of Group revenue 8.7%**



↗ Worldwide leading provider of maintenance, repair and overhaul services

**Key figures MRO**

| | | **2010** | 2009 | Change in % |
|---|---|---|---|---|
| Revenue | €m | 4,018 | 3,963 | 1.4 |
| of which with companies of the Lufthansa Group | €m | 1,645 | 1,666 | –1.3 |
| Operating result | €m | 268 | 316 | –15.2 |
| Adjusted operating margin | % | 7.4 | 8.3 | –0.9 pts |
| Segment result | €m | 319 | 331 | –3.6 |
| EBITDA | €m | 412 | 436 | –5.5 |
| CVA | €m | 172 | 164 | 4,9 |
| Segment capital expenditure | €m | 67 | 121 | –44.6 |
| Employees as of 31.12. | number | 20,159 | 19,796 | 1.8 |
| Average number of employees | number | 20,297 | 19,758 | 2.7 |


Revenue of EUR 4.0bn

Operating result of EUR 268m

# Business and strategy

**Leading provider on the MRO market**
Lufthansa Technik is the world's leading independent provider of maintenance, repair and overhaul services (MRO) for civilian commercial aircraft. The MRO group includes 30 technical maintenance operators worldwide. The company holds direct and indirect stakes in 54 companies.

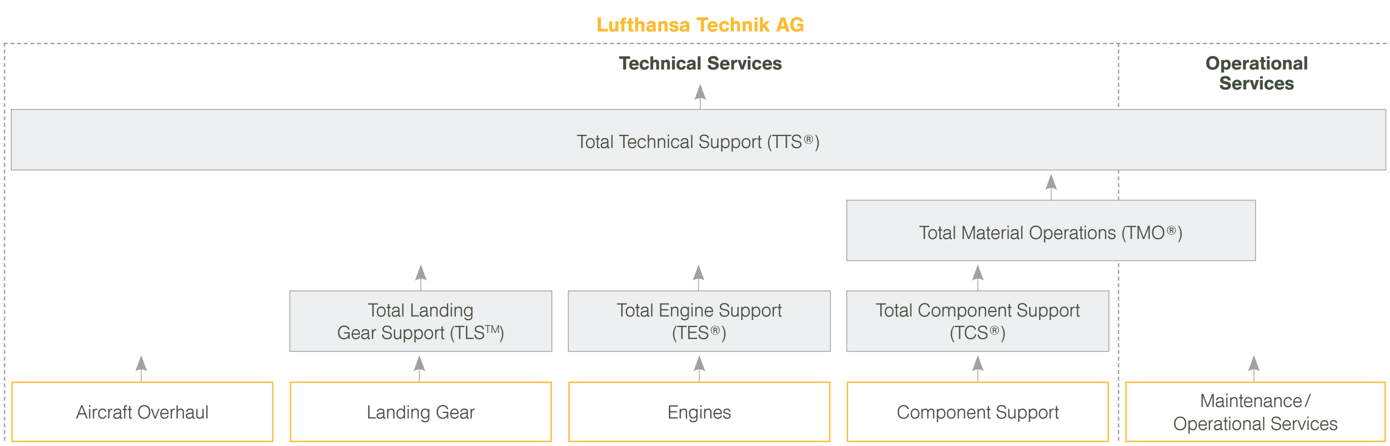
For more than 50 years Lufthansa Technik has been involved in developing new servicing and maintenance procedures for products from the major manufacturers and providing support to airlines for putting new aircraft models into scheduled operations. After successfully incorporating the technical services for the Airbus A380, the company is now already preparing for technical servicing of the new aircraft models Boeing 787 and 747-8i.

Lufthansa Technik's full service range is delivered by a total of six divisions: maintenance, aircraft overhaul, engines, components, landing gear, and completion and maintenance for VIP aircraft. This means that the company offers differently structured products and combinations of products, from individual component repairs through to the fully integrated supply of whole fleets including reserve engines and components. Total Support services guarantee the customer a full service range, right through to complete fleet management, making them one of the most successful service packages on the world market.

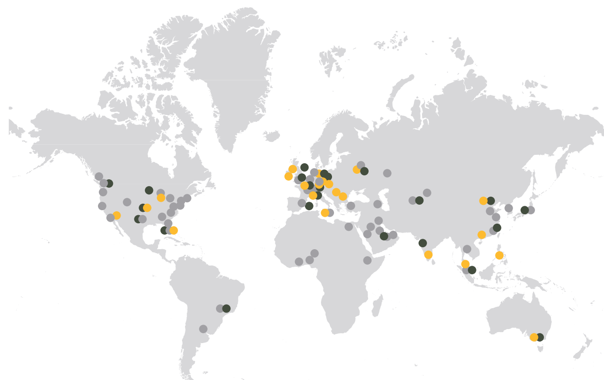
Hamburg is the primary location for maintenance operations, with aircraft overhauls, completion of VIP aircraft, engine and component maintenance, the logistics centre, and development and manufacturing operations, and is the headquarters of Lufthansa Technik. The largest maintenance stations are in Frankfurt, Munich and Berlin, with other stations in all larger airports in Germany and at 50 other sites around the world. Lufthansa Technik uses its international network to provide its customers with services on location, such as since 2010 in Riga, Latvia, with the new service station for business aircraft run by Lufthansa Bombardier Aviation Services. Low-cost sites make Lufthansa Technik more competitive; a contribution to this was made by entering the Asian market several years ago. Today Lufthansa Technik has maintenance facilities in five Asian countries, including ten-year old Lufthansa Technik Philippines, Lufthansa Technik Shenzhen, Lufthansa Technik Services India and Ameco Beijing. Market presence in Germany will be further expanded in 2011 with the construction of a new hangar for aircraft maintenance at the future Berlin-Brandenburg International Airport, with three spaces for short- and medium-haul aircraft.

**Product portfolio extended again in 2010**
Lufthansa Technik presented a multitude of new products in the reporting year. They include a new in-flight camera surveillance system as well as a flexible quick-change kit for VIP cabins in Airbus and Boeing aircraft. The kit enables airline customers to turn part of an aircraft cabin into an exclusive VIP compartment at short notice as needed.

**Product portfolio and divisions at Lufthansa Technik**



**Locations Lufthansa Technik**



• Largest maintenance stations • Sales offices • Largest equity investments

The Mobile Aircraft and Cabin Services team is now also deployed to service numerous VIP and business travel customers at their local sites around the world.

The product range was also expanded in the engine department. Now maintenance and overhaul work can also be completed on the Trent 900 fitted to the Airbus A380 as well as on the auxiliary turbine on the Embraer E-Jets. Lufthansa Technik signed a cooperation agreement with Volvo Aero Corporation to jointly develop and market new repair methods for individual engine components. The company is also planning to cooperate with Panasonic Avionics Corporation in a joint venture to develop, manufacture and market in-flight entertainment and communications systems as well as cabin management systems for VIP aircraft.

## Markets and competition

**MRO market recovers**

With a slight delay, the unbroken recovery in global air traffic also increased demand worldwide for technical maintenance services in the aviation industry. The total market volume for technical services for civil aircraft is estimated at USD 45bn for 2010, an increase of 2.5 per cent on the previous year. Lufthansa Technik's modern portfolio covers 82 per cent of this market volume. The rollover to younger fleets meant the portfolio market grew even faster, by 3.9 per cent. As revenue growth at Lufthansa Technik was modest in 2010, its market share fell a little to 14 per cent.

The competitors to Lufthansa Technik are on the one hand the original equipment manufacturers (OEMs) of aircraft, engines and components. They are joined by other airlines that offer maintenance services, such as Air France-KLM, as well as independent contractors (e.g. ST AERO, SR Technics). This competition is getting tougher, as new MRO capacities enter the market and increase price pressure, while cost and margin pressure on the airlines remains high. Lufthansa Technik quickly introduced programmes to counteract this, however, by making capacities more flexible, cutting costs and increasing efficiency.

## Sales and customers

**Share of revenue with external customers increases**

Lufthansa Technik serves 750 customers worldwide, mostly airlines and operators of VIP jets, but also aircraft leasing companies. Revenue with customers from outside the Lufthansa Group continued to develop positively in 2010. It grew by 1.1 percentage points to 59.1 per cent of revenue. The key sales region in 2010, accounting for a share of revenue of around 68 per cent, remained Europe including the CIS states. Asia accounted for 13 per cent and the regions Middle East/Africa and America contributed 10 per cent and 9 per cent respectively.

Lufthansa Technik's services are mainly sold centrally by means of direct sales; individual products are also sold decentrally, however. As the sales function is basically divided into regions, large and important customers are also served by key account managers, sometimes locally. Lufthansa Technik uses e-marketing, including a customer portal, to provide a rapid overview of its products, sites and latest innovations. The company also intensifies and develops its customer relations by publishing various print media, taking part in international exhibitions and its own product-oriented professional conferences. Regular surveys of customer satisfaction as well as direct customer feedback to sales staff and the decentralised customer service teams reveal a precise picture of customers' wishes.

## Course of business

**Good contract wins prompt recovery over the course of the year**

As a late-cycle division in the aviation industry, Lufthansa Technik initially suffered lost revenue in 2010, but in the second half-year was increasingly able to match the previous year's level. A total of 34 new customers and 460 new contracts spurred a 2.3 per cent increase in new contracts to EUR 504m for the full year 2010. Some customers were lost to insolvency as a result of the crisis, however, which resulted in lost revenue and earnings as well as write-downs on receivables. Over the year 2010 new customer wins more than made up for customer losses, however, and the serviced fleet grew by 27 aircraft to a total of 2,055.

During the reporting period Lufthansa Technik handed over the second Airbus A319 to the Special Air Mission Wing at the German Federal Ministry of Defence. The plane was equipped with a VIP cabin during an idle period of seven months. One further Airbus A340 is currently being completed in Hamburg for the federal government. In addition, Lufthansa Technik and China Airlines signed a long-term contract covering component services for the airline's 24 Airbus A330/A340s. Lufthansa Technik also took over component supply for the 34 Boeing B737NGs operated by Aeromexico.

Lufthansa Technik AERO Alzey won numerous new contracts last year as well. They include maintenance work for the engines and motors on a large number of aircraft operated by Lufthansa CityLine, Eurowings, the Austrian regional airline InterSky, the Spanish regional airline Air Nostrum and Air Mauritius.

Lufthansa Technik was able to sign a ten-year cooperation agreement with National Air Services (NAS) in Saudi Arabia. It covers maintenance services for engines and components for the entire NAS fleet. Engineers and technical advisors from Lufthansa Technik are also to assist the customer's new MRO subsidiary, NAS Tech, to build up its own maintenance expertise locally.

An order was received from Austrian Airlines for the engine overhaul on its Airbus A320 family over the next eight years. This further expands the scope of the long-term cooperation and partnership with Austrian Airlines, which since September 2009 has been part of the Lufthansa Group, also in the area of maintenance.

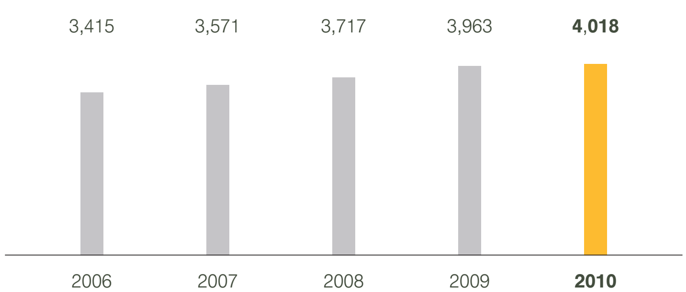
## Revenue and earnings development

**Revenue up by 1.4 per cent**

The aircraft overhaul companies Lufthansa Technik Malta and Lufthansa Technik Budapest were added to the business segment's group of consolidated companies in the reporting period.

Lufthansa Technik continued on its growth path with a strong fourth quarter, increasing revenue in the full year by 1.4 per cent to EUR 4.0bn. Although revenue with companies in the Lufthansa Group fell slightly by 1.3 per cent, Lufthansa Technik was able to add another 3.3 per cent to its external business, taking the total to EUR 2.4bn.

**Revenue MRO** in €m




Other operating income was up by EUR 54m to EUR 211m thanks to additional work-in-progress and higher income from staff secondment and services.

The segment reported total operating income of EUR 4.2bn (+2.6 per cent).

**Operating expenses increased by 4.1 per cent**

Operating expenses rose by 4.1 per cent to EUR 4.0bn. The cost of materials and services saw the strongest rise of 3.9 per cent to EUR 2.1bn. This mirrored revenue growth in engine and component maintenance.

Staff costs rose by 4.0 per cent to EUR 1.1bn. The average number of employees in the MRO segment went up by 955 year on year due to the recently consolidated companies. In several plants the workforce was reduced, however, resulting in an average net increase of 539 employees for the year to 20,297.

**Operating expenses MRO**

| | 2010 in €m | 2009 in €m | Change in % |
|---|---|---|---|
| Cost of materials and services | 2,056 | 1,979 | 3.9 |
| of which raw materials, consumables and supplies | 1,329 | 1,243 | 6.9 |
| of which external services | 604 | 617 | –2.1 |
| Staff costs | 1,101 | 1,059 | 4.0 |
| Depreciation and amortisation | 94 | 87 | 8.0 |
| Other operating expenses | 710 | 679 | 4.6 |
| **Total operating expenses** | **3,961** | **3,804** | **4.1** |

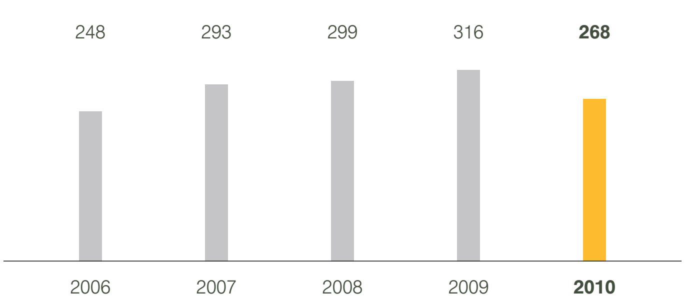
Depreciation and amortisation rose by 8.0 per cent to EUR 94m. Other operating expenses increased by 4.6 per cent to EUR 710m due to higher rental and maintenance expenses and greater use of external staff.

### Operating result down on previous year as expected

As was expected, the operating result could not match the previous year's high figure. It fell by 15.2 per cent to EUR 268m.

Other segment income rose by EUR 16m to EUR 34m due to write-backs of provisions and a write-up on financial investments. Other segment expenses were the same as in the previous year. The result from equity investment improved sharply by EUR 20m to EUR 19m. This is because the figures for 2010 also include the equity-accounted results of the Technik companies N 3 (aero-engine joint venture with Rolls Royce), Spairliners (the A380 component joint venture with Air France) and Lufthansa Bombardier Aviation Services, improved results from equity investments in Heico and Ameco, and the disposal of the loss-making Alitalia Maintenance Services. This made it possible to keep the segment result at EUR 319m (–3.6 per cent).

**Operating result MRO** in €m




### Segment capital expenditure well down on previous year

Segment capital expenditure came to EUR 67m, or EUR 54m less than the relatively high figure for the previous year, which included the purchase of reserve engines and the equipment for the A380 maintenance hangar.

### Long-term overview confirms Lufthansa Technik as dependable earnings motor

The MRO segment is the late-cycle division in the Lufthansa Group, but also a dependable contributor of significant operating earnings. Even under changing economic conditions Lufthansa Technik was able in the past few years to achieve high operating profits thanks to constant revenue growth, systematic cost management, a modern product portfolio and an international production group. The segment reported its highest earnings to date in 2009, the year which for many air transport companies symbolises the crisis year. The result for 2010 is 15 per cent below this marker, as was expected.

## Outlook

### Return to growth in improving market environment

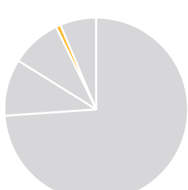
Against the backdrop of aircraft fleets becoming ever larger around the world, the MRO industry is generally looking to the future with optimism, anticipating average annual growth of 4.6 per cent for the medium term. The market served by the product portfolio of Lufthansa Technik is even expected to grow by 5.2 per cent per year. The continuous market entry of new MRO capacities will make existing competition even tougher, however. Airlines suffering from the crisis are also expected to heighten the pressure on pricing and costs. This means that only MRO operations with competitive unit costs will benefit from the market growth.

Thanks to its innovative modern product portfolio, low-cost sites and permanent projects to cut costs and increase efficiency and flexibility, Lufthansa Technik is well prepared for the challenges posed by the competition. For 2011 and 2012 Lufthansa Technik is again anticipating an increase in revenues and operating results.

# IT Services business segment

↗ Lufthansa Systems is the only provider worldwide to cover the entire air transport process chain. ↗ A dwindling market and tough competition led to a fall in revenue in 2010. ↗ This was largely offset by strict cost management. ↗ With its Jetzt! programme Lufthansa Systems is repositioning itself in order to achieve sustainable increases in revenue and earnings again.

**Share of Group revenue 0.9%**



↗ Leading IT service provider for the air transport industry

**Key figures IT Services**

| | | **2010** | 2009 | Change in % |
|---|---|---|---|---|
| Revenue | €m | 595 | 605 | –1.7 |
| of which with companies of the Lufthansa Group | €m | 363 | 361 | 0.6 |
| Operating result | €m | 10 | 16 | –37.5 |
| Adjusted operating margin | % | 1.8 | 2.8 | –1.0 pts |
| Segment result | €m | –6 | 16 | |
| EBITDA | €m | 45 | 54 | –16.7 |
| CVA | €m | –23 | 3 | |
| Segment capital expenditure | €m | 36 | 52 | –30.8 |
| Employees as of 31.12. | number | 2,935 | 3,027 | –3.0 |
| Average number of employees | number | 2,974 | 3,041 | –2.2 |


↗ Revenue of EUR 595m

↗ Operating result of EUR 10m

## Business and strategy

**Leading provider of IT solutions to the air transport industry**
Lufthansa Systems offers consultancy and IT services for selected industries and is a global leader in the airline sector. Its customers include more than 200 airlines, but also companies from other sectors.

The company is headquartered in Kelsterbach near Frankfurt am Main and has several further sites in Germany and 14 other countries. As an international IT services provider Lufthansa Systems is present around the world. Its data centre in Kelsterbach is one of the most modern and powerful in Europe. Since 1 July 2010 Stefan Hansen has been CEO of Lufthansa Systems AG.

The Lufthansa Systems portfolio offers tailored solutions to its customers. Their products and consultancy services deliver added value by contributing to increasing efficiency, cutting costs and generating additional revenue. Lufthansa Systems' cross-sector range of services covers IT consultancy, the development of individual applications, marketing its proprietary industry solutions, adapting sector-specific software and routine application hosting.

**Extensive airline portfolio and expertise in consultancy and project management**
When developing IT applications for airlines Lufthansa Systems can draw on many years of experience. It is the only provider worldwide to cover the entire air transport process chain. The company maintains its leading position on the market with integrated platform solutions that combine related sub-processes into an overall function.

In other sectors the company offers customised products as well as its extensive expertise in managing projects of all sizes. These include optimising sales processes for instance, sophisticated online solutions or the introduction of complete IT environments. Its customers benefit not only from its years of project experience but also from its comprehensive understanding of complex business processes and robust technological know-how.

## Markets and competition

**Increasing competition in a slightly contracting market**
The global airline IT market shrank during the crisis and now has a volume of around EUR 7.5bn (previous year: EUR 7.8bn). On average, airlines spend around 50 per cent of this total on operating services, 30 per cent on projects and 20 per cent on IT products. In the Europe/Middle East/Africa market (EMEA) Lufthansa Systems has a 35 per cent share of outsourced IT services; in both Asia and America its market share is 3 per cent. Overall growth and customers' willingness to invest in this segment of the IT market are expected to remain limited in the years ahead, so that pre-crisis volumes are not predicted to be achieved again before 2015.

Alongside the established competitors Amadeus, Sabre Airline Solutions, EDS, SITA and Boeing with its Jeppesen subsidiary, new entrants are also moving into the market for airline IT, such as Google with its takeover of ITA Software, and Amazon. The competitors in the aviation and industry sector are all major providers of consultancy services and IT outsourcing.

The cost advantages of emerging economies are responsible for continued price erosion and therefore a trend towards shifting certain activities abroad. Integrated solutions like those already offered by Lufthansa Systems in the airline sector are also becoming increasingly important. Under these circumstances competitive cost structures and the ability to invest in new technological developments are key success factors.

## Sales and customers

**Extensive product portfolio for a broad customer base**
The customer base at Lufthansa Systems consists of more than 300 companies. Around two thirds of them are airlines from around the world, including international network carriers as well as no-frills airlines and regional carriers. Lufthansa Systems offers them a comprehensive spectrum of IT solutions, regardless of their business model, for all their business processes. Non-airline customers come predominantly from the logistics and transport, media, publishing and healthcare sectors. Work for external customers is mostly carried out on the basis of contracts running for several years, except in the case of one-off projects.

The sales function is divided into regions: Europe/Middle East/Africa (EMEA), Asia/Pacific and America. Local account managers enable rapid response times and the greatest possible proximity to the customer. Key account management for Lufthansa Passenger

**Locations Lufthansa Systems**

Airlines, the largest single customer, is currently being expanded to include sales to other airlines in the Lufthansa Group and is to be known in future as the Lufthansa Passenger Airlines and Group Airlines segment.

In 2010 Lufthansa Systems continued to focus its product strategy on integrated platform solutions with the introduction of the Integrated Commercial Platform (ICP). The ICP covers all processes relating to network and yield management, enabling a consistent and comprehensive perspective of all information relevant for commercial planning. Furthermore, airlines using the Sirax AirFinance platform for ticket billing with their Interline partners can generate additional yields of up to USD 2 per passenger thanks to more precise price calculation. They also receive a timely, complete overview of their financial position that allows them to react swiftly to changes in conditions.

A particular strength in doing business with customers from other sectors lies in the analysis of complex business processes and their optimisation with the help of tailored IT solutions. In the past year successful project completions in the SAP environment underscored Lufthansa Systems' know-how and depth of experience. As a certified SAP partner the company covers the whole service range from conception and adaptation, via implementation and consolidation, through to the maintenance of SAP systems.

## Course of business

### Difficult environment puts focus on cost management

In 2010 Lufthansa Systems operated in a difficult economic environment characterised by dwindling revenue at airlines and other industrial clients. Although airlines are back in the black on a global basis, their willingness to invest remains low. This is accentuated by the fact that in Europe the recovery in air transport is not as pronounced as in the USA and Asia. In other sectors too, there was a marked reluctance to invest in IT in 2010, meaning that Lufthansa Systems has not yet felt the benefit of the sometimes robust economic recovery. Nevertheless, by consistently pursuing the cost-cutting measures launched in 2009, the company was able to make up for the diminished revenue in terms of earnings last year.

### New customers and orders in air transport and in other sectors

In a difficult economic environment overall, Lufthansa Systems was able to add further to its business with new and existing customers. Two airlines, Transaero and Tunisair, decided to manage their flight operations using the Integrated Operations Control Center platform (IOCC), while Tunisair is also to introduce key components of the Integrated Commercial Platform (ICP). In terms of navigation solutions too, Lufthansa Systems was able to expand its market position substantially. With Lido/eRouteManual, airlines can take a step towards the paperless cockpit and simplify their processes considerably in this area.

Numerous new customers and contract renewals were acquired for Lido/Flight as well, which is one of the most powerful flight path planning solutions in the world. It enables the route for every single flight to be optimised depending on the weather, airspace situation and other parameters. This enables airlines to cut their fuel costs by up to 5 per cent and thereby relieve the burden on the environment as well. At the same time the high degree of automation makes planning simpler, which also results in cost savings for customers. Furthermore, important contracts were signed with Lufthansa Passenger Airlines and Lufthansa Cargo to renew server and applications operating services.

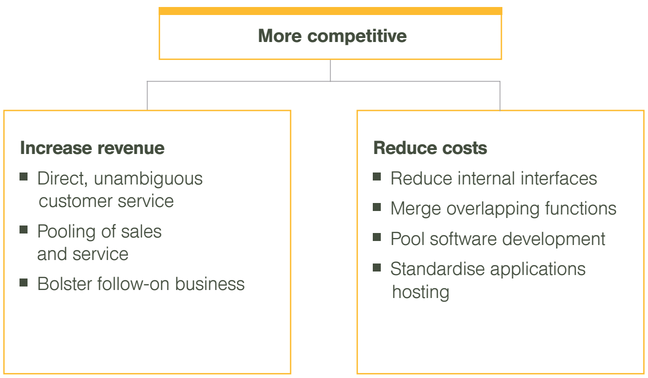
In the industry sector the Hamburg Port Authority awarded Lufthansa Systems the contract to modernise its systems for rail-freight traffic in the Port of Hamburg. The company had already carried out the conceptual work for developing a replacement for the current operating and information system, and will now implement the new integration platform by 2012. Thanks to its extensive experience with complex logistics systems it will contribute to preparing the rail infrastructure at the Port of Hamburg for further growth.

### Jetzt! programme to improve short- and medium-term revenue and earnings

In view of the ongoing consolidation in the IT industry and the growing pressure of competition, Lufthansa Systems launched the programme Jetzt! in the second half of 2010. One of the objectives of the programme is to realise cost savings of EUR 25m and additional revenue by 30 June 2011. Furthermore, Lufthansa Systems is to be set up in such a way as to secure its sustainable profitability and enable the company to return to a growth path in the medium term.

In line with the new vision of a leaner company structure, Lufthansa Systems will in future be managed by three customer-focussed profit centres, which are responsible for the projects and services delivered to their customers. The portfolio will be pruned further, and cross functions are to be centralised at Lufthansa Systems AG and provided for all areas. Infrastructure operations are to be run as a cost centre.

**Aims of the realignment of Lufthansa Systems**

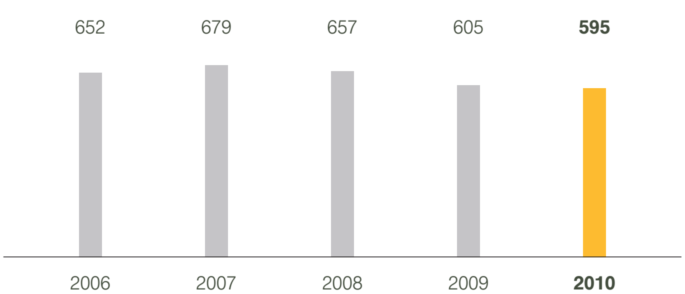



## Revenue and earnings development

### Slight decline of 1.7 per cent in revenue

For the financial year 2010 Lufthansa Systems reported a slight year on year fall of 1.7 per cent in revenue to EUR 595m. Revenue from Lufthansa Group companies contributed EUR 363m (+0.6 per cent). This slight increase stemmed mainly from consolidation effects. Adjusted for these effects, internal Group revenue dwindled due to price cuts for operator models and operating specific applications as well the outsourcing of IT services in the area of passenger systems. Revenue from external customers came to EUR 232m (–4.9 per cent), a substantial contribution of around 39.0 per cent to the company's performance.

**Revenue IT Services** in €m




Other operating income sank by 15.8 per cent to EUR 32m, largely due to declining capital expenditure on customer projects.

Total operating income sank by 2.5 per cent to EUR 627m.

### Operating expenses reduced by 1.6 per cent

The fall of 7.4 per cent in the cost of materials and services to EUR 75m is a function of the decline in revenue.

On average over 2010 Lufthansa Systems had 2,974 employees, which is 2.2 per cent fewer than the previous year. Despite this, staff costs rose to EUR 247m (+6.0 per cent). This is largely due to changes in staff and restructuring steps taken in connection with the Jetzt! programme.

The year on year fall in capital expenditure led to a decrease in depreciation and amortisation to EUR 34m (–8.1 per cent).

Other operating expenses were reduced by 5.4 per cent to EUR 261m, primarily by shedding large numbers of outside staff and reducing the volume of services purchased on an hourly basis.

This brought total operating expenses down to EUR 617m (–1.6 per cent).

**Operating expenses IT Services**

| | **2010** in €m | 2009 in €m | Change in % |
|---|---|---|---|
| Cost of materials and services | 75 | 81 | –7.4 |
| Staff costs | 247 | 233 | 6.0 |
| Depreciation and amortisation | 34 | 37 | –8.1 |
| Other operating expenses | 261 | 276 | –5.4 |
| of which external staff | 59 | 75 | –21.3 |
| of which rent/maintenance of IT | 106 | 104 | 1.9 |
| **Total operating expenses** | **617** | **627** | **–1.6** |

### Ongoing restructuring affects the result

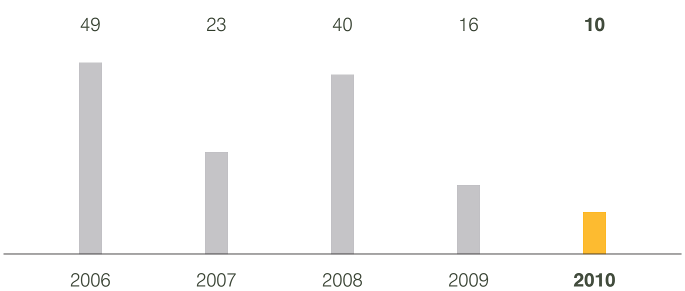
The operating result for Lufthansa Systems fell to EUR 10m (–37.5 per cent) as a result of the steps taken as part of the Jetzt! programme. This includes EUR 9.0m in restructuring expenses.

Other segment income remained constant at EUR 1m, whereas other segment expenses rose to EUR 17m (previous year: EUR 1m). This is largely the result of write-downs made while setting new priorities for development projects. The segment result fell significantly as a result to EUR –6m (previous year: EUR 16m).

**Concentration on existing business leads to lower capital expenditure**

Lufthansa Systems' capital expenditure on property, plant and equipment and intangible assets added up to EUR 36m in 2010 (–30.8 per cent). The decline compared with the previous year is a direct result of the decision to invest less and to concentrate principally on maintaining existing business in view of the economic crisis.

**Operating result IT Services** in €m




**Long-term overview highlights need to act**

Lufthansa Systems again delivered a positive earnings contribution in 2010. Revenue has been falling slowly since 2007, however. This tendency is the result of changes made to the product and investment portfolio as well as dwindling sales prices and lower demand due to the crisis. During the period under review cost-cutting measures were able to lessen the pressure on margins generated by the fall in revenue, but not to relieve it completely. In mid 2010 Lufthansa Systems started the programme Jetzt! to reorganise the company and make it leaner. One-off expenses as part of this programme reduced the operating result further in 2010.

## Outlook

**Lufthansa Systems adapts its structures to market developments**

Even as the global economy picks up again, companies in all industries are faced with the challenge of cutting their costs sustainably and improving their adaptability in a volatile economic environment.

One prerequisite for doing so is further optimisation of business processes, for which the IT sector plays a key role, irrespective of the industry.

With innovative, technologically advanced products and all-round IT competence, Lufthansa Systems helps its customers inside and outside the airline industry to make the necessary changes by offering them solutions with great utility. This means that the company, its products and its know-how are well positioned in terms of customer needs.

Airlines are faced with a particular need to increase their efficiency and flexibility in order to combat competitive pressure and price erosion. There is nevertheless no sign that IT spending in the airline industry will increase significantly in the years ahead. The overall IT market is under considerable and sustained pressure to change as a result of many factors. Key technological drivers are cutting-edge technologies such as tablet PCs and cloud computing. However, by making targeted investments in IT infrastructure and product development, Lufthansa Systems is nevertheless creating the conditions for its customers to benefit from the advantages of new technologies.

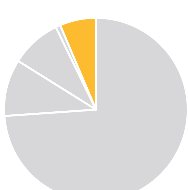
Revenue for Lufthansa Systems is initially expected to contract further in 2011 and 2012. The main reason is the switch to new technologies that are cheaper for customers. This is exacerbated by the termination of contracts in connection with the clear-out of the portfolio. Both can only partly be recouped by new business. Lufthansa Systems will therefore have to adapt its production structures to this process of change. Management positions and other jobs are to be shed in 2011 as part of the Jetzt! programme in order to reduce costs lastingly. At the same time, Lufthansa Systems will invest in additional training for its staff to expand their range of qualifications and meet the conditions for flourishing in other markets alongside air transport.

As well as paring down administration and reducing interfaces in the Lufthansa Systems Group, the aim is to increase competitiveness by cutting development, maintenance and operating costs. In some cases implementation of these measures began in 2010. The merger of five subsidiaries with Lufthansa Systems AG planned for early 2011 will play a key role in reducing costs and complexity. This set of measures is expected to reverse the earnings trend in 2011. In 2012 the operating result should rise further.

# Catering business segment

↗ LSG Sky Chefs defended its global leadership in the airline catering market, which has seen a return to growth. ↗ Resurgent demand and focussed growth led to higher income in all regions. ↗ Adjusted for non-recurring effects the operating result more than doubled. ↗ Products and optimised processes at LSG Sky Chefs won prizes. ↗ Customer retention, innovation and cost management are intended to deliver higher revenue and earnings again in the future.

**Share of Group revenue 6.3%**



↗ Global market leader in airline catering

**Key figures Catering**

| | | **2010** | 2009 | Change in % |
|---|---|---|---|---|
| Revenue | €m | 2,249 | 2,102 | 7.0 |
| of which with companies of the Lufthansa Group | €m | 533 | 513 | 3.9 |
| Operating result | €m | 76 | 72 | 5.6 |
| Adjusted operating margin | % | 3.4 | 3.5 | –0.1 pts |
| Segment result | €m | 87 | 75 | 16.0 |
| EBITDA | €m | 174 | 120 | 45.0 |
| CVA | €m | –28 | –68 | 58.8 |
| Segment capital expenditure | €m | 38 | 58 | –34.5 |
| Employees as of 31.12. | number | 28,499 | 28,390 | 0.4 |
| Average number of employees | number | 28,369 | 28,935 | –2.0 |


Revenue of EUR 2.2bn

Operating result of EUR 76m

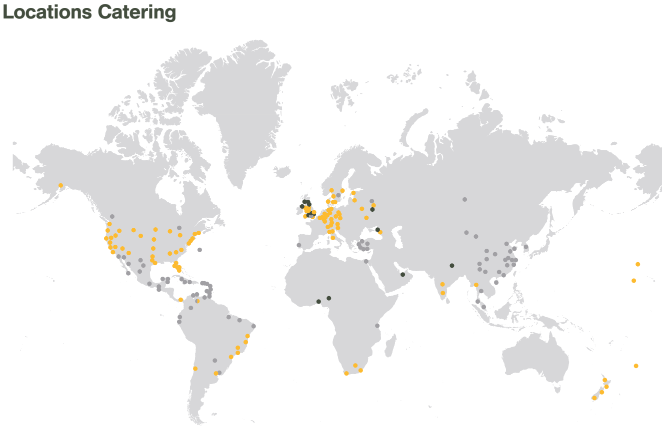
## Business and strategy

**Global leadership maintained in airline catering**
The LSG Sky Chefs group holds the leading market position worldwide in airline catering and in all upstream and downstream in-flight service processes. According to its own calculations the company has a global market share of around 30 per cent. The group consists of 133 companies with operations at around 200 sites in 50 countries. The parent company for the group, LSG Lufthansa Service Holding AG, is based in Neu-Isenburg.

Over nearly 70 years LSG Sky Chefs has established a wide range of detailed knowledge about the management of airlines' in-flight services. Since 1990 the company has built on the business of LSG Lufthansa Service and expanded continuously and successfully into growth markets. The breakthrough to global market leadership occurred in summer 2001 with the acquisition of Sky Chefs, a subsidiary of American Airlines, with sites in North and South America and Western Europe. After successfully restructuring the company, the focus in recent years has returned to expansion, especially in markets with high potential for the future in Asia, Eastern Europe and Africa. LSG Sky Chefs is also pursuing growth by extending its portfolio of products and services for airline customers and gradually entering adjoining markets.

**Strategic steps to seize growth opportunities**
Demand for airline catering has declined in the mature markets of North America and Europe over the past decade as a result of reduced in-flight services by network carriers and the growth of no-frills airlines. By contrast, most growth markets in Asia, Latin America and Africa are still characterised by greater appreciation of in-flight service. For this reason, economic crises in these regions have fewer long-term consequences for the catering business. Altogether, however, the airlines continue to exert strong price pressure, which is exacerbated by new competitors, particularly in the less demanding segment of catering for short- and medium-haul routes.

**Locations Catering**




As part of its strategy process LSG Sky Chefs reviews its positioning every year. The strategic orientation defined a few years ago still determines the company's development today that consists of four fundamental initiatives: continuous improvement by standardising production and administrative processes, expanding existing customer relationships via additional services, initiating partnerships to extend the portfolio and enter new markets, and the pursuit of specific growth opportunities in adjoining markets, such as catering for trains, schools and healthcare facilities or sales to retailers.

The Executive Board of LSG Lufthansa Service Holding AG was added to with the appointment of Erdmann Rauer as Chief Sales Officer via a resolution passed by the Supervisory Board and with effect from 1 January 2011.

The activities in the core airline catering business were aligned with the highly diverse market conditions in the regions North America, Latin America, Europe, Germany, Emerging Markets and Asia/Pacific. They are supported by overarching centres of excellence for frozen food, in-flight sales programmes, logistics and in-flight service equipment. Over the course of 2010, centres of excellence were also set up for entry into adjoining markets.

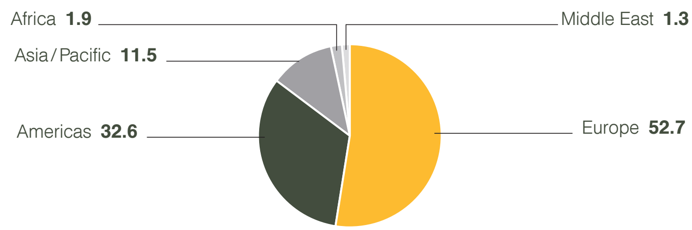
## Markets and competition

**Partnerships for geographic expansion and product line extension**
The global airline catering market has recovered durably since early summer 2010 – after surmounting the economic and financial crisis and the effects of the volcanic eruption in Iceland. The increase in passenger numbers in the premium classes also had a positive impact. From a regional perspective, growth in demand took place mainly in Asia and South America, whereas volumes in the mature markets of North America and Europe rose more modestly.

The global market leadership of LSG Sky Chefs is also apparent in its strong presence in the most significant sales markets. Gate Gourmet is the only competitor with a similar worldwide network, as other catering companies currently only have a regional or even just a local presence. The industry is increasingly being characterized by consolidation, however. In America and Europe, market share for LSG Sky Chefs is between 35 and 40 per cent, according to the company's calculations. In Asia, the Middle East and Africa the majority of national carriers still have their own catering facilities at their hubs.

In these markets LSG Sky Chefs is successfully developing its presence via joint venture agreements and management contracts. While LSG Sky Chefs contributes its expert catering know-how and access to its global network, the local partners provide the necessary market knowledge and their local network. In addition to geographic expansion, LSG Sky Chefs is also increasingly making use of partnerships in logistics, equipment and IT to extend its line of products and services.

**Catering revenue by region** in %




## Sales and customers

### Customers include more than 300 companies from all over the world

LSG Sky Chefs counts nearly all international and many national and regional network carriers, charter companies and no-frills airlines among its customers. Altogether the company serves around 300 key accounts. For the largest customers, catering is supplied at nearly all stations within one or more regions. They also purchase services such as development, procurement and logistics for in-flight items. Other airlines, which may have their own catering for instance, are sometimes only supplied at certain stations. The customer relationships also vary in terms of the length of contracts. These can range from just a few months to several years.

In the regional sales teams, key account managers follow a full-service approach and advise their customers on strategic and contractual matters. For pan-regional tenders, which in addition to catering services are used to source consultancy, development and logistics services, the regions are supported by a central sales team and centres of excellence. The sales team is also responsible for the definition and implementation of the global sales strategy in close coordination with the regions.

## Course of business

### LSG Sky Chefs benefits from resurgent demand and expansion

At the beginning of the year demand for catering services was still restrained, but it picked up rapidly in the Asian and South American markets in the first quarter and rallied from the second quarter in Europe and North America as well. The premium segment also performed well. In spite of the temporary closure of large sections of European airspace in spring 2010, revenue for the full year 2010 was up on the year in all regions.

In the reporting year LSG Sky Chefs was able to retain nearly all its existing customer contracts and extend to new locations. Key contract renewals were signed with Lufthansa, Virgin Atlantic, Thomson Airways, Condor, Emirates, Virgin America, American Airlines and Air Canada. The customer base was also strengthened in school catering and the retail business in Asia/Pacific and North America.

The company continued its policy of focussed regional expansion in the core airline catering business in 2010. In Russia agreements were signed with local suppliers in Krasnodar and Vnukovo to optimise the material and production processes and to establish a quality management system. In the spring two new joint venture catering plants commenced operations at Lanzhou and Urumqi airports in China. In the summer a joint venture agreement was signed in Bulgaria for the opening of a catering plant at Sofia airport. In Turkey a joint venture was established with a local partner to set up a production line for ready meals, bakery goods and pre-cooked food. On completion it will act as a supplier to the European catering plants together with the pre-production facilities in Germany (frozen food) and Italy (pre-cooked and frozen food). In the reporting period four smaller plants in Norway and the USA were closed due to a change in service concepts and the increasing move towards return loads.

To extend its in-flight service portfolio, LSG Sky Chefs entered into a cooperation agreement with Formia, a supplier of in-flight service articles based in Hong Kong. To accelerate entry into the catering market for healthcare facilities a cooperation agreement was signed with Ahr Service GmbH in Germany for the joint supply of hospitals and retirement homes.

**Products and optimised processes won prizes**
LSG Sky Chefs continues to set great store by innovation and environmental awareness to differentiate itself. The company's creative potential again came to the fore in 2010 in the shape of new products and process improvements, which won acclaim and awards from both industry representatives and the wider design sector.

The new lightweight trolley "Quantum" offers a weight saving of up to 40 per cent compared with conventional models. In the spring it won the "Crystal Cabin Award" from a jury of international aviation experts as the most innovative cabin product. Following very positive test results it is to be deployed on Lufthansa's entire long-haul fleet in future. Other airlines have also expressed interest. In addition, other in-flight products developed by the LSG Sky Chefs design team also picked up prizes. They include the starter-box developed as part of the Lufthansa in-flight programme "Special Moments", which won the internationally acknowledged red dot award. Lufthansa's Economy Class tableware series Leaves, which won the "red dot – best of the best award" in 2009 and was exhibited at the German pavilion at the 2010 Expo in Shanghai, also won the Good Design Award from the Japanese Ministry of Economics, Trade and Industry. The in-flight service products made of sugar cane, which are in use on board aircraft flown by Brazil's TAM, were awarded the "observeur du design" prize at the annual exhibition of the same name in Paris.

LSG Sky Chefs received two awards for process optimisation: the jury of the International Quality and Productivity Center (IQPC) gave the company its Best Green Improvement Project Award for the global optimisation of washing-up processes and the title of Best Start-Up Programme for its lean enterprise initiative.

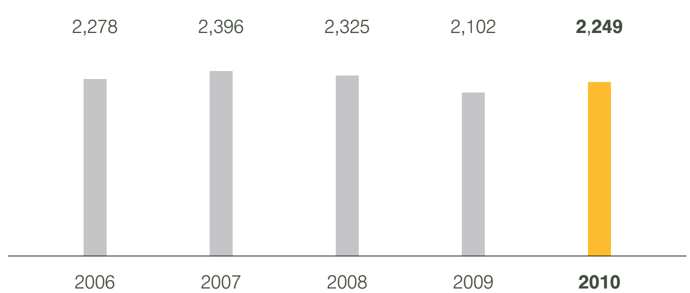
In autumn 2010 the company launched the pilot phase in four plants for the global roll-out of a new production system. Building on the success of the lean initiative, production and material flows are to be examined holistically and optimised. This is intended to meet customers' high quality standards and cut costs at the same time.

**Upgrade^plus realises potential in cost management**
The company-wide Upgrade^plus initiative launched in 2009 is going to plan. Its aim is to reduce costs by EUR 200m compared with 2008 and to generate EUR 50m in additional earnings from new business with airlines and in neighbouring markets by the end of 2011. In the long term the programme is intended to further improve competitiveness. The implementation is to be supported by the introduction of a standardised project reporting and monitoring system. This increases transparency and comparability within the company, promotes the exchange of best practices, and facilitates the achievement of short- and long-term targets. The financing-structure of the US subsidiaries was simplified by converting loans into equity. This had only insignificant effects on segment earnings, however.

## Revenue and earnings development

**Revenue rose by 7.0 per cent**
In the financial year 2010 LSG Sky Chefs group revenue went up by 7.0 per cent to EUR 2.2bn (adjusted for exchange rates: +2.7 per cent). This is largely due to higher passenger numbers and greater demand in the premium segment. External revenue rose by 8.0 per cent to EUR 1.7bn, while internal revenue edged up 3.9 per cent to EUR 533m. Changes in the group of consolidated companies also added EUR 32m to revenue compared with the previous year.

**Revenue Catering** in €m




Other operating income fell by 46.4 per cent to EUR 67m, due largely to one-off factors in the previous year (EUR 40m from a D&O policy) as well as negative exchange rate effects. Overall, total operating income improved by 4.0 per cent to EUR 2.3bn.

**Operating expenses were up by 3.9 per cent**
Operating expenses grew year on year by 3.9 per cent, which was less than the growth in revenue, coming to EUR 2.2bn for the financial year.

Greater sales volumes and negative exchange rate effects meant that the cost of materials and services climbed by 6.0 per cent to EUR 997m. The cost ratio for materials and services dropped by 0.5 percentage points to 44.3 per cent. Savings achieved in purchasing were the main reason behind the reduction.

The average number of employees declined by 2.0 per cent compared with the previous year to 28,369. Job cuts, mostly in Scandinavia and Germany, were partly offset by recruitment in China. Despite the reduced headcount, staff costs rose by 4.6 per cent to EUR 811m – largely due to exchange rates – but the staff cost ratio still fell by 0.8 percentage points to 36.1 per cent.

Depreciation and amortisation amounted to EUR 59m, corresponding roughly to the figure from the previous year (EUR 58m).

Other operating expenses were 2.1 per cent down on the year at EUR 373m.

**Operating expenses Catering**

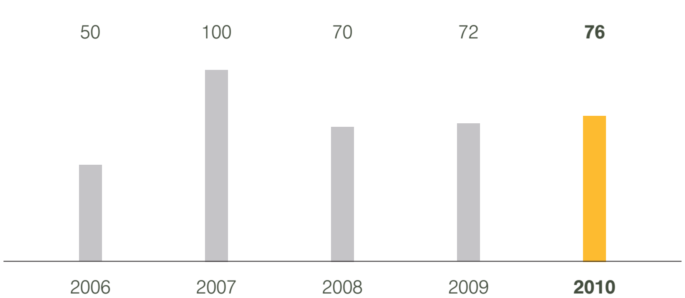
| | **2010** in €m | 2009 in €m | Change in % |
|---|---|---|---|
| Cost of materials and services | 997 | 941 | 6.0 |
| Staff costs | 811 | 775 | 4.6 |
| Depreciation and amortisation | 59 | 58 | 1.7 |
| Other operating expenses | 373 | 381 | –2.1 |
| **Total operating expenses** | **2,240** | **2,155** | **3.9** |

### LSG Sky Chefs further increases operating result

LSG Sky Chefs posted an operating profit of EUR 76m for 2010. This was above the previous year's figure of EUR 72m, which was also inflated by the one-off effect of the D&O policy mentioned above. Adjusted for this effect, the operating result improved year on year by EUR 44m, or over 100 per cent.

At EUR –3m the balance of other segment income and expense was roughly the same as the previous year's figure of EUR –5m. The result of the equity valuation, on the other hand, was 75.0 per cent up on the previous year at EUR 14m.

**Operating result Catering** in €m




The segment result for LSG Sky Chefs was EUR 87m altogether (previous year: EUR 75m). Compared with last year's figure when adjusted for the non-recurring effects mentioned above, this represents an improvement of EUR 52m.

### Long-term overview shows improved profitability

In 2010 LSG Sky Chefs more than doubled its operating result compared with the adjusted figure for the previous year, even beating the total for the financial year 2008. The main influences were higher capacity utilisation due to greater volumes, synergies as a result of the systematic standardisation of processes and strict cost management. The continued focus on standardisation and profitable growth should lead to further improvements in earnings.

### Segment capital expenditure cut by a third

As part of the measures taken to safeguard earnings capital expenditure was reduced worldwide to the level required for maintenance and to secure operations. Segment capital expenditure was therefore 34.5 per cent lower than in the previous year at EUR 38m.

## Outlook

### Further earnings improvement expected in increasingly better market environment

For the financial year 2011 LSG Sky Chefs is expecting current market trends to continue, with moderate growth in the developed markets of Europe and North America and stronger increases in demand from the rest of the world. The competitive environment will continue to be dominated by consolidation and tough pricing.

In order to secure and expand its market position in the core business, the company is seeking to extend its existing customer relationships by selling additional services and to win new customers. In adjoining markets, the focussed pursuit of market opportunities by newly established teams of experts will generate growth in the years ahead. Consistent product standardisation in production and administration is to raise the level of quality and transparency within the company and create competitive cost structures at the same time. The state of the company will also be affected in 2011 by the result of overhauling payscales, currently only competitive to a certain extent, in its two largest markets, Germany and the USA, where around half the workforce is employed. Overall, LSG Sky Chefs is expecting further increases in revenue and operating profits for 2011 and 2012.

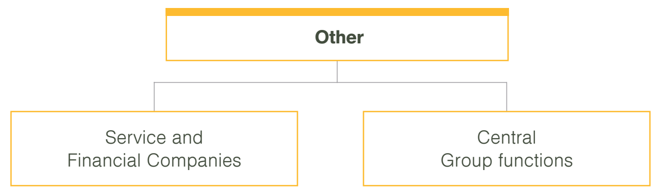
# Other

↗ The Group functions are presented alongside the Service and Financial Companies under Other. ↗ Total operating income remained stable. ↗ Exchange rate movements and a special payment meant the operating result was down on the year. ↗ Nonetheless, AirPlus and Lufthansa Flight Training were able to increase their profits.

**Other**

| | **2010** in €m | 2009 in €m | Change in % |
|---|---|---|---|
| Total operating income | 1,232 | 1,230 | 0.2 |
| Operating result | –226 | –134 | –68.7 |
| Segment result | –196 | –94 | –108.5 |
| EBITDA | 268 | 49 | 446.9 |
| Segment capital expenditure | 17 | 65 | –73.8 |
| Employees as of 31.12. | 3,752 | 3,737 | 0.4 |
| Average number of employees | 3,731 | 3,701 | 0.8 |

**Structure Other**




**Service and Financial Companies and the Group functions are shown under Other**

The segment Other includes the Service and Financial Companies in which the Lufthansa Group's financial and service activities are pooled, such as for example AirPlus Servicekarten GmbH (AirPlus), Lufthansa Flight Training GmbH and Lufthansa Commercial Holding GmbH. Furthermore, and in line with IFRS 8 Operating Segments, the Group functions of Deutsche Lufthansa AG have been reported in this segment since 1 January 2009.

**Revenue stable, earnings down on the previous year**

Total operating income for the segment Other was on a par with the previous year at EUR 1.2bn. In contrast, expenses went up by EUR 94m to EUR 1.5bn. The operating result fell accordingly to EUR –226m (previous year: EUR –134m).

Other segment income declined by EUR 20m to EUR 49m, other segment expenses by EUR 10m to EUR 19m. The segment therefore presented a segment result of EUR –196m (previous year: EUR –94m).

The fall in earnings is due to the central Group functions, whereas both AirPlus and Lufthansa Flight Training delivered higher earnings contributions.

**Foreign exchange effects and one-off payment determine the result of the Group functions**

The earnings performance of the segment Other is largely determined by the Group functions, which have been included here since 2009. Their earnings are dependent on the currency hedging and financing function of Deutsche Lufthansa AG for the companies in the Group, so that exchange rate movements have a particularly marked effect on the volatility of the segment result.

Total operating income for the Group functions was roughly unchanged compared with the previous year at EUR 742m. By contrast, operating expenses rose to EUR 1.0bn as a result of foreign exchange effects and a special payment of around EUR 50m to staff that was charged to the Group. This depressed the operating result for the Group functions to EUR –288m (previous year: EUR –183m).

**AirPlus is a specialist for global travel management solutions**

AirPlus is considered to be one of the leading worldwide providers of solutions for paying for and analysing business travel. Under the AirPlus International brand the company supplies tailored products and integrated solutions with which companies can make their everyday travel management simpler and more cost-effective. AirPlus enables its customers to achieve full company-wide transparency on all business travel expenses and so to meet all the conditions for effective control of travel expenses.

The company is headquartered in Neu-Isenburg. AirPlus now also has offices and subsidiaries in over 25 countries around the world. Around the world some 900 employees served more than 33,000 corporate customers in the reporting period.

Business travel experienced a strong surge in 2010 – a clear indication that the global recession had come to an end. Thanks to greater travel by international corporate customers and new customer wins AirPlus was able to report significant revenue growth in all markets. Total billing revenue rose to EUR 19.8bn. The number of transactions billed via AirPlus came to 125 million (+13.8 per cent). The main driver of growth remains the international markets, which contributed to AirPlus's dynamic expansion with an increase of 34.0 per cent. International markets now account for 50 per cent of total billing revenue in business travel management. In 2010 AirPlus also again successfully defended its clear market leadership in Germany.

The positive course of business was reflected in the result. In the financial year operating income was generated amounting to EUR 281m. The Company's operating profit was 17.6 per cent above the figure for the previous year at EUR 20m.

**Lufthansa Flight Training sees increasing demand in training services for airlines**

Lufthansa Flight Training is one of the world's leading providers of training services for airlines. At its sites in Frankfurt am Main, Berlin, Vienna, Bremen, Munich and Phoenix/Arizona, it has decades of experience in training cockpit and cabin crew in areas such as flight simulation, service and emergency training and computer-aided learning.

The customer base of Lufthansa Flight Training counts some 150 additional airlines alongside Lufthansa Group companies. Rising demand for simulator and cabin training as well as long-term collaboration with key airline customers bring stable earnings contributions. For example, the switch at Lufthansa Passenger Airlines to a new regional allocation scheme for cabin staff has continued to provide increased demand for retraining in the Aviation Safety and Service Training department. The greater number of basic courses for flight assistant training also confirms the positive economic trend. Continuing cost management as part of the ESP 8+2 programme launched in 2007 also makes a sustainable contribution to positive earnings development. Total operating income for Lufthansa Flight Training increased by 14.9 per cent to EUR 170m. The operating result rose year on year by 36.4 per cent to EUR 30m.

CityLine Canadair Simulator und Training GmbH (CCST) has been part of Lufthansa Flight Training since 1 July 2010. The purchase agreement for the future company Lufthansa Flight Training – CST GmbH was signed on 28 June 2010 in Frankfurt by the shareholders of CCST and Lufthansa Flight Training. CCST is a direct neighbour of Lufthansa Flight Training in Berlin and operates three full-flight simulators for the Canadair Regional Jet, which strengthens its presence in the growing market for regional aircraft.

In view of increasing demand for training services Lufthansa Flight Training has put additional facilities into operation. In Frankfurt the preparation of another simulator hangar with eight simulator bays has been underway since March 2010; by March 2011 nearly all the bays will be occupied. In Munich existing training capacities have been extended by an A320 simulator that will commence operations in the second quarter of 2011.

## Employees

↗ Our staff are the basis of our success. ↗ The good business performance led to a higher number of employees and a special one-off payment. ↗ The new Air Transport Employers' Federation began its work. ↗ Intensive collective bargaining took place in 2010 and key agreements were signed. ↗ In addition to vocational and professional training we invest in the health of our employees. ↗ Lufthansa is still considered as one of the most popular employers in Germany.

**Employees as of 31.12.**

| | | 2010 | 2009 | Change in % |
|---|---|---|---|---|
| Group employees | number | 117,019 | 117,521 | –0.4 |
| of which Passenger Airline Group | number | 57,157 | 58,083 | –1.6 |
| of which Logistics | number | 4,517 | 4,488 | 0.6 |
| of which MRO | number | 20,159 | 19,796 | 1.8 |
| of which IT Services | number | 2,935 | 3,027 | –3.0 |
| of which Catering | number | 28,499 | 28,390 | 0.4 |
| of which Other | number | 3,752 | 3,737 | 0.4 |
| Revenue per employee | thousands € | 233 | 198 | 17.7 |
| Revenue per full-time equivalence | thousands € | 268 | 231 | 16.2 |

**Revenue per full-time equivalence Lufthansa Group** in € thousands


### HR policy copes with an exceptional year in 2010 by means of wide-ranging measures

At Lufthansa too, the economic crisis meant that the first half of 2010 was dedicated to crisis management. Programmes to safeguard earnings in nearly all companies had to make use of the policy instruments available to cut staff costs and adjust human resources capacities in line with requirements.

Lufthansa has learned from crises in prior years and can draw on a wealth of experience in dealing with a variety of different scenarios. An external hiring freeze was followed by voluntary redundancy models such as unpaid leave, phased early retirement, part-time work and compromise agreements with severance payments. In some cases, measures such as reduced working hours and the non-renewal of fixed-term contracts also became necessary. The successful implementation was due not least to the constructive working relationship with the codetermination partners. The Group-wide internal placement programme Job-Change also facilitated Company restructuring in the crisis year 2010. The programme opened up new prospects within the Group for many employees.

The chosen methods of adjusting staff capacities also made it possible to react directly to economic growth, which set in faster than expected. In some areas of the Group reduced working hours were brought to an end quickly.

Earnings developments at the Lufthansa Group were more dynamic than could have been foreseen and this provided the means for a special thank-you to our payscale and non-payscale employees. Based on the good result for 2010 the Executive Board decided in December to make a one-off special payment amounting to EUR 700 per full-time employee, which was paid out in January 2011.

For 2011 and beyond we are assuming further growth in demand. The fleet expansion planned as a result will therefore lead to additional staff requirements. This applies above all to the operating areas, for which extensive recruiting campaigns have been launched.

The integration of the new additions to the airline group which already began in 2009 was another key topic for human resources. Focus areas within human resources were also identified for reciprocal synergies and rules drawn up for all the companies in the airline group; on the transfer of staff from one company to another for instance.

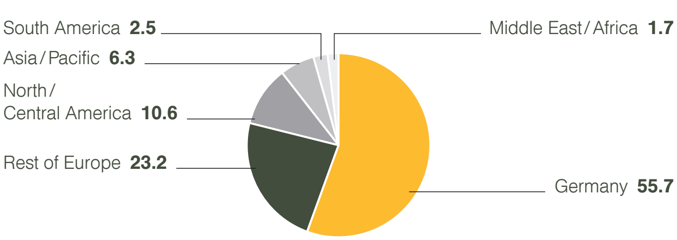
As the new partner airlines are members of the Lufthansa airline group, they are able to make use of the services offered by the HR Shared Service Organisation. Thanks to the new HR IT platform from the Lufthansa Business Service Center, the partner airlines can now also realise synergies by purchasing their standard human resources processes, such as payroll accounting or operational staff support, from the Group.

Lufthansa successfully intensified its internal communications during the crisis. In April 2010 the eTeaming communication platform won an award in the category Best Internal Communication Strategy at the 7th IIR Technology Web 2.0 Congress. It enables effective collaboration in working and project groups, promotes networking among staff and reflects Company best practice. On the subject of fuel efficiency, for example, around 100 experts from the most diverse areas of the Company formed a group on eTeaming to discuss and coordinate activities to save fuel. In the Digital Innovators Club staff can exchange ideas and best practices. Across the Group eTeaming is already used by more than 25,000 employees.

### The workforce is remarkable for its diversity

Around the world, the Lufthansa Group employed 117,019 people at year-end 2010. This represents a slight decline of 0.4 per cent compared with 2009, which is largely due to fewer staff at Austrian Airlines and bmi. 6,341 new employees joined from outside and 7,702 left the Company. The fluctuation rate for German entities reduced slightly from 6.7 per cent to 6.0 per cent.

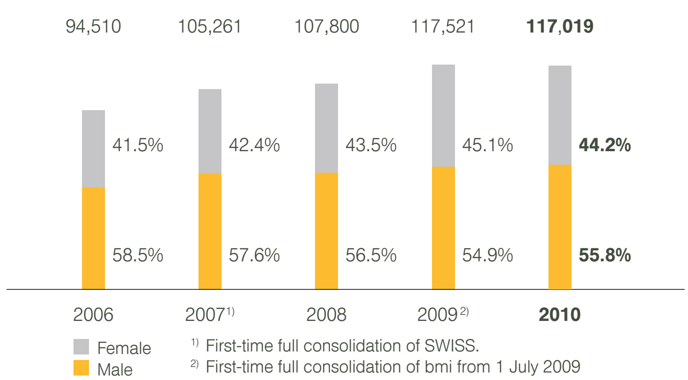
**Employees by region** in %




The share of women employees in the Group fell slightly by 0.9 percentage points to 44.2 per cent. Average seniority rose slightly by 0.2 years to 13.4 years. Around 27 per cent of staff use one of the Group's part-time working models.

In its declaration of compliance with the German Corporate Governance Code the Supervisory Board underlines the fundamental importance of diversity in its makeup and at the same time it would like to see more women represented. Equality of opportunity between men and women was again a central topic in 2010, not only in the context of the revised Code see p. 42. As of 31 December 2010 the share of women in management positions with personnel responsibility below management level came to 37.8 per cent. During this period women accounted for 13.3 per cent of managers. Proven programmes, like the cross-mentoring for young women managers initiated in 1998, were continued with a new generation. Of previous participants, 43 per cent are now working as managers. Another important feature of the programme is the provision of day-care facilities for children.

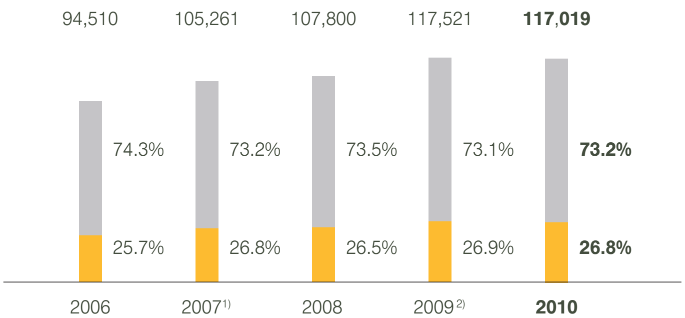
**Number of employees** by gender




1) First-time full consolidation of SWISS.
2) First-time full consolidation of bmi from 1 July 2009 and of AUA from 3 September 2009.

The proportion of staff with a disability remained stable compared with 2009 at 3.5 per cent. The average age of the workforce rose by 0.4 years to 40.7. In the years ahead the average age is expected to keep going up. Demographic change is an important human resources subject for the Lufthansa Group. As the demands made by the individual companies vary, steps to deal with an aging society are mostly implemented on a decentralised basis.

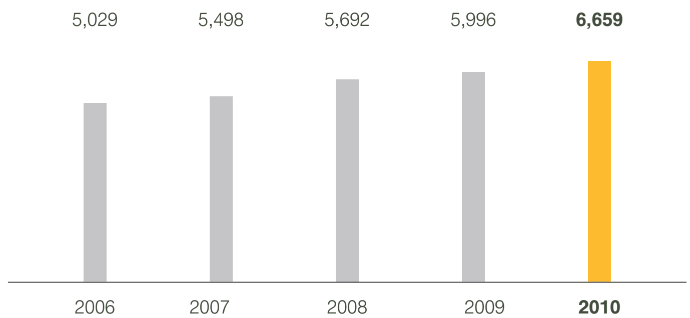
**Number of employees** in part-time and full-time




Full-time
Part-time

1) First-time full consolidation of SWISS.
2) First-time full consolidation of bmi from 1 July 2009 and of AUA from 3 September 2009.

**Staff costs Lufthansa Group** in €m




In November 2010 the Lufthansa Group won the International Innovative Employer Award from the American Association of Retired People (AARP) for its innovative approach to the effects of demographic change and its support for older staff.

Demographic shifts mean that staying productive and healthy is increasingly important for Lufthansa and its employees. In 2010 too, the different areas of the Lufthansa Group made valuable contributions to healthy living. Health management covers location-related and company-specific activities such as special medical days and so called ‘health weeks’, to maintain and enhance the health of employees in all Group companies. The focus in 2010 was on classical advisory topics such as diet, exercise, healthy living, stress relief and on recognising and reducing risk factors to health. The services offered are supplemented by concrete activities like the Group-wide initiatives on sport and exercise, and the annual offer of free flu jabs.

## New Air Transport Employers’ Federation takes on collective bargaining responsibilities

Collective bargaining in the Lufthansa Group was again dominated by intense negotiations for all groups of ground, cabin and cockpit staff in 2010. A longer-term wage settlement was agreed as a structural contribution with a lasting effect for ground, cabin and cockpit staff, which amounted to a pay freeze.

The new Air Transport Employers’ Federation (ATEF) established on 15 October 2009 officially assumed its Group-wide collective bargaining responsibilities on 1 January 2010.

This constitutes the Group’s response to the altered demands of collective bargaining, ensures that collective bargaining policy is appropriate for the different business segments and creates an employer’s federation specific to the air traffic industry, able to take part in legislative proceedings for example and play a greater role in overarching employers’ federations. Since the beginning of 2010 the ATEF has replaced the previous employers’ federation Arbeitsrechtliche Vereinigung Hamburg (AVH) as the new collective bargaining partner for the trade unions in the Lufthansa Group. This applies both to all the wage agreements reached with AVH in the past and to new agreements signed from 2010 onwards. All the Group companies that were previously members of AVH moved to the newly established Air Transport Employers’ Federation with effect from 31 December 2010.

## Collective bargaining and new wage agreements

In July 2010 a wage settlement for the ground staff of Deutsche Lufthansa AG was reached between ATEF and the trade union ver.di. As one part of a whole package, the duration of wage agreements was extended until 31 December 2011 without adjustments to wage levels. A one-off special payment was agreed for the event that the consolidated operating result for 2011 exceeds a certain hurdle. The profit-sharing pattern was also overhauled. Under the new model the profit-sharing is based on the operating margin of the business segment and the Group.

**Operating margin* for the Group and the business segments** in %

| | **2010** | 2009 | Change in pts |
|---|---|---|---|
| Passenger Airline Group | 2.1 | 0.0 | 2.1 |
| Lufthansa Passenger Airlines | 2.7 | −0.9 | 3.6 |
| Logistics | 11.1 | −8.8 | 19.9 |
| MRO | 6.7 | 8.0 | −1.3 |
| IT Services | 1.7 | 2.6 | −0.9 |
| Catering | 3.4 | 3.4 | 0.0 |
| Group | 3.2 | 0.6 | 2.6 |

* Operating result / revenue.

A new framework agreement on the structure of the training fund for shift workers defines the subsidies for professional training for this group of employees. The collective bargaining partners also acknowledged the additional strains on shift workers by signing a new agreement on phased early retirement. It was also possible to reach a settlement on dealing with crisis events at short notice. An immediate reaction is now possible, for instance by reallocating working hours. An agreement was also reached on the secondment of staff within the Group.

**New agreements for cockpit and cabin staff following arbitration**

The wage agreement for cockpit staff of Deutsche Lufthansa AG and the agreement for the Germanwings pilots expired in March and June 2009 respectively, but were still in force pending a new settlement. The extremely difficult negotiations culminated in a call for strike action in February 2010. The strike was due to last for four days, but was terminated on the first day after a settlement before an employment tribunal. In the ensuing negotiations both parties agreed to go to arbitration. Dr Klaus von Dohnanyi, the former federal minister and mayor of Hamburg, was appointed to arbitrate. The two-month arbitration proceedings came to a conclusion on 23 June 2010 with a final recommendation. The agreement reached represents a balance between the pilots' interest in protecting their jobs and the necessary entrepreneurial flexibility.

The result of the arbitration was a 24-month pay freeze and an extension of the framework wage agreement until 31 December 2012. A different way of calculating working hours and a higher threshold for remunerating overtime flying hours also contributed to reducing costs. Furthermore, agreement was reached on disputed points relating to Lufthansa Italia and cross-border traffic. The so-called 70-seat rule, which stipulated that aircraft with upwards of 70 seats had to be crewed according to the conditions of the Group wage agreement, was raised to 95 seats. This rigid rule was also supplemented by a flexibility clause, stating that 21 per cent of the smallest aircraft in the Lufthansa fleet can be operated outside the Group wage agreement.

Since 28 February 2010 the existing framework and wage agreements for cabin staff have remained in force pending a new settlement. While intense negotiations resulted in convergence in some points, a rule to make rostering and service planning more flexible was still in dispute. As no agreement could be reached at the negotiating table, the parties opted to go to arbitration in early November. Heide Simonis, the former premier of the German state of Schleswig-Holstein, chaired the proceedings. Arbitration was completed on 19 January 2011. The result includes a 22-month wage freeze until the end of 2011. The new framework agreement runs until February 2014 and defines improvements to working conditions among other things. The number of permitted changes to rosters is reduced, which enables cabin staff to plan their time with greater certainty. In order to alleviate the particular strains of long-haul flying, binding rules have been established that extend rest periods at certain destinations. Cabin staff are to receive a structural indemnity of EUR 1,000 as compensation for the changes, which are only to be implemented gradually. The arbitration result strikes a balance between the demands of the trade union UFO for better working conditions and necessary structural cost savings.

**Opportunities for training and qualifications expanded**

For many years Lufthansa has offered a wide range of opportunities to obtain training and qualifications. In 2010 the Group gave 1,128 young people in Germany vocational training in the form of an apprenticeship. The focus is no longer just on traditional apprenticeships, which Lufthansa offered in 24 different occupations last year. Dual degree courses are also becoming more and more important – in 2010 Lufthansa helped 353 junior staff on 18 different courses to combine vocational training with a bachelor's degree.

In other occupations as well, Lufthansa offers many people a professional future. In 2010 a total of 3,115 new staff qualified as cabin crew and 144 cabin employees were promoted to purser. Last year 240 new trainee pilots were also recruited for the cockpit. Lufthansa trained just under eight hundred new recruits at its airports, especially at the hubs in Frankfurt and Munich.

**Lufthansa School of Business – Germany's first corporate university**

Irrespective of general economic developments, we are convinced that investing in the development and training of our staff and managers pays off. Extensive training activities were carried out in the reporting period.

Lufthansa School of Business (LHSB), since 1998 Germany's first corporate university, focussed in particular on optimising interdisciplinary training within the Group in 2010. This meant that the staff of the partner airlines were also able to make use of most of the courses on offer. Overall the internal training budget rose by 3 per cent to EUR 102m and the number of training days by 5 per cent to 619,000.

Management development at Lufthansa is based on the Aviation Leadership Compass, which is used throughout the Group. It enables management development in line with requirements and makes it possible to fill specific management positions without regard for boundaries between business segments or group airlines.

Lufthansa is also involved in designing digital learning environments in the form of web-based training. Focal points last year included health and safety, corporate compliance and the General Equal Treatment Act.

**Employer attractiveness – Lufthansa in the leading group**
Lufthansa remains one of the most popular employers in Germany, taking top places in employer rankings carried out among students, business graduates, engineers and computer scientists. This result is confirmed by a survey carried out by the trendence institute, which delivered similar results.

**Universum Student Survey 2010**
(published in "Wirtschaftswoche")

| Degree course | **Ranking 2010** | Ranking 2009 |
|---|---|---|
| Business studies | 2nd place | 2nd place |
| Engineering | 7th place | 9th place |
| IT | 14th place | 18th place |

This attractiveness is also evident in the great interest shown in the Lufthansa career portal i www.be-lufthansa.com, the Group's central platform for personnel marketing and recruiting. The website registers an average of 138,255 visitors every month. The number of job applications was again very high in 2010, with 115,000 candidates for 2,000 advertised job opportunities. Since April 2010 the career portal has had a Facebook page, which is also very popular and one of the favourite career portals presented there by German companies. This additional communications platform allows Lufthansa to get in touch with younger applicants and interested candidates directly and to distribute information quickly and effectively.

Demand for Lufthansa's various junior management programmes is considerable, also from outside the German labour market. Our trainee programme ProTeam took on graduates from France, Ukraine and Vietnam, who thereby contribute to the greater internationalisation of the Lufthansa Group.

**Internationalisation strategy continues in recruitment**
Lufthansa will continue to position itself as an attractive employer among international universities in order to ensure that the Group's human resources policy keeps step with its increasing internationalisation. For the first time Lufthansa and the EBS business school organised a competition on social media at international universities. The first Lufthansa Case Challenge gave students the opportunity to develop innovative concepts and present them to Lufthansa. 130 teams from all over the world applied for a place in the final, where the best six teams were able to present their concept to a jury at the Lufthansa Training and Conference Center in Seeheim. Additionally, as in previous years, the Lufthansa Award for excellent performance in the German language was made to a total of three universities in 2010. The prizes went to students of Boston College and MIT in the USA as well as to participants of the Chinese-German College in Shanghai.

**Ideas management leads to wide-ranging cost savings**
The Germany – Land of Ideas initiative, of which the German federal president is the patron, states that, "... the future will be determined by the ideas of the people in this country". Lufthansa shares this conviction in relationship to its staff. In 2010 Lufthansa employees again contributed to strengthening the Group's competitiveness and capacity for innovation. The ideas management programme Impulse is a vital instrument for giving staff in all areas of the Group the opportunity to contribute their ideas. The figures for last year show that they make great use of this opportunity. Employees responded to the appeal, "We're looking everywhere for good ideas" by submitting 3,406 suggestions. A total of some 838 ideas were taken further and resulted in the identification of potential savings worth around EUR 11.3m, for instance the individual development of an IT-supported search engine to help identify free capacities on scheduled flights for transporting cargo at short notice.

# Responsibility

↗ Lufthansa has refined its previous set-up and incorporated it within a structure under the title of “Responsibility”. ↗ The Corporate Responsibility Council is to be integrated even more closely with Group strategy and management. ↗ Lufthansa is represented in various sustainability indices. ↗ Sustainable business forms the basis for our activities in the interests of all stakeholders. ↗ For many years we have been involved worldwide with the environment, social affairs, education, sport and culture.

The principles of corporate responsibility are firmly anchored in the mission statement, the corporate values and the management principles of the Lufthansa Group. In the reporting year we refined our existing set-up and have now embedded all aspects of this topic in one structure under the heading of “responsibility”. In addition to sustainability, and therefore economy, ecology and social welfare, this also covers our corporate governance and corporate citizenship activities.

In order to make the management of all activities relating to corporate responsibility and sustainable business in the Lufthansa Group even more effective, the Sustainability Board responsible to date has been expanded and dovetailed more closely with the Group strategy. This gave rise to the Corporate Responsibility Council, which remains interdisciplinary and inter-segmental and is coordinated by the Head of Group Strategy. The council is made up of the heads of the Group departments Policy, Environmental Concepts, Executive Personnel, Legal Affairs, Communications, Investor Relations and Group Controlling. The involvement of Controlling ensures that the sustainability goals are more closely dovetailed with the Group-wide management and reporting processes. The Group department Corporate Sourcing is included in an advisory capacity in order to guarantee that the criteria of our responsibility are met in the supply chain as well. We attach great importance to making all these aspects highly relevant – and so the council reports directly to the Executive Board, which bears overall responsibility.

**Corporate responsibility at Lufthansa**

| | |
|---|---|
| **Economic sustainability** | Long-term and sustainable value creation, opportunities and risk management, supply chain management / sourcing, investor dialogue |
| **Responsibility for the climate and the environment** | Emissions reduction, environmental management systems, resource management, environmental protection, Green IT, environmental conservation (biodiversity), travel management |
| **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 |

**Great outside interest in the subject of responsibility**

As in previous years, Lufthansa's activities relating to responsible conduct were evaluated and acknowledged by outside experts and rating agencies again in 2010. Lufthansa is still represented in numerous sustainability indices, for example FTSE4Good, ASPI (Advanced Sustainable Performance Index) and ESI (Ethibel Sustainability Index).

However, despite making great efforts, Lufthansa, like other DAX companies, was for the first time since 2005 not able to meet the tougher criteria for membership of the Dow Jones Sustainability Index. The analysts saw room for improvement in the areas of social commitment, terms for suppliers and the Company's engagement with external stakeholders. On the other hand, the rating was very positive in terms of climate strategy, noise abatement and local air quality.

The Executive Board and the Corporate Responsibility Council take the evaluations and recommendations very seriously. The areas for improvement are being examined together with the Company's experts and the necessary steps will be taken.

Lufthansa is committed to the principles of the UN Global Compact and supports its activities. Since 2002 Lufthansa had also complied with all recommendations of the Corporate Governance Code and followed most of its facultative suggestions as well. The declaration of compliance was updated with a small number of reservations in the Supervisory Board meeting held on 6 December 2010. Further information can be found in the "Corporate Governance" chapter on p. 42.

**Our environmental protection strategy and its 15 principles underlie environmental conduct**

The strategic environmental programme has been in existence at Lufthansa since 2008 and consists of 15 principles. It reflects the high priority assigned to environmental protection in the Company's goals. Our main priority is to make further tangible progress and attain qualitative targets in environmental protection by 2020. As one of the decision-making criteria, environmentally compatible conduct is to be more deeply integrated in everyday decision-making process than it is at present. Our principles and an overview of our current environmental targets – including their current status, progress made, targets that have not yet been met and the steps we intend to take to help us reach these – can all be found on our website i www.lufthansa.com/responsibility.

With the help of a comprehensive environmental database all operating processes and activities in the Lufthansa Group that effect the environment are systematically identified, documented and evaluated. This enables us to measure our performance and the success of our efforts to protect the climate and the environment by unsing a variety of key indicators. They include for example energy and kerosene consumption, emissions, noise, refuse, water and waste water. These performance indicators help our environmental experts to improve environmental protection in and by the Group continuously. In the medium term this should also make it possible to implement a certifiable environmental management system in all major Group companies.

The top priority is to reduce $CO_2$ emissions. The concrete target is to cut $CO_2$ emissions per passenger-kilometre (pkm) by 25 per cent by 2020 in comparison with 2006 (110.5 g/pkm). This would result in reduced $CO_2$emissions of approximately 84 g/pkm. In the financial year 2010 just ended, the corresponding figure was 105.8 g/pkm, compared with 108.4 g/pkm the previous year – an improvement of 2.4 per cent.

Measuring the absolute amount of $CO_2$ emitted, transport services provided by the Lufthansa Group in 2010 released a total of 26.6 million tonnes of $CO_2$. The increase of 10.1 per cent compared with the previous year was clearly below the rise of 15.6 per cent in transport performance. The unfolding fleet modernisation programme and thus the new aircraft with modern, fuel-efficient engines mean that $CO_2$ emissions are increasingly being decoupled from traffic levels. In addition, the programme leads to further optimisation of the specific fuel consumption, which is measured in litres per 100 passenger-kilometres.

**Key environmental performance indicators for the Lufthansa Group's operating fleet**

| | | **2010** | **Change in %** | 2009 | Change in % | 2008 |
|---|---|---|---|---|---|---|
| Fuel consumption | in litres / 100 pkm | 4.20 | −2.3 | 4.30 | −0.9 | 4.34 |
| $CO_2$ emissions (direct) | in gramme / pkm | 105.8 | −2.4 | 108.4 | −0.8 | 109.3 |

At 4.20 litres for 2010 this figure was again lower than the previous year (4.30 l/100 pkm) and the year before that (4.34 l/100 pkm). Additional and more detailed environmental performance indicators for the financial year 2010 can be downloaded at i www.lufthansa.com/responsibility from the middle of the year.

Alongside the ecological effects on the climate and the environment, fuel savings also bring economic benefits. They reduce fuel costs, which next to staff costs are always one of the biggest cost items in Lufthansa's income statement. Under current European Union regulations this is aggravated by the fact that air traffic is to be included in the European emissions trading scheme from 2012. The adverse effects this will have are mitigated by a fuel-efficient fleet. See also "Regulatory and other factors" on p. 58 for more details.

**Cutting-edge research projects**

As a service company Lufthansa does not run its own research and development department in a classical sense. Instead we take part in numerous research projects, providing them with active support. They are described in detail in Balance, our sustainability report. One example is the EU research project CARIBIC, which is aimed at investigating the complex chemical and physical processes that take place in the atmosphere. A measurement laboratory installed on board a wide-bodied Airbus jet delivers detailed and precise data on various trace elements and the concentration and size distribution of aerosols. In spring 2010 the equipment was also used to reliably measure ash concentrations in the airspace over Europe following the eruption of the Icelandic volcano Eyjafjallajökull.

In November 2010 Lufthansa, together with the federal government's aerospace coordinator and the German Aerospace Center, presented a biofuel project on sustainable air travel sponsored under the government's aviation research programme. Following approval, for six months starting most likely in spring 2011 Lufthansa will deploy an Airbus A321 in regular flight operations on the Hamburg–Frankfurt–Hamburg route, which uses a blended fuel containing 50 per cent biosynthetic kerosene in one of its engines.

The main aim of the project is to investigate the effects of biofuels on an engine's servicing and life cycle in the course of a long-term experiment. The six-month trial alone will save around 1,500 tonnes of $CO_2$. This will make Lufthansa the first airline in the world to use biofuels in flight operations over a longer test period. The project is named BurnFAIR and is part of a larger project funded by the federal government known as FAIR (Future Aircraft Research), in which other topics including new propulsion and aircraft concepts or other fuels, such as liquid gas, are investigated in addition to the compatibility of biofuels. As procurement and execution are expensive, we have calculated Lufthansa's total costs for carrying out the BurnFAIR project at around EUR 4.1m.

The use of biosynthetic kerosene is one element of the four-pillar climate protection strategy for the air transport sector, which is recognised by the UN's civil aviation organisation ICAO and offers airlines an effective way of reducing carbon emissions. Only by combining a range of different measures, for example continuous fleet renewal, operating activities such as engine washes or the use of lighter materials, and an improved infrastructure, will it be possible to reach the ambitious environmental targets. Research projects corresponding to these subjects are also already underway as part of the aviation research programme.

Furthermore, we are intensifying our involvement in the field of noise research. Lufthansa is investing in active noise-protection measures by updating the entire Boeing 737 fleet stationed in Frankfurt by the end of 2011 and making technical adjustments to the engines on the Boeing 737-300s and 737-500s. Around one fifth of Lufthansa's flights in Frankfurt will take place with these aircraft models in the future. The adjustments will reduce noise emissions on take-off and landing by up to 2.4 decibels, which is also a measure of our responsibility in respect of those living near the airport.

You can find further explanations of the four-pillar strategy for air transport in our sustainability report Balance.

**Exercising our responsibilities as an employer**

For a service company like Lufthansa, having motivated employees is extremely important, as is the development and preservation of specialist knowledge. The lengths that the Lufthansa Group goes to in order to ensure its attractiveness as an employer for existing and future staff are described in detail in the chapter “Employees” on p. 124.

**Manifold activities in corporate citizenship**

As an international aviation group Lufthansa is well aware of its role as a corporate citizen and has for many years been closely involved in culture, the environment, social affairs, education and sport.

In the cultural sphere the Lufthansa Festival of Baroque Music, which has taken place annually in London for the past 26 years, has become an internationally recognised festival. Since 2010 we have been sponsoring the Gürzenich orchestra in Cologne with an amount of EUR 250,000 a year as a First Global Partner. The orchestra is one of Germany’s leading ensembles for concerts and operas. It intends to use the annual sponsoring revenue to strengthen its teaching programme for children and young people Open Your Ears! with joint visits to rehearsals and concerts, music projects, workshops and meetings with musicians.

In the field of nature and the environment Lufthansa works with more than ten national and international nature conservation and environmental associations on projects to preserve biodiversity. The projects focus on the protection of endangered species. Lufthansa is particularly involved in cross-border activities to protect migratory species and their habitats. Traditionally our work has put a strong emphasis on steps to protect endangered species of crane. In 2010 Lufthansa and the sustainability foundation Nature-Life-International also curated the travelling exhibition World Champions of Nature, which is being shown in major cities in Germany. It is meant as a concrete contribution to greater knowledge of the natural world and awareness of nature conservation. Another element is a short film about protecting endangered species entitled Life’s Diversity – Nature’s Fascination, which is shown on board our aircraft.

An outstanding example of the Lufthansa Group’s social commitment is the HelpAlliance. It was founded in 1999 by staff from all divisions of the Lufthansa Group. The association operates as a charity and has no political or religious allegiances. Projects organised by HelpAlliance include schools, training centres, orphanages, projects for street children, business start-up help and bush hospitals in Africa, Asia, Europe and Latin America. Since its foundation we have provided HelpAlliance with financial, logistics and communications support. Lufthansa doubled the total amount donated by its staff in 2010, to a HelpAlliance project in Pakistan to help those affected by the catastrophic floods for instance.

In 2004 staff at Lufthansa Cargo and a number of German doctors also jointly established the charity Cargo Human Care. The basic idea behind this humanitarian aid project is to provide uncomplicated, professional medical assistance for those in need among the population of Nairobi. Lufthansa Cargo provides the doctors with free flight tickets and free transport capacities on board its cargo aircraft. In the event of catastrophes such as the earthquake in Haiti or the flooding in Pakistan, Lufthansa Cargo also provides rapid, direct aid, for example by transporting emergency equipment for providing medical treatment for children.

SWISS has also supported the charity SOS-Kinderdörfer for many years. The SWISS House is one of 13 family houses in the SOS-Kinderdorf children’s village in Daressalam in Tanzania. Its construction was made possible by donations from SWISS passengers and employees. The strong sense of commitment to the African continent is also expressed in the support shown by group member Brussels Airlines for numerous humanitarian projects there. In order to deliver its contribution as effectively as possible, Brussels Airlines also works closely with two Belgian non-governmental aid organisations.

Education is another topic which has traditionally enjoyed a high priority at Lufthansa. The innovative educational exhibition Lufthansa Erlebnis Wissen presents the wide variety of occupations and professions on offer in the Lufthansa Group in order to inform children and young people about air transport. It also gives the school children some initial career ideas. Since 2008 Lufthansa has supported the charitable initiative Teach First Deutschland, which campaigns for more equality of opportunity for school children on their way into the job market. The aim of business@school, an initiative launched in 1998 by Boston Consulting Group, is to familiarise older pupils with practical economic topics in their final school years. We have supported this educational initiative since 2002 and it now extends to more than 70 schools in Germany, Austria, Switzerland, Singapore, Italy and Norway.

The Company also sees the preservation of traditions as part of doing responsible business. It is in this spirit that we sponsor the Deutsche Lufthansa Berlin-Stiftung. The foundation has dedicated much thorough work and great expertise to a beacon project carried out jointly with colleagues from Lufthansa Technik and external specialists – the rebuilding of an aircraft from the legendary Lockheed Super Constellation series. The plane is to be made airworthy again, cockpit staff trained and the necessary licences obtained. Another great favourite is the Junkers Ju 52 ("Auntie Ju") bearing the name Berlin-Tempelhof, which offers pleasure flights in many towns.

For many years the Company has also been a partner at sporting events. Its involvement in sports represents a commitment to competitive performance as well as a commitment to the Company's social responsibility. This involvement includes its partnership with the Deutsche Sporthilfe foundation, its support as a National Sponsor for Munich in its bid to host the 2018 Winter Olympics, and its partnership with the German Olympic Sports Federation and the German Disabled Sports Association to support German athletes at the Olympic Games and the Paralympics.

**Procurement processes are being professionalised throughout the Group**

In early 2009 we launched the Procurement Leadership project in order to continously make purchasing procedures throughout the Group more professional. The focus is on introducing strategic category management, with which the purchasing units are expected to contribute around EUR 300m per year to the operating result by 2011. The strategy development is accompanied by intensive work on fundamental topics. They include new IT systems and various process alterations as well as a fundamental rethink of supplier management, with which we are underscoring our call for responsibility in our purchasing function and throughout the entire supply chain.

In the same context Lufthansa will no longer simply appeal for compliance with binding criteria of responsibility on a decentralised basis via its companies, but as a "procurement leader" will make them mandatory in all contracts and internal guidelines for the whole Group by means of a purchasing handbook. We are guided by internationally recognised conventions on environmental protection and health and safety at work, statutory regulations on fighting corruption, and security guidelines for data processing.

**Ongoing focus on sustainable business**

The basis for all activities in the Lufthansa Group and the fundamental condition for responsible behaviour is to increase the Company value for the long term by means of sustainable business. To do so, we manage the Company by value-based principles and measure performance using cash value added (CVA), see "Value-based management and targets" from p. 48. The variable remuneration components for managers and Executive Board members are also based on CVA. This ensures that Company management has a direct stake in the sustainable development of the Group. At the same time, it minimises the danger that decisions which promise short-term gain but no long-term benefits should be considered attractive.

Risk management, including management of financial risks, also contributes towards securing the Company's long-term success. A detailed description of methodologies and instruments is provided in the "Risk and opportunities report" from p. 132.

German company law, co-determination law and capital market law along with our Articles of Association and company-specific implementation of the Corporate Governance Code form the basis of the Group's management and supervisory structure. These regulations also include that the rules on competition compliance and integrity compliance are binding for all Lufthansa employees.

Open, transparent communications are paramount in the process of regular dialogue with all our stakeholders. Through this we create the trust that Lufthansa enjoys with its shareholders and lenders, employees and the general public.

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

**Voting and 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 4 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 2010 the proportion of foreign shareholders was 31.5 per cent. 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.lufthansa.com/investor-relations.

**Direct or indirect shareholdings with more than 10 per cent of voting right**

As of 31 December 2010 there were no shareholders with a stake in the issued capital of more than 10 per cent.

**Holders of shares with special rights**

Lufthansa has no shares with special rights.

**Control of voting rights for employee shares when control rights are exercised indirectly**

This 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 586,160,092.

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 25m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded.

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

In addition, the Company is authorised by resolution of the Annual General Meeting on 29 April 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 33” from p. 188.

**Change of control agreements relating to the parent company**
Lufthansa 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 member and the Company are entitled to terminate the contract within twelve months of this change of control.

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

In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract, see the Notes to the consolidated financial statements “Note 49” from p. 210.

# Supplementary report

On 19 January 2011 Deutsche Lufthansa AG and the trade union Unabhängige Flugbegleiter Organisation UFO e.V. accepted the recommendation of an arbitration process, thereby ending the collective bargaining round that began in March 2010.

The arbitration settlement includes rules on extending the wage agreement and revising the framework agreement, both of which apply to around 16,000 Lufthansa flight attendants. The parties agreed on a wage freeze as part of the pay settlement, which was renewed unchanged for a period of 22 months and now runs until 31 December 2011. The new framework agreement runs until 28 February 2014.

The new agreements also include further improvements in working conditions, such as a reduction in permitted changes to rosters, which enables cabin staff to plan their time with greater certainty, as well as rules on rest and break periods. A structural compensation payment of EUR 1,000 was also agreed and is due to be paid in March 2011.

The settlement reflects cabin staff’s need for stable planning conditions and the particular strains of flight operations as well as the Company’s requirement for increased flexibility and cost-effectiveness.

# Risk and opportunities report

↗ The calculated management of opportunities and risks is an established pillar of our corporate governance. ↗ A risk management committee deals specifically with all business risks and improves the risk management system continuously. ↗ All relevant risks are combined in a risk map. ↗ A report on opportunities and risks is published quarterly. ↗ There are currently no identifiable developments which could endanger the Company's continued existence.

## Opportunity and risk management system

As an international aviation company Lufthansa 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. Our proven risk strategy allows us to take advantage of business opportunities as long as a risk-adjusted return can be realised on market terms. The risks must also be appropriate and acceptable in relation to the value we create.

The calculated management of opportunities and risks is an integral factor in the management of our Company. Our risk management is therefore integrated into our business processes. The system enabling risks to be identified and managed at an early stage is composed of several modules. These modules are linked systematically with one another – with the exception of financial risk management, for which responsibility is organised centrally. This enables homogenous risks to be identified in their entirety and responsibly managed with the necessary economic competence. 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 section "Financial opportunities and risks" from p. 139 and in "Note 46" from p. 200 to the consolidated financial statements.

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 has eight members who report directly to the Lufthansa Executive Board from Corporate Controlling, Legal Affairs, Corporate Finance, Corporate Accounting, Corporate Audit (permanent member without voting rights), IT, Controlling Lufthansa Passenger Airlines and Delvag Group. It is responsible for continuously improving the effectiveness and efficiency of the risk management system.

An important instrument for doing so is the risk map: it lists all material risks which could endanger the Company's earnings and its continued existence. At the same time it identifies all the instruments for managing these risks. Risks count as material if they are capable of causing damage of at least one third of the operating result necessary for maintaining the value of the Company. For 2010 this amount was again determined to be EUR 300m for the Lufthansa Group. The materiality threshold is calculated individually for each of the business segments according to the same principle.

The risk map is updated regularly and its structure is aligned with the entire process of risk management, identification, coordination, communication and control. Lufthansa applies uniform risk management standards throughout the Group. The managing directors of all Group companies also appoint risk managers in all business segments. They are responsible for implementing the Group guidelines within their respective companies and are in close, regular contact with the Risk Management Committee. This also enables the rapid integration of new subsidiaries such as Austrian Airlines or British Midland.

Opportunity and risk controlling in the course of the planning and coordination processes is a further component of the system. This primarily identifies the potential risks and opportunities that could impact earnings targets in an analysis of the market and competition landscape, evaluates them and initiates steps to manage them. As both positive and negative departures from plan are covered, this means that the same instruments are used to identify, evaluate, manage and control risks and opportunities. Scenario techniques are also used increasingly for planning purposes.

Over the course of the year we track the opportunities and risks identified in relation to the planned result with the help of the quarterly Opportunity and Risk 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 positive and negative variations, i.e. opportunities and risks, 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 opportunities and risks 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 categories and individual risks

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

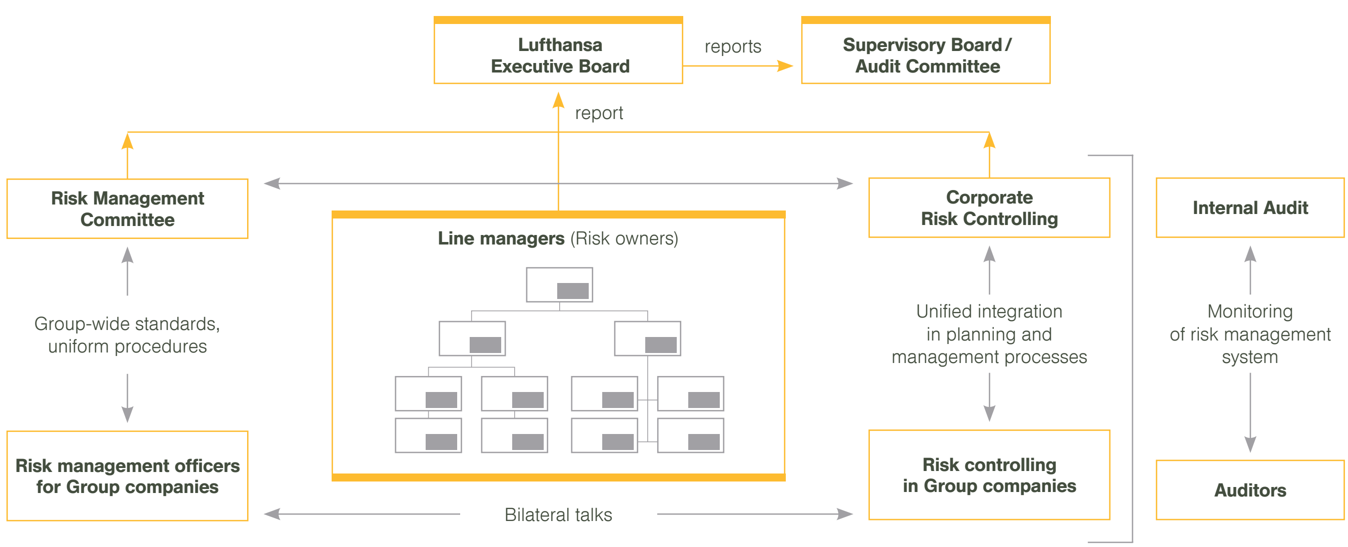
### Macroeconomic opportunities and risks

The global economy has so far recovered faster than expected from the fall in production that took place in 2008 and 2009. Thanks largely to the rapid pace of growth in the emerging Asian economies it will also continue to recover, albeit at a somewhat slower rate. Further details on past and forecast economic performance can be found in the chapters “Macroeconomic situation” from p. 54 and “Macroeconomic outlook” from p. 145.

In view of its worldwide operations, Lufthansa is heavily exposed both to global and regional macroeconomic developments. Of great significance is growth in gross domestic product (GDP) in the different economic regions of the world. Often, this in turn determines growth in demand for air transport. For example, based on historical data GDP growth of 1 per cent is positively correlated with growth of around 1.5 per cent in passenger air traffic in mature markets and up to 2.5 per cent in the growth markets of Asia, Latin America and Eastern Europe.

If the forecast of economic growth, even of slower growth, should turn out to be mistaken, there is a risk that demand for air transport services will be lower than planned.

**Risk management at Lufthansa**



This is particularly relevant if the slow rate of economic growth in the USA remains below expectations. Given the developments in demand at the airlines in the Group, new orders in the other business segments would then also be expected to turn out lower than originally planned for 2011. Their different business models mean that the segments' results would be affected to a different extent and at different times, however.

Changes in global economic growth rates regularly lead to changes in parity between currencies and in interest rates. For the effects and the management of these risks we refer to the section "Financial opportunities and risks" from p. 139 of this report.

Economic performance, especially in the Asian growth markets, will also have a considerable effect on demand for oil and therefore on price movements for the aircraft fuel kerosene. There is a risk that the rise in fuel prices may be steeper than growth in demand in Lufthansa's main markets. Compared with unhedged competitors, however, our fuel hedges give us the opportunity of profiting from these hedging transactions should fuel prices rise. Further explanations of the principles and effects of fuel hedging can be found in the section "Financial opportunities and risks" from p. 139.

**Sector-specific opportunities and risks**

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

Buoyed by macroeconomic trends, international air passenger traffic also recovered faster than expected in 2010. Here too it is likely that the dynamic pace of growth will cool. According to IATA forecasts the increase in worldwide passenger demand is set to revert to its long-term mean of around 5 per cent in 2011. These predictions of future demand trends are nevertheless subject to considerable uncertainty. More details can be found in the chapters "Sector developments" from p. 56 and "Sector outlook" from p. 146.

As well as demand trends it is the development of airlines' available capacities that have a decisive influence on the risk profile of the industry. The number of new aircraft ordered, especially by fast growing airlines from the Gulf region and Asia, as well as those reactivated after lay-ups, point to overcapacities which will increase pressure on load factors and average yields. Airlines' competitiveness under these conditions depends primarily on how fast they can react to changes in demand.

In this environment, keeping costs variable is a decisive competitive factor. Top of the list is the flexibility to adjust aircraft capacities to potential changes in demand. Our far-sighted order policy, with phased orders for new aircraft and the option of replacing a number of older aircraft at any time with new deliveries, enables us to follow demand by adjusting capacities. As the majority of the aircraft are unencumbered and have partly been depreciated already, they can be grounded temporarily if necessary at short notice and without high residual cost.

All the business segments in the Lufthansa Group operate in highly competitive markets. The subsidies that can be observed in many quarters could distort competition to the detriment of Lufthansa. Competitors also keep developing, influencing both European and international markets with new business models and cheaper cost structures for instance. The companies in the Lufthansa Group respond above all with customer-focussed, high-quality products and services. This is discussed in detail in the comments on the individual "business segments" starting on p. 78.

The ability to make constant improvements to the cost structure is vital if we are to stay ahead of the competition. In the Lufthansa Group we achieve this by setting up and executing programmes to safeguard earnings as required and at the same time by constantly reducing the cost base of our everyday business and making it more flexible. Costs at Lufthansa Passenger Airlines are to be reduced sustainably by EUR 1bn by the end of 2011 on the basis of the Climb 2011 programme; see p. 85. The turnaround of Austrian Airlines and bmi and the use of resulting synergies should enable these companies, too, to make a positive contribution to earnings and value creation in the short to medium term. All other Group companies are also executing extensive cost-cutting measures. As with all measures aimed at reducing risks, there is also a risk that the effect of these steps on earnings may be delayed. The planned effect on earnings of EUR 1bn from Climb 2011 alone makes clear the economic significance of implementing the measures systematically.

International competition is increasingly developing into a competition between entire systems of airports, air traffic control organisations and airlines. This is because these players have a considerable effect on the efficiency of the whole value chain at a given location and thereby on the competitiveness of the airlines stationed there. The significance of the infrastructural environment extends not only to the necessary capacities but also to seamless processes and competitive cost and price structures. By bringing us together with our partners at airports, air traffic control organisations and public authorities, the Air Traffic for Germany initiative has created a common platform to secure and develop Germany's position as an air traffic location. The extension of the runway and terminal systems at Frankfurt and Munich airports is a key condition for maintaining their current positions as leading air traffic hubs. This applies all the more in view of the megahubs being built elsewhere in the world, which aim to attract global traffic flows by means of low-cost structures. For Lufthansa on the other hand, the expansion of its domestic hubs offer the opportunity of implementing extensive product and process improvements, thereby increasing its own competitiveness, provided that the productivity and cost targets are set in line with competitive demands.

Bottlenecks in the fragmented European air traffic control system are also a serious problem. They still result in considerable delays to air traffic, unnecessary detours, holding periods, increased fuel consumption and avoidable emissions. These deficits have a negative impact both on the economic performance of all European airlines and on the environment, as well as jeopardising growth in air traffic. Lufthansa and its competitors are therefore continuing their demands for the European Commission and national governments to create an effective European air traffic control system in the immediate future. For the progress made in this respect see also p. 58.

Open skies agreements, like the one between the USA and the EU, create both opportunities and risks for Lufthansa. Unrestricted access to each other's airspace for airlines from the EU and the USA will add considerably to competition in transatlantic traffic and increase pressure on prices. At the same time it will give rise to new potential in neighbouring markets, which Lufthansa intends to watch closely and use to the best advantage. The joint venture Atlantic++ also opens up new revenue opportunities, by for instance coordinating flight timetables, integrating sales programmes and agreeing on common pricing. At the same time, increasing complexity, in revenue sharing for example but also in coordination between carriers, gives rise to new risks, which are identified, managed and reported in the Atlantic++ project work.

In this competitive environment alliances and more in-depth forms of cooperation play an increasingly important role. Star Alliance remains the leading association of its kind, with the broadest scope worldwide. Lufthansa adds to this scope by developing and joining specific regional cooperation groups. Further information on the development of the Star Alliance and on Atlantic++ can be found in the chapter "Passenger Airline Group" starting on p. 78.

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

### Legal risks and contingencies

Laws and changes to national and international regulations can also have a decisive effect on Lufthansa'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 markets and competition law. The latest legal changes which could affect the course of Lufthansa's business are described in the chapter "Regulatory and other significant factors" from p. 58. There is also a risk of contravening competition regulation. Lufthansa runs a compliance programme, which is described in detail in the chapter "Corporate Governance" on p. 44.

### Political, geopolitical and regulatory risks

Geopolitical events such as wars, terrorist attacks or environmental catastrophes continue to have a considerable influence on the airline industry. But political decisions – especially at national and European level – can also have wide-reaching effects. This is particularly true when these affect competition, as with subsidies or one-sided burdens for certain market participants.

The air traffic tax introduced in Germany as of 1 January 2011 is just such a massive intervention in the field of fiscal policy. The tax is levied on flights leaving Germany and depends on the distance flown. A flight of up to 2,500 km is charged at EUR 8, a flight of up to 6,000 km pays EUR 25 and long-haul flights above 6,000 km cost EUR 45. International transfers and cargo flights are exempt from the tax. Although some effort has been made in this way to accommodate Germany's air transport structures at least, German air traffic and its export and tourism sector will be affected by the decision. Altogether the federal government expects the tax to generate revenue of EUR 1bn a year. Similar national taxes exist in the UK, France, Ireland and Austria. Other countries, such as the Netherlands, have swiftly abolished this kind of tax following significant adverse macroeconomic effects, or have done away with plans for introducing one. The international consensus that air traffic internalises its external costs by means of infrastructure fees is losing further ground with these unilateral additional burdens.

Something similar is happening with the EU emission trading scheme that begins on 1 January 2012 and which represents a regional regulatory approach to a worldwide problem in a global industry. Even if it includes all airlines flying to the European Union, it still punishes European competitors much more severely than non-European companies. More information on the subject can be found on p. 58.

There are further risks in connection with environmental matters. A more restrictive regulation of night flights, especially at Frankfurt Airport for instance, could have a negative impact on earnings development and growth prospects at this hub. For available capacities to be used economically and in line with demand, a practicable arrangement for night flights at Frankfurt Airport is indispensable. See p. 59 for the current status.

In addition to the environmental rules and regulations mentioned, it will be necessary to deal with increasingly robust consumer protection regulation in the years ahead. As a full-service carrier, most of the standards under debate are already a matter of course for Lufthansa, however. One particularly critical point is if European regulation does not lean towards internationally accepted norms, for example in the area of denied boarding compensation or in responsibility for flight irregularities, and this exerts one-sided discrimination against the European industry in global competition.

Environmental risks can also materialise suddenly and without warning. One such case occurred in spring 2010 with the closure of broad swathes of European airspace owing to the possible spread of volcanic ash. In order to respond appropriately to similar scenarios in future, a crisis coordination point has been created at European level, the ICAO Volcanic Ash Contingency Plan for Europe updated and better coordination processes initiated among the EU members states. The ICAO Volcanic Ash Task Force is involved in refining global standards for the applicable procedures and defining limits. Together with other airlines, Lufthansa is striving to be given more decision-making authority. Comprehensive information about atmospheric conditions would enable independent, decentralised decisions on whether flight operations should be maintained or suspended.

To counter these risks effectively, Lufthansa carries out extensive political risk management and is a member of numerous associations, where Executive Board members are mostly represented in decision-making bodies. To make the work of air traffic industry associations even more efficient and effective, the Federal Association of the German Aviation Industry was established at the end of 2010. It brings together airlines, air traffic controllers, manufacturers and airports and is likely to start work in mid 2011.

**Company-specific opportunities and risks**

The recent economic crisis has accelerated the pace of structural market shifts. Although a clear recovery is visible in intercontinental traffic, travel and booking patterns in European traffic have changed permanently. It cannot be assumed that average yields here can be lifted back up to their pre-crisis levels in the short term. Lufthansa's response is a corresponding structural adjustment to its formation in European traffic and a reduction in unit costs, for details see the chapter "Passenger Airline Group" p. 85. Productivity improvements lead to an increase in capacity. Progress is being monitored closely towards the target of cutting costs by more than the predicted fall in average yields. If necessary the capacities offered will be adjusted within predefined parameters when certain thresholds are reached.

The success of a network carrier with global operations depends largely on its worldwide, closely meshed route network. Together with the companies in the airline group and our Star Alliance partners, we give our customers access to the largest flight network in the world. Systematic airline group and alliance management enables risks to be identified at an early stage and opportunities used effectively. We are well placed in the growth markets of Asia, and in Africa, too, the Lufthansa Group's positioning has been improved decisively by the networks of SWISS and Brussels Airlines. We believe we still have good development prospects in both regions. In Latin America our formation has been improved substantially with the accession of TAM to the Star Alliance and the planned membership of Avianca-TACA and Copa. Should the planned merger between TAM and Oneworld member LAN Airlines come to fruition, a decision would need to be taken on which alliance the new company should belong to. Extended cooperation in the growth region Latin America offers high growth potential for Lufthansa.

Lufthansa has played an active role in the consolidation of the industry. The expansion of the Passenger Airline Group reinforces the airline profile in Lufthansa's portfolio. It also means that risks specific to the airline business, such as pressure on average yields and oil price movements, become more important for the Group.

Lufthansa continues to invest in renewal and growth. The Group's order list at year-end alone includes 155 aircraft to renew and expand the fleet. Varied investment decisions need to be taken early so that market opportunities can be exploited tomorrow. Risks arise from the generally volatile environment of the sector.

Despite this, global market opportunities are to be expected based on the sector's forecast growth path. Strategic opportunities are made available to us thanks to our alliance partners with their sites in the various regions of the world and to enhanced cooperation in transatlantic traffic. Risks can ensue from shifts between different alliances or in the broader operating environment. We are pursuing the customer-focussed, 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 implementation of the airline group strategy depends largely on the extent to which synergy potential can be realised in the airline group and the new partners Austrian Airlines and bmi can be brought back to profitability. The opportunities for the group are to be seized by further extending the scope of cooperation. When integrating new partners, risks, but also opportunities, can arise from the operating performance and financial profile of the companies in the current and future market environment. Past experience, particularly with SWISS, is incorporated into the integration activities. An Airline Development Board has been established to advance the airline group, which, as well as the Executive Board of Deutsche Lufthansa AG, includes the CEOs of the group airlines.

Other consolidation projects have been reviewed in past years but were not pursued due to a lack of financial credibility and strategic prospects. In the North Italian market on the other hand, we set up our own flight operations in 2009 under the brand name Lufthansa Italia. The risks here lie partly in the further development of the local market and the competitive conditions. In early 2011 the operations in Italy were merged into their own unit.

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 strategic business segment Passenger Airline Group. The prospects for Lufthansa Cargo in Frankfurt are also subject to the specific risk of an impending ban on night flights.

### Staff

The staff situation in 2010 was characterised by the unusually swift changes in the macroeconomic environment as well as hitherto unknown sudden crises. The Group's employees have passed these stress tests successfully – not least thanks to the skill and efforts of all the staff. The speed and effectiveness of reaction are still risk factors, however, which we are working on by further extending arrangements to make staff allocation more flexible.

One increasing challenge for human resources is to make a greater distinction in the Group between the use of long- and short-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, see also the chapter "Employees" from p. 120. At the moment for instance, staff capacity in the administrative areas particularly needs to be reduced. Some companies in the Group, such as Austrian Airlines, bmi or Lufthansa Systems, are currently confronted with wide-ranging restructuring programmes. Redundancies are always only a last resort, but are nevertheless sometimes unavoidable. Our approach is defined by a clear preference for a social balance and an active internal placement policy within the Group. This also benefits our reputation in the labour market. It helps us to build up staff capacity again quickly in other areas of the Group. In the reporting year the situation in flight operations at Lufthansa Passenger Airlines reverted to growth, producing a substantial hiring requirement. Here the strategy pays off of working to professionalise human resources systems at times of economic weakness, in order to prepare them for the subsequent upturn. We make good use of our modern systems and methods in personnel marketing and staff development to meet our 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.

Further classical human resources risks exist in the area of collective bargaining and codetermination. They are concentrated in the sphere of wage settlements and 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 we try 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 2011. In addition to the damage it does to Lufthansa's image as a dependable service provider, strike action also entails the risk of considerable revenue losses and additional costs.

Since the beginning of 2010 an employers' federation (Arbeitgeberverband Luftverkehr, AGVL) has been responsible for collective bargaining on behalf of the Group. This 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 achieve better representation in umbrella associations.

The rulings of the Federal Labour Tribunal have departed from the principle of uniform collective bargaining, creating legal uncertainly 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 corresponding effects on the company and the wider economy.

Employees' qualifications are a decisive competitive factor, as is staff development aimed at creating a high-performance management team. The scope of our risk management in this respect can be judged by investments in education and training amounting to EUR 189m in 2010 in addition to our sophisticated, sustainable staff development instruments.

We have retained our philosophy of decentralised management following the expansion of the Group's investment portfolio. Our diversity culture contributes to ensuring that all our employees remain keen to give their best.

If risks should arise again from epidemic hazards, professional medical services and detailed pandemic plans are at the ready.

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 Lufthansa are supported by appropriate 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 and support needs 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 training courses. In this way we can maintain a high level of IT security and guarantee that risks are reduced in an economically reasonable manner. The risk and security management systems and selected other measures are regularly reviewed by the internal audit department.

Data protection is particularly important in this context. 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 the department Corporate Data Protection ensures that the Lufthansa Group complies with the provisions of the Federal Data Protection Act by advising the operating departments, 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.

The use of modern information technology, for example in mobile customer services or paperless travel, offers us the opportunity to differentiate ourselves from the competition, while all the time reflecting the premium positioning of the Lufthansa Group. Innovative IT solutions for internal processes, such as crew management or revenue management increase efficiency and effectiveness.

### Quality

Rapid growth in passenger numbers and flight movements is expected for 2011. This represents a risk for the stability of flight handling, especially as an adequate infrastructure, such as the new runway and the terminal extension at Frankfurt Airport, is not yet available. Lufthansa 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. The recruitment bottleneck at German air traffic control is expected to persist in 2011 for example.

### Communications

Like any large company, Lufthansa is also exposed to communications risks. Corporate Communications and Investor Relations ensure 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 Lufthansa's financial statements, as for all publicly listed companies in Germany. Incorrect accounting can give rise to risks. The organisation of our bookkeeping methods ensures that in our accounting and the preparation of our financial statements the national and European regulations and statutory provisions are applied. Information on this subject can be found in the chapters "Corporate Governance" on p. 43 and "Description of internal control and risk management system" from p. 143 as well as in the "Notes to the consolidated financial statements" from p. 156.

### Tax risks

Tax risks include the risks of a tax inspection. These mainly relate to impairment losses recognised before 2008 on shareholder loans to various domestic and foreign Group companies. Further risk-carrying topics for discussion with the tax authorities that include a risk exposure are individual leasing structures, the treatment of income from special investment funds and various provisions.

Adequate provisions have been recognised in the financial statements for these risks. Adding foreign airlines 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).

### Operational risks

Like all airlines, Lufthansa is 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.

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. Lufthansa searches 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 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. Lufthansa's safety management system can thereby reduce Lufthansa's 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 system to be improved and refined continuously.

## Financial opportunities and risks

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 a systematic financial management. We use suitable management and monitoring systems to do this, with which we measure, control and monitor the risks. The functions of trading, settlement and controlling of financial risk are strictly separated at an organisational level. Lufthansa uses internal guidelines which are laid down by the Executive Board and permanently developed. The Group Financial Risk Controlling and Corporate Audit departments monitor compliance with 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 at risk. Detailed information on currency, interest rate and fuel hedges can be found in the Notes to the consolidated financial statements "Note 46" from p. 200.

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 the Lufthansa Group; see also p. 60.

The main aim of fuel price and currency hedging is to reduce earnings volatility. This is achieved by forming averaging prices by means of layered hedging. Interest rate hedging has the aim of reducing the cost of interest and minimising fluctuations in interest expense at the same time. All 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 we only work with counterparties that have at least a long-term "BBB" rating or similar.

Lufthansa's ratings were downgraded by the ratings agencies Moody's and Standard & Poor's in 2009. The result was a split rating, with one of investment grade and one of non-investment grade, but this has not made financing terms tangibly more expensive. If in future a rating agency were to downgrade the credit rating again, in particular if Standard & Poor's were 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. We are not currently anticipating a downgrade, however. On the contrary, Standard & Poor's lifted its outlook for the Lufthansa rating to "stable" at the end of 2010. For the current assessment of the rating agencies see also p. 77.

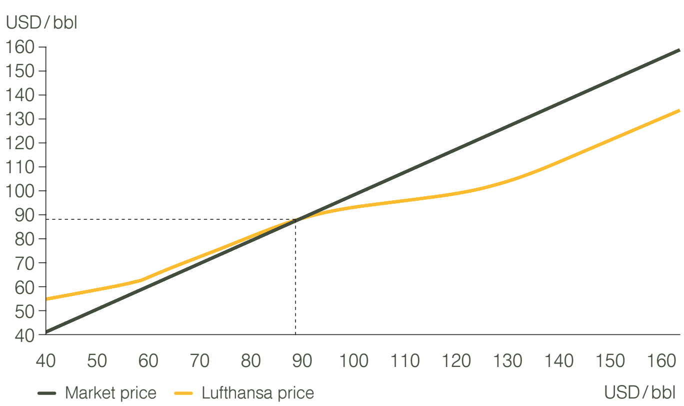
**Fuel price risks**

In the reporting year the Lufthansa Group consumed around 9 million tonnes of kerosene. It is a major item of expense, making up around 17.8 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 2011 would increase (reduce) fuel costs for the Lufthansa Group by EUR + 175m (EUR – 236m) after hedging.

Lufthansa therefore hedges fuel prices in a value-based approach with a time horizon of up to 24 months. This is aimed at reducing fluctuations in fuel prices. The hedging level and the time horizon depend on the risk profile, which is derived from the business model of the Group company concerned. The hedging policy and structure shown in the graph are applied to Lufthansa Passenger Airlines, SWISS and the scheduled operations of Austrian Airlines.

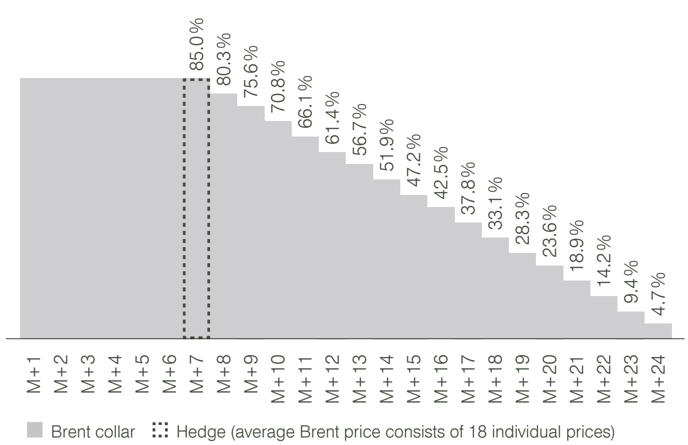
We use standard market instruments for fuel hedging and hedge fuel price risks with a lead time of up to 24 months, mostly by means of combined options. Hedges are mainly in crude oil for reasons of market liquidity. The hedging transactions are based on fixed rules and map the average of crude oil prices over time. Depending on the company in the Group, up to 85 per cent of planned fuel consumption is hedged on a monthly basis. For Lufthansa Passenger Airlines for instance, the six months following a given date are hedged to 85 per cent. At the beginning of February there were crude oil and kerosene hedges for 72 per cent of the forecast fuel requirement for 2011, in the form of futures and options. For 2012 around 29 per cent of the forecast fuel requirement was hedged. 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 current level, expenses for the Lufthansa Group would go down from EUR 6.6bn as planned at present to around EUR 5.9bn. The earnings improvement that this would bring would 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 already accounted for in the currency exposure, however.

**Oil price scenario 2010 for the Lufthansa Group 2011 ***




* As of 1.2.2011.

**Lufthansa's hedging policy** Medium-term crude oil hedging



### Currency risks

International ticket sales and the purchase of fuel, aircraft and spare parts give rise to foreign currency risks for the Lufthansa Group. All subsidiaries report their currency exposure to the Group over a 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 69 currencies in the Lufthansa Group, 22 positions are hedged. The main currencies are the US dollar, the yen and sterling. 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 46" from p. 200.

### Liquidity, financing and interest rate risks

Securing sufficient liquidity at all times is a vital task for Lufthansa'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, Lufthansa always holds strategic minimum liquidity available at short notice of EUR 2.3bn, as defined in its financial strategy. As of 31 December 2010 the Group held total liquidity of EUR 5.6bn. At year-end Lufthansa also had access to unused bilateral credit lines for a further EUR 1.9bn.

Lufthansa will continue to have a regular borrowing requirement in order to make the investments planned for the years ahead. Especially due to its financials strength and its position in the market, banks and investors still consider Lufthansa to be a preferred partner. We rely on a strong, sustainable profile to ensure that this remains the case. Our financial profile and the pillars of our financial strategy are presented in detail in the chapter "Financial strategy" on p. 53 of this report.

Interest rate risks arise from financing our business. As of 31 December 2010 total outstanding financing came to EUR 7.2bn. To manage general interest rate risk Lufthansa uses the synchronous fluctuations in the operating result, which depends on the economic cycle, and short-term interest rates (natural hedge). This means that 85 per cent of financial liabilities are either at floating rates from the outset or are swapped into floating rates using derivatives. This also enables Lufthansa 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 interest rate swaps and cross currency swaps. Additional information can be found in the Notes to the consolidated financial statements "Note 46" from p. 200.

### 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 we can 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 as well as from monitoring the prices of corresponding credit default swaps (CDS). 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. We track the performance of receivables closely at the level of the Group and the individual business segments. Preventive measures are also taken. Passenger and freight documents are largely sold via agents, whose credit rating is 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. Furthermore, payment targets with some credit card companies have been significantly reduced to lessen default risk.

Additional information and the credit risk positions existing at year-end 2010 can be found in the Notes to the consolidated financial statements "Note 46" on p. 203.

### Market risk from capital investments

Capital investments at Lufthansa are managed as part of the operating and strategic liquidity. The Lufthansa Pension Trust also makes capital investments.

The risks mainly consist of potential price changes for shares, fixed-income securities and interest rates, as well as credit risks. A risk management system monitors each component of the capital investments individually and enables action to be taken as necessary.

Capital investments to ensure Lufthansa'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 Lufthansa mainly uses money market funds which can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities, especially commercial papers, from creditworthy issuers. Investments must be with counterparties which have a rating of at least BBB.

Only 20 per cent of investments for operating liquidity may be invested with counterparties with less than an A– rating. Investment in money market funds may not exceed 10 per cent of the fund's total assets. In 2010 the particular challenge was to outperform the benchmark EONIA (Euro OverNight Index Average) sustainably despite the low returns from money markets.

We have determined the investment structure of the strategic minimum liquidity for the Lufthansa Group using a stochastic allocation study. It was based on the liquidity requirements and our conservative investment principles. The majority of these investments are in money market-related products. 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 individual investment guidelines derived from the general Lufthansa investment principles. The asset allocation is reviewed regularly and adjusted as necessary. The experience of last year's crisis in particular has led to an even greater focus on liquidity and counterparty risks.

Lufthansa is in permanent contact with the asset managers concerned and monitors their performance by means of daily and monthly performance and risk reports. In 2010 the strategic liquidity achieved a return of 1.1 per cent.

The Lufthansa Pension Trust makes its investments according to an allocation study, which was updated in 2010. Here too, Lufthansa's conservative investment principles are paramount and form the basis for the individual asset managers' specific investment guidelines. We follow 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 which enables risk management on a daily basis. The hedges taken out during the financial crisis were completely unwound by the end of 2009, so we were able to participate accordingly in the recovery of global financial markets during 2010.

The scheduled contribution to the pension fund was made in the first half of the year by transferring 8.5 per cent of the shares in Fraport and in the second by a cash contribution. The pension assets earned a return for 2010 of 6.9 per cent.

## Overall statement on the risk situation of the Group

The opportunities and risks for the Lufthansa Group will be defined very largely by macroeconomic factors and their subsequent effects on global air traffic markets and competition. Past experience shows that developments in external parameters are subject to great uncertainty. We currently anticipate that the global economy will continue to perform well, albeit at lower growth rates. As a result of the financial and economic crisis a tangible forecast risk can be observed for assessments of future economic developments. In the future greater volatility is expected than has been previously observed. The assumed growth in global passenger and cargo demand is therefore subject to considerable opportunities and risks for Lufthansa. An increase in fuel prices remains a substantial risk. The additional burden of the air traffic tax that has been adopted in Germany and Austria means that additional fuel costs will not be able to be passed on in full. This is exacerbated by the fact that declines in sales in the price-sensitive segment as a result of the tax are probable. Furthermore, additional regulatory intervention in airfreight traffic is possible as a result of the debate on the safety of airfreight. These risks are mirrored by the corresponding opportunities if the parameters of demand, average yields and fuel price develop better than expected.

In this environment Lufthansa is relying on its ability to adjust its capacities and resources flexibly to changing market conditions and to cut costs. Despite better-than-expected demand and revenue trends and the modest rise in fuel prices, Lufthansa is standing by the implementation of the programmes to safeguard earnings, also as part of the Climb 2011 programme. In other business segments the steps to improve earnings will also be continued. This applies particularly to the restructurings of Austrian Airlines and bmi, which are not yet completed.

Thanks to the good performance in 2010 and the currently bright economic outlook, the financial risks have abated, particularly that of losing the investment grade rating completely and counterparty risk.

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

## Description of internal control and risk management system in accordance with 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 at the Lufthansa Group 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 of Deutsche Lufthansa AG, the Corporate Audit department of Deutsche Lufthansa AG and 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 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.

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 (identification, analysis, evaluation), risk management and risk communications (documentation and internal communications) and monitoring these activities.

The risk management system is a component of the internal control 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.

**Principle structures, processes and controls**

The Lufthansa 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. 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-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**

Book-keeping for the individual financial statements of subsidiaries of Deutsche Lufthansa AG generally takes place in local book-keeping systems from SAP. To prepare the consolidated financial statements for Deutsche Lufthansa AG the separate financial statements of the subsidiaries are supplemented by additional information to form standardised reporting packages, which are then entered into the consolidation software SAP SEM-BCS by the subsidiaries 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.

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 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.

# Forecast

↗ The global economy is expected to continue its recovery in 2011, albeit at a moderate and regionally varying rate. ↗ For the air transport industry this will mean divergent demand trends. ↗ The oil price constitutes a significant element of uncertainty. ↗ Lufthansa is well positioned to seize opportunities as they arise and increase revenue and earnings still further. ↗ Value should be created again in 2011.

## Macroeconomic outlook

**GDP development**
Forecast 2010 to 2014 compared with previous year

| in % | 2010* | 2011* | 2012* | 2013* | 2014* |
|---|---|---|---|---|---|
| World | 4.1 | 3.7 | 3.8 | 4.0 | 4.2 |
| Europe | 2.0 | 1.9 | 2.0 | 2.2 | 2.4 |
| Germany | 3.6 | 2.7 | 2.0 | 1.7 | 1.8 |
| North America | 2.9 | 3.1 | 2.9 | 3.1 | 3.3 |
| South America | 5.6 | 4.5 | 4.5 | 4.5 | 4.8 |
| Asia/Pacific | 7.0 | 5.3 | 5.7 | 5.9 | 6.1 |
| China | 10.1 | 9.5 | 8.8 | 8.9 | 8.8 |
| Middle East | 4.1 | 5.4 | 5.3 | 4.9 | 4.7 |
| Africa | 4.6 | 5.1 | 5.0 | 4.8 | 4.8 |

Source: Global Insight World Overview as of 14.1.2011.
* Forecast.

### Modest global economic growth expected for 2011

International economic recovery is forecast to continue in 2011, albeit at a reduced rate, so that the global economy is expected to expand moderately. One of the reasons for this is that the situation on financial and property markets in industrialised countries remains tense. Another is that the emerging economies, which have hitherto acted as the engine of the global economic revival, are expected to see their growth prospects darken slightly. There is concern for example, that the breakneck development of property prices in China may come to an abrupt end. At the same time, many industrial countries have a national debt that has swollen rapidly, and are now confronted by the challenge of reducing this with saving measures. Global trade will continue to increase, albeit at a reduced pace. Inflationary pressures should remain moderate.

Overall, the global economy is forecast to grow by 3.7 per cent in 2011, rising again slightly the year after.

The economy in the USA is expected to brighten gradually in 2011. There are many indications that investment will pick up again, buoyed by very low interest rates and a loose monetary policy. Restrained consumer demand will not help, however, as private households repay their debts or are hit by high unemployment. Given the continued existence of these structural problems, a robust upturn is currently not in sight. Altogether, growth of 3.1 per cent is forecast for 2011, which should decrease somewhat in 2012.

The economic dynamo will generally keep on spinning in the Asian economies. The expectation is nevertheless that growth will slow somewhat as global trade cools down. Domestic demand appears to be increasing at the same time. The fiscal and economic policy measures taken in China are intended to rein in growth. The Chinese economy should grow by an estimated 9.5 per cent in 2011. Japan's economic performance in 2011 is likely to be hampered by the strong yen and a weaker external economic environment. Growth of around 1.2 per cent is forecast. For the Asia/Pacific region overall, growth of 5.3 per cent is expected, trending slightly upwards the following year.

The forecast for the euro area is that governments' fiscal consolidation measures will dampen demand. In some member states the persistent problems on property markets will also weigh on private investment. For these reasons, economic performance in the euro area will be mixed in 2011 too. A spirited recovery can still be expected for the member states in Northern Europe, but economic performance is set to be sluggish at best in the peripheral countries Greece, Spain and Portugal. These countries have distinct problems with their real economies and the repair of government budgets means that any solutions will be slow in coming. Overall growth of 1.9 per cent is predicted for Europe in 2011, which is to increase slightly thereafter. Germany will continue to play a key role for European growth, but the rapid growth rate in 2010 is unlikely to be repeated in the new year. Further growth is still expected nevertheless and is forecast at 2.7 per cent for 2011.

**Interest and exchange rates remain volatile**

The level of public borrowing in the euro area and uncertainty concerning economic developments in the industrial countries will entail that foreign exchange markets stay highly volatile. Considerable volatility is also expected again for interest rates in 2011, with yield curves continuing to exhibit a moderate upward slope. This applies particularly if indications of a rise in prime rates should intensify in the second half of the year.

**The development of oil prices remains uncertain**

On the basis of a continued worldwide economic recovery, rising demand for crude oil is predicted, especially from the developing countries in Asia and Latin America. In this scenario we assume that short- to medium-term prices will stabilise at their current high level or continue to rise. Political developments, in the Middle East for example, may push up prices, but so may non-fundamental factors such as speculative investment by funds and hedge funds.

## Sector outlook

**Airline industry expects moderate growth in demand in years ahead**

In line with the positive economic trend, modest growth is expected for the airline industry in the years ahead. IATA is predicting growth in international passenger traffic for 2011, which at around 5 per cent is likely to revert to the long-term mean. Up to 2014 the average growth rate for international traffic should be 6.1 per cent per annum according to IATA. This would put growth in international air traffic at twice the level of forecast global economic expansion of 3 per cent per annum up to 2014, which corresponds to the two figures' historical ratio.

**Regional developments still differ greatly**

Regional trends in markets will continue to differ widely in future. According to IATA the fastest growth in international passenger traffic in the period 2010 to 2014 is expected in the Middle East. International passenger traffic in the Asia/Pacific region is also forecast to expand rapidly. Strong economic growth and further liberalisation of the air traffic market have made Asia a key driver of passenger traffic for the coming years. Relative to this, more modest growth rates are predicted for the European and North American markets.

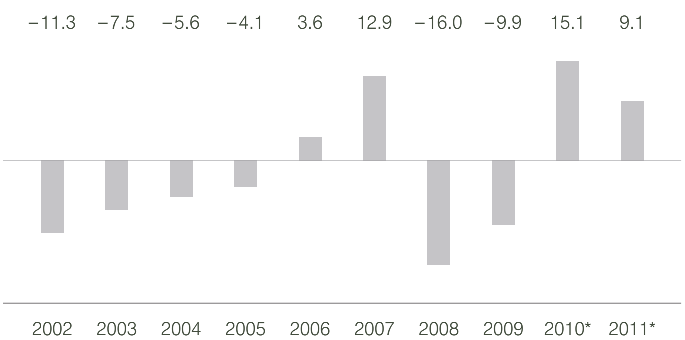
**Growth rates for airfreight returning to normal**

After a lightning recovery in 2010, growth in airfreight traffic will lose some of its drive in the years ahead. The IATA forecast is for global airfreight demand to revert to its long-term mean of around 6 per cent per annum from 2011. This would be somewhat lower than the expansion of world trade, which has historically always grown at a similar rate to international cargo traffic. The reason is that airfreight already benefited considerably in 2010 from industry's urgent need to replenish its stocks. It is too early to say whether and to what extent the tighter controls of airfreight shipments in Europe and the USA will have an effect on the earnings prospects of the airfreight sector.

**Profits for the sector expected to decline in 2011**

In view of rising fuel prices, additional capacity on the market and a hesitant recovery in pricing, IATA is expecting last year's profit of USD 15.1bn for the sector to fall to USD 9.1bn in 2011. The positive result is largely predicted to stem from airlines in Asia/Pacific, with profits of USD 4.8bn. Airlines from North America, the Middle East and Africa will see a slight fall in profits compared with last year, but still report positive earnings. European airlines are expected to break even in 2011. On the German market the introduction of the air traffic tax from 2011 represents an additional burden for German airlines and diminishes their competitiveness in comparison with their international competitors. No-frills airlines operating in the price-sensitive segment will be particularly hard hit.

**Development of sector net result** in USD billion




Source: IATA Financial Forecast (12/2010). * Forecast.

## Changes in business and organisation

The airline industry is in a state of constant change. Lufthansa continually refines its strategy accordingly and reviews its organisational structure at the same time. Where necessary, it is adjusted in line with the changes in market conditions. In conjunction with the change of CEO effective 1 January 2011, some alterations were therefore also made to the internal regulations. Lufthansa Passenger Airlines have also revised their organisational structure and aligned it even more closely with customers and competitors, see p. 87. The new board responsibilities will apply there from 1 April 2011. The IT Services segment is undergoing restructuring, which will also include organisational changes. Details of the organisational developments in the business segments and their financial, product and other developments can be found in the relevant chapters.

## Outlook for the Lufthansa Group

**Adaptation to uncertain environment is necessary**

Lufthansa resumed its course of profitable growth in 2010. In recent years the Group has shown that it is more stable than the competition at times of economic difficulty and can quickly seize and exploit opportunities arising from the upturn. Lufthansa will continue to benefit from these abilities in the years ahead. The pace of further economic developments is by no means clearly distinguishable, however. Overall, we are nevertheless assuming further economic growth, see p. 145, which will induce a corresponding increase in demand in our business segments. Headwinds are expected to come from the resurgent oil price and from intense competition, to which all companies in the Group are exposed. The outlook for the individual business segments is described in more detail in the relevant chapters from p. 78.

At Group level the collective bargaining talks which are due to start again in 2011 could either help or hinder future development. Our objectives are focussed on constructive discussions and reasonable wage settlements that let staff share in profitable growth, but do not preclude it, and help the Company to develop for the benefit of all stakeholders. The steps to increase efficiency in all segments and – where necessary – to carry out essential restructuring, will be pursued unchanged.

**We expect further revenue and earnings growth**

For the financial year 2011 we are expecting revenue growth to continue overall and a further improvement in the operating result. If the economy develops as forecast and the course of business is not undermined by a disproportionate increase in fuel prices or other unforeseeable factors, it can be assumed from a current perspective that revenue and earnings will develop positively in 2012 too. The extent to which the planned air traffic tax will lead to a downturn in demand remains difficult to predict, however. We are nevertheless upholding our ambition of taking a leading position in the airline industry in terms of profitability and sustainable value creation.

The positive performance forecast will also be reflected in net profits and earnings per share. As these are subject to many influences and the effects of reporting dates, they cannot be quantified more precisely at present, however. We are nevertheless already assuming that the conditions for paying a dividend for the 2011 financial year should be met as well.

**We will continue to strengthen our financial profile**
The gratifying earnings progression will continue to have a positive effect on Lufthansa's financial profile. Despite the capital-intensive fleet renewal programme we again anticipate generating free cash flow over this year. We are currently forecasting capital expenditure of EUR 2.6bn in total for 2011.

In view of the cash available and cash flow generation it will not be necessary to touch the defined minimum liquidity of EUR 2.3bn. Lufthansa's assets are sound and the majority of the fleet is owned and unencumbered. The equity ratio will come even closer to or even attain its target of 30 per cent. Gearing will remain in the target corridor of 40 to 60 per cent. The recently introduced debt repayment ratio, see chapter "Financial strategy" p. 53, will also be on target. This will reinforce our credit ratings, which should also be reflected in the rating agencies' comments.

**Lufthansa intends to continue with value creation in 2011**
The demands of our investors and lenders are reflected in our concept of value-based management using cash value added (CVA); see p. 48. We aspire to generate sustainable value in the form of positive cash value added over the course of the air transport cycle. After it had not been possible to create value in the crisis year 2009, we were able to achieve a positive CVA again in the first year of recovery. We intend to generate another positive CVA in 2011 and this will enable us once more to fulfil the most challenging objective on our path of profitable growth.

## Overall statement on the expected development of the Group

**Lufthansa combines vision with flexibility and continues its profitable growth**
We consider the outlook for the Lufthansa Group to be very positive. Recent years have shown that the Group's set-up offers greater stability at economically difficult times, combined with strong earnings power in the upturn. This will enable the Group to continue deriving the most benefit from the enormous growth potential of the airline industry.

The Group combines a far-sighted strategy with operational adaptability and secures its development by means of a strong financial profile and established risk management. Lufthansa benefits from the high quality and safety standards as well as the customer and service focus of all its business segments. The crane has a reputation around the world for dependability, with customers as well as with shareholders and staff. They are all united by their interest in the Company's sustainable development. This is why we pursue our course of profitable growth.

# Consolidated financial statements

# Consolidated income statement
for the financial year 2010

| in €m | Notes | 2010 | 2009 |
|---|---|---|---|
| Traffic revenue | 3 | 22,268 | 17,604 |
| Other revenue | 4 | 5,056 | 4,679 |
| **Total revenue** | | **27,324** | **22,283** |
| Changes in inventories and work performed by entity and capitalised | 5 | 165 | 225 |
| Other operating income | 6 | 2,655 | 2,531 |
| Cost of materials and services | 7 | –15,370 | –12,700 |
| Staff costs | 8 | –6,659 | –5,996 |
| Depreciation, amortisation and impairment | 9 | –1,682 | –1,475 |
| Other operating expenses | 10 | –5,193 | –4,597 |
| **Profit/loss from operating activities** | | **1,240** | **271** |
| Result of equity investments accounted for using the equity method | 11 | 46 | 5 |
| Result of other equity investments | 11 | 58 | 53 |
| Interest income | 12 | 198 | 181 |
| Interest expenses | 12 | –555 | –506 |
| Other financial items | 13 | –9 | –138 |
| **Financial result** | | **–262** | **–405** |
| **Profit/loss before income taxes** | | **978** | **–134** |
| Income taxes | 14 | 165 | 112 |
| **Profit/loss after income taxes** | | **1,143** | **–22** |
| Profit/loss attributable to minority interests | | –12 | –12 |
| **Net profit/loss attributable to shareholders of Deutsche Lufthansa AG** | | **1,131** | **–34** |
| Basic earnings per share in € | 15 | 2.47 | –0.07 |
| Diluted earnings per share in € | 15 | 2.47 | –0.07 |

# Statement of comprehensive income
## for the financial year 2010

| in €m | **2010** | 2009 |
|---|---|---|
| **Profit / loss after income taxes** | **1,143** | **–22** |
| **Other comprehensive income** | | |
| Differences from currency translation | 311 | –18 |
| Subsequent measurement of available-for-sale financial assets | 485 | 193 |
| Subsequent measurement of cash flow hedges | 288 | –188 |
| Other comprehensive income from investments accounted for using the equity method | –4 | –7 |
| Revaluation due to business combinations | – | –44 |
| Other expenses and income recognised directly in equity | 14 | –13 |
| Income taxes on items in other comprehensive income | –79 | 34 |
| **Other comprehensive income after income taxes** | **1,015** | **–43** |
| **Total comprehensive income** | **2,158** | **–65** |
| Comprehensive income attributable to minority interests | –16 | –52 |
| **Comprehensive income attributable to shareholders of Deutsche Lufthansa AG** | **2,142** | **–117** |

# Consolidated balance sheet
as of 31 December 2010

**Assets**

| in €m | Notes | 31.12.2010 | 31.12.2009 | 1.1.2009 |
|---|---|---|---|---|
| Intangible assets with an indefinite useful life* | 16 | 1,582 | 1,511 | 821 |
| Other intangible assets | 17 | 329 | 328 | 261 |
| Aircraft and reserve engines | 18 21 | 11,153 | 10,444 | 8,764 |
| Repairable spare parts for aircraft | | 877 | 810 | 669 |
| Property, plant and other equipment | 19 21 | 2,120 | 2,157 | 1,931 |
| Investment property | 20 | – | 3 | 3 |
| Investments accounted for using the equity method | 22 | 385 | 320 | 298 |
| Other equity investments | 23 24 | 1,128 | 878 | 790 |
| Non-current securities | 23 24 | 250 | 349 | 509 |
| Loans and receivables | 23 25 | 620 | 506 | 475 |
| Derivative financial instruments | 23 26 | 350 | 255 | 339 |
| Deferred charges and prepaid expenses | 29 | 26 | 31 | 15 |
| Effective income tax receivables | 14 | 61 | 69 | 72 |
| Deferred claims for income tax rebates | 14 | 82 | 35 | 28 |
| **Non-current assets** | | **18,963** | **17,696** | **14,975** |
| Inventories | 27 | 662 | 646 | 581 |
| Trade receivables and other receivables | 23 28 | 3,401 | 3,033 | 3,015 |
| Derivative financial instruments | 23 26 | 484 | 252 | 213 |
| Deferred charges and prepaid expenses | 29 | 146 | 128 | 119 |
| Effective income tax receivables | | 98 | 105 | 130 |
| Securities | 23 30 | 4,283 | 3,303 | 1,834 |
| Cash and cash equivalents | 23 31 | 1,097 | 1,136 | 1,444 |
| Assets held for sale | 32 | 186 | 93 | 97 |
| **Current assets** | | **10,357** | **8,696** | **7,433** |
| **Total assets** | | **29,320** | **26,392** | **22,408** |

* Including goodwill.

**Shareholders' equity and liabilities**

| in €m | Notes | 31.12.2010 | 31.12.2009 | 1.1.2009 |
|---|---|---|---|---|
| Issued capital | 33 34 | 1,172 | 1,172 | 1,172 |
| Capital reserve | 35 | 1,366 | 1,366 | 1,366 |
| Retained earnings | 35 | 2,944 | 2,972 | 2,750 |
| Other neutral reserves | 35 | 1,629 | 618 | 701 |
| Net profit / loss | | 1,131 | –34 | 542 |
| **Equity attributable to shareholders of Deutsche Lufthansa AG** | | **8,242** | **6,094** | **6,531** |
| Minority interests | | 98 | 108 | 63 |
| **Shareholders' equity** | | **8,340** | **6,202** | **6,594** |
| Pension provisions | 36 | 2,571 | 2,710 | 2,400 |
| Other provisions | 37 | 643 | 620 | 291 |
| Borrowings | 38 39 | 6,227 | 6,109 | 3,161 |
| Other financial liabilities | 40 | 110 | 87 | 51 |
| Advance payments received, deferred income and other non-financial liabilities | 41 | 1,087 | 1,000 | 1,024 |
| Derivative financial instruments | 26 38 | 111 | 225 | 118 |
| Deferred income tax liabilities | 14 | 405 | 663 | 710 |
| **Non-current provisions and liabilities** | | **11,154** | **11,414** | **7,755** |
| Other provisions | 37 | 881 | 1,122 | 847 |
| Borrowings | 38 39 | 957 | 693 | 420 |
| Trade payables and other financial liabilities | 38 42 | 4,193 | 3,796 | 3,626 |
| Liabilities from unused flight documents | | 2,389 | 1,906 | 1,693 |
| Advance payments received, deferred income and other non-financial liabilities | 43 | 1,066 | 1,008 | 882 |
| Derivative financial instruments | 26 38 | 103 | 106 | 492 |
| Effective income tax obligations | | 237 | 145 | 99 |
| Provisions and liabilities relating to disposal groups | 44 | – | – | – |
| **Current provisions and liabilities** | | **9,826** | **8,776** | **8,059** |
| **Total shareholders' equity and liabilities** | | **29,320** | **26,392** | **22,408** |

# Consolidated statement of changes in shareholders' equity
as of 31 December 2010

| 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 31.12.2008** | **1,172** | **1,366** | **1** | **–52** | **237** | **393** | **579** | **2,872** | **542** | **6,531** | **63** | **6,594** |
| Changes in accounting policies | – | – | 122 | – | – | – | 122 | –122 | – | – | – | – |
| **Adjusted as of 31.12.2008** | **1,172** | **1,366** | **123** | **–52** | **237** | **393** | **701** | **2,750** | **542** | **6,531** | **63** | **6,594** |
| Capital increases/reductions | – | – | – | – | – | – | – | – | – | – | 6 | 6 |
| Reclassifications* | – | – | – | – | – | 1 | 1 | 222 | –222 | 1 | –1 | – |
| Dividends to Lufthansa shareholders/minority interests | – | – | – | – | – | – | – | – | –320 | –320 | –13 | –333 |
| Consolidated net profit/loss attribt. to minority interests | – | – | – | – | – | – | – | – | –34 | –34 | 12 | –22 |
| Other expenses and income recognised directly in equity* | – | – | 39 | –18 | –44 | –61 | –84 | – | – | –84 | 41 | –43 |
| **Adjusted as of 31.12.2009** | **1,172** | **1,366** | **162** | **–70** | **193** | **333** | **618** | **2,972** | **–34** | **6,094** | **108** | **6,202** |
| **As of 31.12.2009** | **1,172** | **1,366** | **118** | **–70** | **193** | **333** | **574** | **3,094** | **–112** | **6,094** | **108** | **6,202** |
| Changes in accounting policies | – | – | 44 | – | – | – | 44 | –122 | 78 | – | – | – |
| **Adjusted as of 31.12.2009** | **1,172** | **1,366** | **162** | **–70** | **193** | **333** | **618** | **2,972** | **–34** | **6,094** | **108** | **6,202** |
| Capital increases/reductions | – | – | – | – | – | – | – | – | – | – | – | – |
| Reclassifications | – | – | – | – | – | – | – | –34 | 34 | – | – | – |
| Dividends to Lufthansa shareholders/minority interests | – | – | – | – | – | – | – | – | – | – | –18 | –18 |
| Transactions with minority interests | – | – | – | – | – | – | – | 6 | – | 6 | –8 | –2 |
| Consolidated net profit/loss attribt. to minority interests | – | – | – | – | – | – | – | – | 1,131 | 1,131 | 12 | 1,143 |
| Other expenses and income recognised directly in equity* | – | – | 694 | 311 | – | 6 | 1,011 | – | – | 1,011 | 4 | 1,015 |
| **As of 31.12.2010** | **1,172** | **1,366** | **856** | **241** | **193** | **339** | **1,629** | **2,944** | **1,131** | **8,242** | **98** | **8,340** |

* Please refer to Note 35 for more information on other comprehensive income.

# Consolidated cash flow statement
## for the financial year 2010

| in €m | Notes | 2010 | 2009 |
|---|---|---|---|
| **Cash and cash equivalents 1.1.** | | **1,136** | **1,444** |
| Net profit/loss before income taxes | | 978 | −134 |
| Depreciation, amortisation and impairment losses on non-current assets (net of reversals) | 9 13 | 1,665 | 1,634 |
| Depreciation, amortisation and impairment losses on current assets | | 23 | 74 |
| Net proceeds on disposal of non-current assets | 6 | −209 | −27 |
| Result of equity investments | 11 | −104 | −58 |
| Net interest | 12 | 357 | 325 |
| Income tax payments/reimbursements | | −110 | 48 |
| Change in working capital[1] | | 475 | 129 |
| **Cash flow from operating activities** | | **3,075** | **1,991** |
| Capital expenditure for property, plant and equipment and intangible assets | 16 – 20 | −2,222 | −2,174 |
| Capital expenditure for financial investments | 24 25 | −38 | −29 |
| Additions to repairable spare parts for aircraft | | −76 | −165 |
| Proceeds from disposal of non-consolidated equity investments | | 113 | 94 |
| Proceeds from disposal of consolidated equity investments | | – | – |
| Cash outflows for acquisitions of non-consolidated equity investments | 22 – 24 | −11 | −98 |
| Cash outflows for acquisitions of consolidated equity investments[2] | 1 | −2 | −104 |
| Proceeds from disposal of intangible assets, property, plant and equipment and other financial investments | | 398 | 448 |
| Interest income | | 314 | 214 |
| Dividends received | | 74 | 74 |
| **Net cash from/used in investing activities** | | **−1,450** | **−1,740** |
| Purchase of securities/fund investments[3] | | −2,251 | −3,107 |
| Disposal of securities/fund investments | | 823 | 1,284 |
| **Net cash from/used in investing and cash management activities** | | **−2,878** | **−3,563** |
| Capital increase[4] | 33 – 35 | – | 6 |
| Non-current borrowing | | 925 | 2,633 |
| Repayment of non-current borrowing | | −720 | −755 |
| Other financial debt | | −36 | 1 |
| Dividends paid | | −18 | −333 |
| Interest paid | | −451 | −281 |
| **Net cash from/used in financing activities** | | **−300** | **1,271** |
| **Net increase/decrease in cash and cash equivalents** | | **−103** | **−301** |
| Changes due to currency translation differences | | 64 | −7 |
| **Cash and cash equivalents 31.12.** | 31 | **1,097** | **1,136** |
| Securities | | 4,283 | 3,303 |
| **Total liquidity** | 30 | **5,380** | **4,439** |
| Net increase/decrease in total liquidity | | 941 | 1,161 |

[1] Working capital consists of inventories, receivables, liabilities and provisions.
[2] In previous year less cash balances acquired of EUR 431m.
[3] Including transfer to LH Pension Trust of EUR 293m (previous year: EUR 283m).
[4] In previous year capital increase from minority shareholders.

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 2010

## Notes to 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 (IFRIC) as applicable in the European Union (EU).

Following the amendment to IAS 27 Consolidated and Separate Financial Statements, purchases and sales of shares after taking control and for as long as control exists are to be recognised using the economic entity approach. These kinds of transactions are treated as taking place at the level of the shareholders and are recognised in equity without effect on profit and loss. Lufthansa had previously exercised the existing option in this way.

The revised IFRS 3 Business Combinations includes rules on the scope of application, components of acquisition cost, dealing with minority interests and goodwill, and the recognition of assets, liabilities and contingent liabilities. As no business combinations within the meaning of IFRS 3 took place in the 2010 financial year, these amendments had no effect on the net assets, financial and earnings position of the Group.

Following the amendment to IAS 39 Financial Instruments: Recognition and Measurement, from the financial year 2010 onwards it is no longer possible to recognise the change in total market value of an option used as a hedge (full fair value method) without effect on income as part of hedge accounting, but only the "intrinsic value" of the option. The change in the "time value" is recognised in the financial result, which leads to corresponding fluctuations in net profit/loss for the period. This has no effect on realised hedging gains or losses on hedged items. Changes in the time value of the options are always equalised in full at the time of realisation, because the time value of the hedging combinations most commonly used is always zero when the hedging transaction is closed and when the financial derivative is realised. This therefore has no effect on the Group's assets and financial position. The Lufthansa Group is presenting the changes retrospectively as of the 2010 financial year, i.e. the previous year's figures have been adjusted as if the amended IAS 39 had already been applied at that point in time. If the amended IAS 39 had been applied in the financial year 2009, the profit/loss before income taxes would have been EUR 95m higher and the net profit after income taxes would have been EUR 78m higher.

The following standards and interpretations applicable as of 1 January 2010 did not have a significant effect on the Group's net assets, financial and earnings position in the reporting period.

The amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions on the scope of the standard and to the IFRS for Small and Medium-sized Enterprises had no effect on the net assets, financial and earnings position of the Group.

Furthermore, the Annual Improvement Project 2009 made a number of changes to the wording of the existing standards IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 8 Operating Segments, IAS 1 Presentation of Financial Statements, IAS 7 Statement of Cash Flows, IAS 17 Leases, IAS 36 Impairment of Assets and IAS 39 Financial Instruments: Recognition and Measurement. Some of these amendments are binding for financial years beginning on or after 1 July 2009. This concerns amendments to IFRS 2 Share-based Payment, IAS 38 Intangible Assets, IFRIC 9 Reassessment of Embedded Derivatives and IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

The amendments to IFRS 1 First-time Adoption of IFRS are not relevant for the Group. The same applies to IFRIC 12 Service Concession Arrangements, which governs the accounting treatment of contracts awarded by public authorities to private companies for the supply of public services.

The interpretation IFRIC 15 Agreements for the Construction of Real Estate defines the transactions for which IAS 18 Revenue or IAS 11 Construction Contracts apply.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation deals with the balance sheet disclosure of hedges for investments in companies whose functional currency is not the Group currency.

IFRIC 17 Distributions of Non-cash Assets to Owners governs the accounting treatment of distributions in kind to parties outside the Group.

IFRIC 18 Transfers of Assets from Customers was published in January 2009, primarily for the benefit of the energy sector.

IFRIC 15, 16, 17 and 18 are not currently relevant for the Lufthansa Group.

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 2010 are to be examined and approved by the Supervisory Board of Deutsche Lufthansa AG in its meeting on 16 March 2011 and are then authorised for publication.

**Published International Financial Reporting Standards (IFRS) and Interpretations (IFRIC), not yet applied/applicable**

The amendments to standards described below are mostly only applicable from the financial year 2011 onwards. To the extent that amendments described hereafter are only applicable from a later date, this will be specifically mentioned.

The revision of IAS 24 Related Party Disclosures gives a more precise definition of the term “related party”. The amendments are not relevant for the Group.

IAS 32 Financial Instruments: Presentation was altered so that subscription rights and options or warrants for shares in another currency than the company’s reporting currency, which were previously shown as financial liabilities, are under certain circumstances now to be presented as equity instruments. This amendment is not relevant for the Lufthansa Group.

The amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards relate to exemptions for first-time users of IFRS. Some minor changes to wording were also made. The amendments are not relevant for the Group.

In the course of the Annual Improvement Project 2010 a number of minor amendments and wording changes were made to six IFRSs and one interpretation. They concern IFRS 1 First-time Adoption of IFRS, IFRS 3 Business Combinations, IFRS 7 Financial Instruments: Disclosures, IAS 1 Presentation of Financial Statements, IAS 27 Consolidated and Separate Financial Statements, IAS 34 Interim Financial Reporting and IFRIC 13 Customer Loyalty Programmes. The amendments are applicable to financial years beginning on or after 1 July 2010 and 1 January 2011, but as things stand they will not have any significant effect on the Group’s net assets, financial and earnings position.

The amendments to IFRS 7 Financial Instruments: Disclosures relate to additional disclosures for transactions to transfer financial assets in which certain rights and obligations remain with the transferring entity and others are acquired in the course of the transaction. The disclosures are intended to show the relation between the transfer of financial assets and the corresponding financial liabilities. The amendments have not yet been adopted as European law. Application of the amendments is mandatory for financial years beginning on or after 1 July 2011. The effects on the Group, if any, are currently under review.

In November 2009 the IASB adopted IFRS 9 Financial Instruments: Classification and Measurement - Financial Assets. The new standard describes the classification and measurement of financial assets and thereby concludes the first of three phases at the end of which the existing IAS 39 Financial Instruments: Recognition and Measurement is to be abolished. Phases II (Impairment) and III (Hedge Accounting) had not yet been adopted at the time these financial statements were prepared. Phase I has not yet been adopted as European law. The interpretation is applicable to financial years beginning on or after 1 January 2013. The effects of IFRS 9 on the Group’s net assets, financial and earnings position and the Group’s presentation are currently, indeed continuously, under review.

In addition to the IFRS 9 published in November 2009, on 28 October 2010 the IASB also issued IFRS 9 Financial instruments: Classification and Measurement – Financial Liabilities. Financial liabilities can still be assigned to the measurement categories Amortised Cost or Fair Value. Under the new regulations a company applying the fair value option to measure its financial liabilities can no longer recognise in profit and loss any changes in fair value brought about by a change in its own credit risk, but must instead recognise them without effect on profit and loss under other comprehensive income in the statement of comprehensive income – and therefore directly in equity. It is possible to ignore this rule if such a presentation would result in an accounting mismatch in the income statement. The amendments have not yet been adopted as European law. The interpretation is applicable to financial years beginning on or after 1 January 2013. The effects of IFRS 9 on the Group's net assets, financial and earnings position and the Group's presentation are currently, indeed continuously, under review.

The specific change to IAS 12 Income Taxes provides in certain cases for a binding exemption from the fundamental principle of IAS 12.51, by which deferred taxes are to be measured using the expected tax consequences resulting from the planned use of the underlying asset or liability. The amendments are applicable for financial years beginning on or after 1 January 2012. The effects of the amendments on the Group's net assets, financial and earnings position and the Group's presentation are currently, indeed continuously, under review.

The amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement concern the accounting treatment of prepayments made towards minimum funding requirements in connection with pension plans. The change in the interpretation makes it possible to recognise the benefit of these prepayments as an asset if certain conditions are met. The amendments to IFRIC 14 are applicable for financial years beginning on or after 1 January 2011. The effects on the Group's net assets, financial and earnings position and the Group's presentation are currently, indeed continuously, under review.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments defines the standards applicable when a company renegotiates the terms of a financial liability with its creditor and the creditor receives company shares or other equity instruments to redeem the financial liability in full or in part. IFRIC 19 is applicable for financial years beginning on or after 1 July 2010. The effects on the Group's net assets, financial and earnings position and the Group's presentation are currently, indeed continuously, under review.

The Group has not voluntarily applied any of the new or amended regulations mentioned above before their binding date of application.

### 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. 220 - 229. The list of shareholdings is published in annexe to these notes.

LSG Sky Chefs/GCC Ltd. is classified as a fully consolidated subsidiary in spite of a 50 per cent share of voting rights because the Lufthansa Group exercises economic and financial control over the company.

Special purpose entities in which the Group does not hold a voting majority are, nonetheless, classified as subsidiaries if the Group derives majority benefit from their activities or bears most of the risk. The companies affected are identified as such in the list of significant subsidiaries.

In addition to Deutsche Lufthansa AG as the parent company, the group of consolidated companies includes 67 domestic and 155 foreign companies, including special purpose entities (previous year: 70 domestic and 135 foreign companies).

Changes in the group of consolidated companies during the 2010 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** | | | |
| AirNavigator Ltd., Tokyo, Japan | 29.6.10 | | Established |
| Edelweiss Air AG, Kloten, Switzerland | 1.1.10 | | Consolidated for the first time |
| Ellen Finance 2010 S.N.C., Paris, France | 25.6.10 | | Established |
| FI Beauty Leasing Ltd., Tokyo, Japan | 28.6.10 | | Established |
| First Valley Highway Kumiai, Tokyo, Japan | 29.6.10 | | Established |
| Second Valley Highway Kumiai, Tokyo, Japan | 29.6.10 | | Established |
| Third Valley Highway Kumiai, Tokyo, Japan | 29.6.10 | | Established |
| Global Brand Management AG, Basel, Switzerland | 15.11.10 | | Established |
| Ingrid Finance 2010 S.N.C., Paris, France | 15.5.10 | | Established |
| Jour Leasing Co., Ltd., Tokyo, Japan | 16.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 2, Salzburg, Austria | 6.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 3, Salzburg, Austria | 6.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 4, Salzburg, Austria | 6.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 5, Salzburg, Austria | 6.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 6, Salzburg, Austria | 6.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 7, Salzburg, Austria | 6.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 8, Salzburg, Austria | 6.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 9, Salzburg, Austria | 6.7.10 | | Established |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 10, Salzburg, Austria | 6.7.10 | | Established |
| Soir Leasing Co., Ltd., Tokyo, Japan | 25.6.10 | | Established |
| GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 5 KG, Grünwald, Germany | | 31.12.10 | Liquidation |
| Lufthansa Leasing GmbH & Co. Fox-Bravo oHG, Grünwald, Germany | | 15.7.10 | Liquidation |
| Lufthansa Leasing GmbH & Co. Fox-Charlie oHG, Grünwald, Germany | | 15.7.10 | Liquidation |
| Suriba Beteiligungsverwaltungs GmbH, Vienna, Austria | | 10.6.10 | Merger |
| UIA Beteiligungsgesellschaft mbH, Vienna, Austria | | 1.4.10 | Divestment |
| **MRO segment** | | | |
| Lufthansa Technik Budapest Repülögép Nagyjavító Kft., Budapest, Hungary | 1.1.10 | | Consolidated for the first time |
| Lufthansa Technik Malta Limited, Malta | 1.1.10 | | Consolidated for the first time |
| Lufthansa Technik Aircraft Services Ireland Limited, Shannon, Ireland | | 26.2.10 | Liquidation |
| **Catering segment** | | | |
| Starfood Antalya Gida Sanayi ve Ticaret A.S., Istanbul, Turkey | 10.8.10 | | Established |

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 2010.

| Company name | Registered office |
|---|---|
| Germanwings GmbH | Cologne |
| Hamburger Gesellschaft für Flughafenanlagen mbH | Hamburg |
| In-Flight Management Solutions GmbH | Neu-Isenburg |
| LSG Asia GmbH | Neu-Isenburg |
| LSG-Food & Nonfood Handel GmbH | Frankfurt/M. |
| LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH | Neu-Isenburg |
| LSG Lufthansa Service Europa/Afrika GmbH | Neu-Isenburg |
| LSG Lufthansa Service Holding AG | Neu-Isenburg |
| LSG Sky Chefs Catering Logistics GmbH | Neu-Isenburg |
| LSG Sky Chefs Deutschland GmbH | Neu-Isenburg |
| LSG Sky 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 |
| 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 Aeronautics GmbH | Raunheim |
| Lufthansa Systems Airline Services GmbH | Kelsterbach |
| Lufthansa Systems Aktiengesellschaft | Kelsterbach |

| Company name | Registered office |
|---|---|
| Lufthansa Systems AS GmbH | Norderstedt |
| Lufthansa Systems Berlin GmbH | Berlin |
| Lufthansa Systems Business Solutions GmbH | Raunheim |
| Lufthansa Systems Infratec GmbH | Kelsterbach |
| Lufthansa Systems Passenger Services GmbH | Kelsterbach |
| Lufthansa 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 |

The consolidated financial statements include equity stakes in 60 joint ventures and 41 associated companies (previous year: 65 joint ventures and 40 associated companies), of which 11 joint ventures (previous year: 9) and 17 associated companies (previous year: 17) were accounted for using the equity method. The other joint ventures and associated companies were valued at amortised cost due to their minor overall significance.

The following assets and liabilities and income and expenses are attributed to the Group based on the equity stake held in each joint venture and associated company:

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| 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 | 146 | 252 | 351 | 79 | 246 | 357 |
| Current assets | 205 | 117 | 28 | 132 | 117 | 20 |
| Shareholders' equity | 128 | 131 | 28 | 95 | 122 | 27 |
| Non-current liabilities | 51 | 171 | 219 | 22 | 148 | 230 |
| Current liabilities | 172 | 67 | 132 | 94 | 93 | 120 |
| Income | 512 | 201 | 57 | 324 | 308 | 57 |
| Expenses | 491 | 187 | 50 | 313 | 289 | 52 |

## 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 2010 amounted to EUR 36m (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 the legal claim has arisen.

### Initial consolidation and goodwill

The initial consolidation of Group companies takes place using the purchase method. This involves measuring the fair value of the assets, liabilities and contingent liabilities, identified in accordance with the provisions of IFRS 3, of the company acquired at the acquisition date, and allocating the acquisition costs to them. The proportion of fair value of assets and liabilities not acquired is shown under minority interests.

Any excess of cost over the value of equity acquired is capitalised as goodwill and subject to a regular annual impairment test, thereafter.

If the value of the acquirer's interest in the shareholders' equity exceeds the costs incurred by the acquiring company, the difference is recognised immediately in profit or loss.

Differences from minority interests acquired after control has been obtained are to be set off directly against equity.

Annual impairment tests applied to goodwill are carried out using recognised discounted cash flow methods. This is done on the basis of expected future cash flows from the latest management planning, which are extrapolated on the basis of long-term revenue growth rates and assumptions with regard to margin development, and discounted for the capital costs of the business unit. Tests are performed at the cash generating unit (CGU) level. For individual premises on which impairment tests were based in financial year 2010, see "Note 16" from p. 173.

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 a 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:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Balance sheet exchange rate** | **Income statement average rate** | Balance sheet exchange rate | Income statement average rate |
| USD | 0.74864 | 0.75815 | 0.69730 | 0.71635 |
| JPY | 0.00920 | 0.00863 | 0.00754 | 0.00765 |
| GBP | 1.16044 | 1.16902 | 1.12120 | 1.11784 |
| CAD | 0.74918 | 0.72974 | 0.66046 | 0.62882 |
| HKD | 0.09630 | 0.09761 | 0.08994 | 0.09247 |
| THB | 0.02495 | 0.02384 | 0.02092 | 0.02086 |
| SEK | 0.11145 | 0.10425 | 0.09741 | 0.09429 |
| NOK | 0.12793 | 0.12431 | 0.12029 | 0.11457 |
| DKK | 0.13414 | 0.13428 | 0.13438 | 0.13430 |
| CHF | 0.79847 | 0.72014 | 0.67283 | 0.66078 |
| KRW | 0.00067 | 0.00065 | 0.00060 | 0.00056 |

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 carried 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 overheads.

Intangible assets with an indefinite useful life and any intangible assets not yet utilised 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.

As a result of last year's amendment to IAS 23, borrowing costs are now capitalised if they are incurred in close connection with the financing of the acquisition or production of a qualifying asset. In the reporting year borrowing costs of EUR 2m 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 for goodwill included in the recognised value of the investment is only carried out in subsequent periods if there are indications of a potential impairment in the entire investment value. Intra-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 for low or non-interest bearing receivables.

If there are doubts as to the recoverability of receivables they are recognised at the lower recoverable amount. Subsequent reversals (write-backs) are recognised in profit or loss.

Receivables denominated in foreign currencies are measured at the balance sheet date rate.

Available-for-sale financial assets are recognised at fair value in subsequent periods to the extent that this can be reliably measured.

The fair value of securities is determined by the price quoted on an active market. For unlisted fixed-interest securities the fair value is determined from the difference between 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. 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 is no longer possible to recognise the change in total market value of an option used as a hedge (full fair value method) without effect on income as part of hedge accounting, but only 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.

It is the Group's hedging policy (see "Note 46" on p. 200) only to enter into effective derivatives for the purpose of hedging interest rate, exchange rate and fuel price risks.

Hedging transactions with non-consolidated Group companies and interest/currency swaps generally do not, however, satisfy the qualifying criteria for effectiveness as defined in IAS 39. Changes in market value arising from these transactions are therefore recognised directly in profit or loss.

**Inventories**

This item includes non-repairable spare parts, raw materials, consumables and supplies, purchased merchandise and advance payments made for inventories. They are measured at cost, determined on the basis of average prices, or at 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. Measurement on the balance sheet date is at the lower of cost and realisable value less costs to sell. Average capacity utilisation of 95 per cent is assumed in determining the costs of production. Realisable value less costs to sell is calculated on the basis of the finished product.

**Assets held for sale**

Individual, formerly non-current assets or groups of assets which are expected to be sold within the next twelve months are measured at the lower of their carrying amount at the time they are reclassified and fair value less costs to sell.

**Provisions**

Measurement of pension provisions is based on the projected unit credit method prescribed by IAS 19 for defined benefit pension plans. The measurement of pension provisions within the balance sheet is based on a number of estimates and assumptions.

They include, in particular, assumptions about long-term salary and pension trends and average life expectancy. The assumptions about salary and pension trends are based on developments observed in the past and take into account national interest and inflation rates and labour market trends. Estimates of average life expectancy are based on recognised biometric calculation formulas.

The interest rate used for discounting future payment obligations is the country-specific market rate for long-term 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 2010 amount to EUR 1,416m (previous year: EUR 866m). In the 2010 financial year EUR 15m (previous year: EUR 21m) 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 for high- and low-interest bearing liabilities.

Liabilities in foreign currencies are measured at the exchange 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 41" from p. 197.

### 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 198 billion miles were to be measured as of 31 December 2010. EUR 605m (previous year: EUR 549m) of the resulting obligations were recognised in other non-financial liabilities and EUR 944m (previous year: EUR 887m) in deferred revenue "Note 41" on p. 197 and "Note 43" on p. 199.

### 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 2010 was EUR 564m (previous year: EUR 834m).

Deferred foreign tax rates in the 2010 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 | **2010** | 2009 |
|---|---|---|
| Passenger | 19,186 | 15,430 |
| Freight and mail | 3,082 | 2,174 |
| | **22,268** | **17,604** |
| Scheduled | 21,829 | 17,262 |
| Charter | 439 | 342 |
| | **22,268** | **17,604** |

Of total freight and mail revenue EUR 2,633m was generated in the Logistics segment. Freight and mail revenue at SWISS, Austrian Airlines, British Midland and Germanwings from marketing cargo space on passenger flights amounted to EUR 449m (previous year: EUR 330m), and is shown in the segment reporting as other revenue from the Passenger Airline Group segment.

## 4 Other revenue

**Revenue by sector**

| in €m | **2010** | 2009 |
|---|---|---|
| MRO services | 2,207 | 2,162 |
| Catering services | 1,539 | 1,450 |
| Travel services (commissions) | 183 | 133 |
| IT services | 248 | 254 |
| Ground services | 98 | 77 |
| Other services | 781 | 603 |
| | **5,056** | **4,679** |

MRO services make up the majority of external revenue in the MRO segment. Other revenue in the MRO segment from the sale of material and hiring out material and engines, as well as logistics services, are classified as other services.

The revenue listed under catering services originates exclusively in the Catering segment. LSG Food & Nonfood Handel GmbH and LSG Airport Gastronomiegesellschaft mbH, in particular, also earn revenue in the Catering segment, which does not relate to catering services and is shown under other services.

Revenue from IT services relates to revenue from the IT Services segment.

Other revenue includes revenue of EUR 188m (previous year: EUR 230m) 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 prior years, amounted to EUR 213m (previous year: EUR 229m). Profits of EUR 36m were set off against them (previous year: EUR 50m). Advance payments by customers amounted to EUR 201m (previous year: EUR 233m). Unfinished contracts with a net credit balance – less any write-downs – are disclosed in trade receivables, “Note 28” on p. 187. Unfinished contracts for which advance payments by customers exceed the costs plus any offset pro rata profit are recognised as advance payments, “Note 43” on p. 199. 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 | 2010 | 2009 |
| --- | --- | --- |
| Increase/decrease in finished goods and work in progress | 5 | –4 |
| Other internally produced and capitalised assets | 160 | 229 |
| | **165** | **225** |

## 6 Other operating income

**Other operating income**

| in €m | 2010 | 2009 |
| --- | --- | --- |
| Income from the disposal of non-current assets | 65 | 24 |
| Income from the disposal of non-current available-for-sale financial assets | 181 | 27 |
| Income from the reversal of impairment losses on fixed assets | 39 | 14 |
| Foreign exchange gains | 990 | 1,062 |
| Income from the reversal of provisions and accruals | 234 | 187 |
| Commission income | 185 | 165 |
| Re-invoicing of charges for computerised distribution systems | 8 | 42 |
| Reversal of write-downs on receivables | 52 | 43 |
| Income from staff secondment | 47 | 42 |
| Compensation received for damages | 67 | 132 |
| Rental income | 25 | 20 |
| Income from sub-leasing aircraft | 30 | 29 |
| Income from the disposal of current available-for-sale financial assets | 29 | 32 |
| Negative goodwill | 2 | 86 |
| Miscellaneous other operating income | 701 | 626 |
| | **2,655** | **2,531** |

Income of EUR 94m on disposal of non-current financial assets relates to realised gains on the transfer of 8.5 per cent of the Fraport share to the Lufthansa Pension Trust. A further EUR 67m stemmed from book gains on the sale of 6.2 million shares in Amadeus IT Holding S.A.

Income from write-ups on assets includes EUR 15m on a previously impaired loan receivable and appreciation due to exchange rates of EUR 9m in loans in foreign currencies.

Foreign exchange gains mainly include gains from differences between the exchange rate on the transaction date (average rate for the month) and at the time of payment (spot exchange rate) along with foreign exchange gains from measurement at the closing date rate. Foreign exchange losses from these transactions are reported under other operating expenses, “Note 10” on p. 170.

Income from the reversal of provisions relate to a number of provisions recognised in prior years which have not been fully used. In contrast, expenses from insufficient provisions recognised in prior years are recognised together with the primary expense item to which they relate.

Income from compensation for damages includes EUR 25m in insurance payments in connection with one Lufthansa Cargo MD-11 freighter which crashed in July 2010. In the previous year, this included compensation payments for the internet system FlyNet and income from insurance payments in connection with an LSG Sky Chefs claim in Scandinavia totalling EUR 69m.

The earn-out clause agreed as part of the AUA acquisition gave rise to income of EUR 2m in the financial year.

Miscellaneous other operating income includes items not attributable to any of the aforementioned categories, travel management and such as income from training and other services provided by the Group.

## 7 Cost of materials and services

**Cost of materials and services**

| in €m | **2010** | 2009 |
|---|---|---|
| Aircraft fuel and lubricants | 5,158 | 3,645 |
| Other raw materials, consumables and supplies | 2,175 | 2,028 |
| Purchased goods | 396 | 374 |
| **Total cost of raw materials, consumables and supplies and of purchased goods** | **7,729** | **6,047** |
| Fees and charges | 4,582 | 3,762 |
| Charter expenses | 671 | 649 |
| External MRO services | 1,112 | 1,066 |
| In-flight services | 340 | 250 |
| Operating lease payments | 246 | 281 |
| External IT services | 117 | 106 |
| Other services | 573 | 539 |
| **Total cost of purchased services** | **7,641** | **6,653** |
| | **15,370** | **12,700** |

## 8 Staff costs

**Staff costs**

| in €m | **2010** | 2009 |
|---|---|---|
| Wages and salaries | 5,444 | 4,909 |
| Social security contributions | 787 | 678 |
| Expenses for pension plans and other employee benefits | 428 | 409 |
| | **6,659** | **5,996** |

Expenses for pension plans principally consist of additions to the pension provisions, "Note 36" from p. 191.

**Employees**

| | **Average for the year 2010** | Average for the year 2009 | **As of 31.12.2010** | As of 31.12.2009 |
|---|---|---|---|---|
| Ground staff | 81,803 | 80,123 | 81,097 | 82,645 |
| Flight staff | 33,770 | 30,759 | 34,319 | 33,288 |
| Trainees | 1,493 | 1,438 | 1,603 | 1,588 |
| | **117,066** | **112,320** | **117,019** | **117,521** |

The annual average is calculated pro rata temporis from the time companies are consolidated or deconsolidated.

## 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 1,682m (previous year: EUR 1,475m).

Impairment losses of EUR 72m were recognised in the financial year 2010. EUR 47m of the total was recognised for a total of 30 aircraft either available 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 include additional write-downs of EUR 16m on aircraft and repairable spare parts for aircraft, which are shown in the balance sheet under assets held for sale. Other impairment charges relate to the loss of an MD-11 at Lufthansa Cargo in July 2010 (EUR 9m) as well as no more valuable intangible assets (EUR 15m).

Impairment losses of EUR 88m were recognised in the financial year 2009. EUR 80m of the total was recognised for a total of 33 aircraft either available 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. An additional EUR 8m concerned intangible assets and other items of property, plant and equipment, which were written down to fair value less costs to sell as they were not expected to be put to any further use.

Annual impairment testing in 2010 and 2009 did not result in any impairment losses on goodwill.

Further information on impairment testing can be found in "Note 16" from p. 173.

## 10 Other operating expenses

**Other operating expenses**

| in €m | **2010** | 2009 |
|---|---|---|
| Sales commission paid to agencies | 500 | 447 |
| Rental and maintenance expenses | 789 | 717 |
| Staff-related expenses | 780 | 777 |
| Expenses for computerised distribution systems | 343 | 339 |
| Advertising and sales promotions | 322 | 301 |
| Foreign exchange losses | 1,073 | 797 |
| Auditing, consulting and legal expenses | 146 | 136 |
| Other services | 130 | 110 |
| Insurance premiums for flight operations | 64 | 52 |
| Write-downs on receivables | 110 | 129 |
| Communications costs | 59 | 54 |
| Other taxes | 63 | 67 |
| Losses on disposal of non-current assets | 37 | 24 |
| Losses on current available-for-sale financial assets | 15 | 27 |
| Consultancy fees in connection with financial transactions | 0* | 14 |
| Losses on disposal of other current assets | 0* | – |
| Miscellaneous other operating expenses | 762 | 606 |
| | **5,193** | **4,597** |

* 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, "Note 6" on p. 168.

Losses of EUR 11m were incurred on the disposal of property, plant and equipment in the course of selling one Airbus A310, three Airbus A300s, six Canadair Regional Jet 200s and six ATR 42-500s.

## 11 Result from equity investments

**Result of equity investments**

| in €m | **2010** | 2009 |
|---|---|---|
| Result of joint ventures accounted for using the equity method | 28 | 5 |
| Result of associated companies accounted for using the equity method | 18 | 0* |
| **Result of equity investments accounted for using the equity method** | **46** | **5** |
| Dividends from other joint ventures | 2 | 3 |
| Dividends from other associated companies | 16 | 7 |
| Income from profit transfer agreements | 33 | 27 |
| Expenses from loss transfer agreements | –10 | –5 |
| Dividends from other equity investments | 17 | 21 |
| **Result of other equity investments** | **58** | **53** |
| | **104** | **58** |

* Rounded below EUR 1m.

Income and expenses from profit and loss transfer agreements are shown including tax contributions.

The result from investments accounted for using the equity method went up, partly due to much higher investment income in the Logistics and MRO segments.

## 12 Net interest

**Net interest**

| in €m | **2010** | 2009 |
|---|---|---|
| Income from other securities and non-current financial loans | 6 | 10 |
| Other interest and similar income | 192 | 171 |
| **Interest income** | **198** | **181** |
| Interest expenses on pensions obligations | –182 | –183 |
| Interest expenses on other provisions | –42 | –29 |
| Interest and other similar expenses | –331 | –294 |
| **Interest expenses** | **–555** | **–506** |
| | **–357** | **–325** |

Net interest from financial instruments calculated under the effective interest method of EUR –133m (previous year: EUR –113m) comes solely from financial instruments which are not classified to the fair value to be enclosed about the profit and loss.

## 13 Other financial items

**Other financial items**

| in €m | 2010 | 2009 |
|---|---|---|
| Write-downs on available-for-sale financial assets | –5 | –145 |
| Write-downs on loans | –11 | –21 |
| Gains/losses on fair value changes of hedged items | –43 | 3 |
| Gains/losses on fair value changes of derivatives used as fair value hedges | 43 | 5 |
| Result of derivatives held for trading classified as at fair value through profit or loss | 25 | –75 |
| Ineffective portion of derivatives used as cash flow hedges | –18 | 95 |
| | **–9** | **–138** |

The previous year's result is shown as being EUR 95m higher due to the retroactive application from 1 January 2010 of IAS 39, which states that changes in fair value of options used for hedging are to be recognised in the financial result.

In the previous year, other financial items included a write-down of EUR 140m recognised on the Fraport shares.

## 14 Income taxes

**Income taxes**

| in €m | 2010 | 2009 |
|---|---|---|
| Current income taxes | 221 | 35 |
| Deferred income taxes | –386 | –147 |
| | **–165** | **–112** |

Current income taxes for 2010 include corporation tax, solidarity surcharge, trade tax and other income taxes paid outside Germany totalling EUR 112m (previous year: EUR 38m). EUR 109m in taxes was paid for prior years (previous year: tax income of EUR 3m).

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.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| in €m | **Basis of assessment** | **Tax expenses** | Basis of assessment | Tax expenses |
| Expected income tax expense/refund | 978 | 244 | –134 | –34 |
| Tax-free income, other allowances and permanent differences | – | –133 | – | –113 |
| Profits from equity investments without deferred taxes | – | –16 | – | –5 |
| Difference between local taxes and the deferred tax rates of the parent company* | – | –46 | – | 15 |
| Unrecognised tax loss carry-forwards and deferred tax assets on losses | – | –213 | – | 27 |
| Other | – | –1 | – | –2 |
| **Recognised income tax expenses** | – | **–165** | **–** | **–112** |

* Including taxes from other periods recognised in effective tax expenses.

The row "Unrecognised tax loss carry-forwards and deferred tax assets on losses" contains EUR 190m in income from previously unrecognised tax loss carry-forwards from the LSG Sky Chefs USA group, which could be offset against taxes in the course of the financial restructuring of the Catering segment.

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 21m (previous year: EUR 9m) 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 82m (previous year: EUR 92m) were recognised without effect on profit and loss in the financial year.

Deferred tax assets and liabilities in 2010 and 2009 are attributable to the following categories:

| | 31.12.2010 | | 31.12.2009 | |
|---|---|---|---|---|
| in €m | **Assets** | **Liabilities** | Assets | Liabilities |
| Tax loss carry-forwards, non-deductible interest carry-forwards and tax credits | 89 | – | 205 | – |
| Pension provisions | 342 | – | 238 | – |
| Finance leases for aircraft | – | – | – | 2 |
| Intangible assets, property, plant and equipment | – | 684 | – | 815 |
| Non-current financial assets | 112 | – | 152 | – |
| Fair value measurement of financial instruments | 10 | – | – | 28 |
| Provisions for contingent losses | 40 | – | 37 | – |
| Receivables/liabilities/other provisions | – | 315 | – | 500 |
| Offset amounts | –594 | –594 | –682 | –682 |
| Other | 83 | – | 85 | – |
| | **82** | **405** | **35** | **663** |

The deferred tax assets and liabilities in the category receivables/liabilities/other provisions are expected to reverse within twelve months of the reporting date.

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 2,737m (previous year: EUR 3,742m) exist for which no deferred tax assets could be recognised.

Of the unrecognised tax loss carry-forwards, EUR 1m can only be used until 2014, EUR 63m only until 2015, EUR 2m until 2016, EUR 1m until 2017, EUR 5m until 2018, EUR 1m until 2019 and 2,035m can also be used after 2019. A total of EUR 564m (previous year: EUR 834m) in deferred tax assets were not recognised.

## 15 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. Following the partial redemption of the convertible bond in 2010, the maximum number of shares that could arise on conversion was 336,404 as of year-end (previous year: 2,524,622).

| | | **2010** | 2009 |
|---|---|---|---|
| **Basic earnings per share** | € | **2.47** | **–0.07** |
| Consolidated net profit/loss | €m | 1,131 | –34 |
| Weighted average number of shares | | 457,934,014 | 457,875,372 |
| **Diluted earnings per share** | € | **2.47** | **–0.07** |
| Consolidated net profit/loss | €m | 1,131 | –34 |
| + Interest expenses on the convertible bond | €m | 0* | +3 |
| – Current and deferred taxes | €m | 0* | –1 |
| Adjusted net profit/loss for the period | €m | 1,131 | –32 |
| Weighted average number of shares | | 458,270,418 | 460,399,994 |

* Rounded below EUR 1m.

Due to the amendment of IAS 39 and the ensuing adjustment of the figures for the previous year, earnings per share for 2009 (basic and diluted) were restated from EUR –0.24 per share to EUR –0.07 per share.

As the parent company of the Group, Deutsche Lufthansa AG reported distributable earnings of EUR 275m for the 2010 financial year. The Executive Board and Supervisory Board will table a proposal at the Annual General Meeting to be held on 3 May 2011 to pay a dividend of EUR 0.60 per share from this distributable profit.

No dividend was paid in 2010 for the 2009 financial year.

# Notes to the consolidated balance sheet

## ASSETS

### 16 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 1.1.2009 | 895 | 226 | 1,121 |
| Accumulated impairment losses | −300 | – | −300 |
| **Carrying amount 1.1.2009** | **595** | **226** | **821** |
| Currency translation differences | 1 | −25 | −24 |
| Additions due to changes in consolidation | – | 705 | 705 |
| Additions | 3 | 6 | 9 |
| Reclassifications | – | – | – |
| Disposals due to changes in consolidation | – | – | – |
| Disposals | – | – | – |
| Reclassifications to assets held for sale | – | – | – |
| Impairment losses | – | – | – |
| Reversal of impairment losses | – | – | – |
| **Carrying amount 31.12.2009** | **599** | **912** | **1,511** |
| Cost as of 1.1.2010 | 899 | 912 | 1,811 |
| Accumulated impairment losses | −300 | – | −300 |
| **Carrying amount 1.1.2010** | **599** | **912** | **1,511** |
| Currency translation differences | 6 | 65 | 71 |
| Additions due to changes in consolidation | – | – | – |
| Additions | – | 0* | 0* |
| Reclassifications | – | – | – |
| Disposals due to changes in consolidation | – | – | – |
| Disposals | – | – | – |
| Reclassifications to assets held for sale | – | – | – |
| Impairment losses | – | – | – |
| Reversal of impairment losses | – | – | – |
| **Carrying amount 31.12.2010** | **605** | **977** | **1,582** |
| Cost as of 31.12.2010 | 906 | 977 | 1,883 |
| Accumulated impairment losses | −301 | – | −301 |

* Rounded below EUR 1m.

In 2010 as in the previous year, all goodwill as well as intangible assets with an indefinite useful life were subjected to a regular impairment test in line with IAS 36. The tests were performed at the level of the smallest cash generating unit (CGU) on the basis of value in use. Goodwill originating from the acquisition of Air Dolomiti S.A. and the Eurowings group was tested at the level of Deutsche Lufthansa AG and its regional partners as the smallest independent cash generating unit.

The following table provides an overview of the goodwill tested and the assumptions made in the respective impairment tests.

| Name of the CGU | 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 | Various LSG companies* |
|---|---|---|---|---|---|---|---|
| Segment | Passage Airline Group | Passage Airline Group | Catering | Catering | Catering | Catering | Catering |
| Carrying amount of goodwill | EUR 249m | EUR 2m | EUR 277m | EUR 52m | EUR 7m | EUR 6m | EUR 12m |
| Impairment losses | – | – | – | – | – | – | – |
| Revenue growth p.a. over planning period | 5.6% to 10.4% | 1.3% to 2.6% | 1.3% to 3.5% | 5.0% to 7.1% | 4.0% to 5.0% | 5.5% to 10.0% | 1.0% to 12.3% |
| EBITDA margin over planning period | 9.5% to 11.4% | 19.9% to 25.9% | 6.3% to 8.3% | 27.4% to 28.7% | 14.5% to 15.1% | 17.5% to 19.7% | 5.4% to 29.5% |
| Investment ratio over planning period | 7.4% to 10.1% | 5.2% to 26.2% | 1.5% to 3.7% | 1.6% to 2.0% | 1.5% to 4.0% | 0.7% to 1.0% | 0.0% to 4.0% |
| Duration of planning period | 3 years | 3 years | 5 years | 5 years | 5 years | 5 years | 5 years |
| Revenue growth p.a. after end of planning period | 4.1% | 1.0% | 2.0% | 3.3% | 4.0% | 5.0% | 1.0% to 5.0% |
| EBITDA margin after end of planning period | 11.3% | 25.9% | 8.0% | 28.7% | 15.0% | 19.0% | 8.0% to 29.0% |
| Investment ratio after end of planning period | 7.4% | 8.8% | 1.5% | 2.0% | 1.5% | 1.0% | 1.0% to 4.0% |
| Discount rate | 7.4% | 8.5% | 8.1% | 7.8% | 7.4% | 7.4% | 7.4% to 8.1% |

* Goodwill of less than EUR 5m in any individual instance.

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 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 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 amount. 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 as part of company acquisitions and brand names acquired.

The regular impairment test for the brands acquired was carried out for the fair value less costs to sell or the value in use. Testing was based in particular on the revenue generated with the individual brands.

The following assumptions were used in the impairment test for the acquired brands:

| Group company | SWISS | AUA | bmi |
|---|---|---|---|
| Carrying amount for brand | EUR 207m | EUR 109m | EUR 21m |
| Impairment losses | – | – | – |
| Revenue growth for brand p.a. in planning period | 5.2% to 6.4% | 1.5% to 11.7% | 4.1% to 12.8% |
| Duration of planning period | 3 years | 3 years | 3 years |
| Revenue growth p.a. after end of planning period | 2.0% | 2.0% | 2.0% |
| Savings in hypothetical leasing payments before taxes (royalty rate) | 0.6% | 0.35% | 0.2% |
| Discount rate* | 6.4% | 6.4% | 6.4% |

* After-tax rate.

Assuming sustained revenue growth associated with the brand after the end of the planning period of 2.0 per cent, the recoverable amount for the SWISS brand exceeds the carrying amount by EUR 330m. 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 2.0 per cent, the recoverable amount for the AUA brands exceeds the carrying amount by EUR 68m. 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 brand-related revenue growth after the end of the planning period of 2.0 per cent, the recoverable amount for the bmi brand exceeds the carrying amount by EUR 10m. Assuming sustained revenue contraction of –0.5 per cent, the recoverable amount would be equal to the carrying amount.

The carrying amount of EUR 640m for the acquired slots was tested for impairment on the basis of fair value less costs to sell or the value in use at the level of the smallest cash generating unit (CGU). The fair value test was performed on the basis of current published transaction prices for sales/purchases of slots between market participants. There were no impairment charges to be made in the Passenger Airline Group segment.

## 17 Other intangible assets

| in €m | Concessions, industrial property rights and similar, and assets and licences to such rights and assets | Internally developed software | Advance payments | **Total** |
|---|---|---|---|---|
| Cost as of 1.1.2009 | 646 | 96 | 82 | 824 |
| Accumulated amortisation | –438 | –81 | –44 | –563 |
| **Carrying amount 1.1.2009** | **208** | **15** | **38** | **261** |
| Currency translation differences | 0* | 0* | 0* | 0* |
| Additions due to changes in consolidation | 51 | – | 15 | 66 |
| Additions | 27 | 0* | 39 | 66 |
| Reclassifications | 12 | 14 | –23 | 3 |
| Disposals due to changes in consolidation | – | – | – | – |
| Disposals | –1 | –1 | 0* | –2 |
| Reclassifications to assets held for sale | – | – | – | – |
| Amortisation | –55 | –11 | – | –66 |
| Reversal of impairment losses | – | – | – | – |
| **Carrying amount 31.12.2009** | **242** | **17** | **69** | **328** |
| Cost as of 1.1.2010 | 726 | 109 | 112 | 947 |
| Accumulated amortisation | –484 | –92 | –43 | –619 |
| **Carrying amount 1.1.2010** | **242** | **17** | **69** | **328** |
| Currency translation differences | 25 | 0* | 1 | 26 |
| Additions due to changes in consolidation | 7 | – | – | 7 |
| Additions | 31 | 1 | 22 | 54 |
| Reclassifications | 26 | 30 | –51 | 5 |
| Disposals due to changes in consolidation | – | – | – | – |
| Disposals | – | – | –1 | –1 |
| Reclassifications to assets held for sale | – | – | – | – |
| Amortisation | –64 | –26 | – | –90 |
| Reversal of impairment losses | – | – | – | – |
| **Carrying amount 31.12.2010** | **267** | **22** | **40** | **329** |
| Cost as of 31.12.2010 | 800 | 140 | 41 | 981 |
| Accumulated amortisation | –533 | –118 | –1 | –652 |

* Rounded below EUR 1m.

Intangible assets carried at EUR 5m (previous year: EUR 5m) were acquired by means of finance leases. Non-capitalised research and development expenses for intangible assets of EUR 8m (previous year: EUR 7m) were incurred in the period. Firm orders have been placed for intangible assets worth EUR 8m (previous year: EUR 7m), but they are not yet at the Group's economic disposal.

## 18 Aircraft and reserve engines

| in €m | Aircraft and reserve engines | Advance payments for aircraft and reserve engines | **Total** |
|---|---|---|---|
| Cost as of 1.1.2009 | 17,918 | 1,393 | 19,311 |
| Accumulated depreciation | –10,547 | – | –10,547 |
| **Carrying amount 1.1.2009** | **7,371** | **1,393** | **8,764** |
| Currency translation differences | 0* | 0* | 0* |
| Additions due to changes in consolidation | 1,130 | 19 | 1,149 |
| Additions | 1,423 | 418 | 1,841 |
| Reclassifications | 548 | –548 | 0* |
| Disposals due to changes in consolidation | – | – | – |
| Disposals | –39 | – | –39 |
| Reclassifications to assets held for sale | –86 | – | –86 |
| Depreciation | –1,185 | – | –1,185 |
| Reversal of impairment losses | – | – | – |
| **Carrying amount 31.12.2009** | **9,162** | **1,282** | **10,444** |
| Cost as of 1.1.2010 | 19,973 | 1,282 | 21,255 |
| Accumulated depreciation | –10,811 | – | –10,811 |
| **Carrying amount 1.1.2010** | **9,162** | **1,282** | **10,444** |
| Currency translation differences | 271 | 42 | 313 |
| Additions due to changes in consolidation | 0* | – | 0* |
| Additions | 1,434 | 561 | 1,995 |
| Reclassifications | 731 | –726 | 5 |
| Disposals due to changes in consolidation | – | – | – |
| Disposals | –53 | – 6 | –59 |
| Reclassifications to assets held for sale | –187 | – | –187 |
| Depreciation | –1,358 | – | –1,358 |
| Reversal of impairment losses | – | – | – |
| **Carrying amount 31.12.2010** | **10,000** | **1,153** | **11,153** |
| Cost as of 31.12.2010 | 21,699 | 1,153 | 22,852 |
| Accumulated depreciation | –11,699 | – | –11,699 |

* Rounded below EUR 1m.

The item aircraft includes 16 aircraft (13 Boeing MD-11Fs and 3 Boeing B747-400s) at a carrying amount of EUR 336m (previous year: EUR 429m), which are the subject of transactions aimed at realising present value benefits from cross-border leasing constructions. These transactions generally involve entering into a 40 to 50 year head lease agreement with a lessee in the Bermudas. The leasing instalments paid by the lessee are transferred to the lessor in a single amount. At the same time, the lessor concludes a sub-lease agreement with a shorter duration (14–16 years) with the lessee and pays the leasing obligations on this agreement in a single amount to a bank for the benefit of the lessee.

Following the transaction, the risks and rewards associated with the aircraft and legal ownership of 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 2010, as in the previous year, EUR 7m was recognised in other operating income.

The item also includes 56 aircraft carried at EUR 1,728m (previous year: 57 aircraft carried at EUR 1,928m), which have been sold and leased back to Japanese and British leasing companies, to leasing companies in the Bermudas and to a Swedish bank with the aim of obtaining favourable financing terms. The duration of these leasing agreements is between 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 not treated as leased assets under SIC 27.

Operating constraints apply to two of these aircraft financed via leasing companies in the Bermudas. They may not be primarily deployed in American airspace.

Order commitments for aircraft and reserve engines amount to EUR 6.8bn (previous year: EUR 6.4bn).

Within this item aircraft held at EUR 3,245m (previous year: EUR 2,700m) serve as collateral for current financing arrangements and aircraft held at EUR 342m (previous year: EUR 277m) were also acquired under finance leases, "Note 21" from p. 179.

## 19 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 1.1.2009 | 1,982 | 925 | 1,178 | 191 | 4,276 |
| Accumulated depreciation | −795 | −666 | −883 | −1 | − 2,345 |
| **Carrying amount 1.1.2009** | **1,187** | **259** | **295** | **190** | **1,931** |
| Currency translation differences | 2 | 0* | 0* | 0* | 2 |
| Additions due to changes in consolidation | 152 | 27 | 24 | 8 | 211 |
| Additions | 68 | 43 | 97 | 53 | 261 |
| Reclassifications | 120 | 30 | 31 | −184 | −3 |
| Disposals due to changes in consolidation | – | – | – | – | – |
| Disposals | −13 | −5 | −2 | −2 | −22 |
| Reclassifications to assets held for sale | – | – | – | – | – |
| Depreciation | −72 | −49 | −102 | – | −223 |
| Reversal of impairment losses | – | – | – | – | – |
| **Carrying amount 31.12.2009** | **1,444** | **305** | **343** | **65** | **2,157** |
| Cost as of 1.1.2010 | 2,297 | 1,008 | 1,218 | 65 | 4,588 |
| Accumulated depreciation | −853 | −703 | −875 | – | − 2,431 |
| **Carrying amount 1.1.2010** | **1,444** | **305** | **343** | **65** | **2,157** |
| Currency translation differences | 18 | 7 | 6 | 1 | 32 |
| Additions due to changes in consolidation | 13 | 2 | 6 | 0* | 21 |
| Additions | 16 | 24 | 87 | 46 | 173 |
| Reclassifications | 18 | 11 | 25 | −64 | −10 |
| Disposals due to changes in consolidation | – | – | – | – | – |
| Disposals | −5 | −4 | −8 | −4 | −21 |
| Reclassifications to assets held for sale | – | – | – | – | – |
| Depreciation | −77 | −52 | −104 | – | −233 |
| Reversal of impairment losses | 1 | – | – | – | 1 |
| **Carrying amount 31.12.2010** | **1,428** | **293** | **355** | **44** | **2,120** |
| Cost as of 31.12.2010 | 2,372 | 1,015 | 1,265 | 44 | 4,696 |
| Accumulated depreciation | −944 | −722 | −910 | – | − 2,576 |

* Rounded below EUR 1m.

Charges of EUR 21m (previous year: EUR 26m) exist over land and property. As in the previous year, pre-emption rights are registered for land held at EUR 251m (previous year: EUR 259m). Other property, plant and equipment carried at EUR 39m (previous year: EUR 40m) serves as collateral for existing financing arrangements. Miscellaneous equipment carried at EUR 192m (previous year: EUR 203m) was also acquired by means of finance leases, "Note 21" from p. 179.

The following items of property, plant and equipment have been ordered, but are not yet at the Group's economic disposal:

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Land and buildings | 2 | 3 |
| Technical equipment | 23 | 13 |
| Operating and office equipment | 35 | 21 |
| | **60** | **37** |

## 20 Investment property

| in €m | Investment property |
|---|---|
| Cost as of 1.1.2009 | 3 |
| Accumulated depreciation | 0* |
| **Carrying amount 1.1.2009** | **3** |
| Currency translation differences | 0* |
| Additions due to changes in consolidation | – |
| Additions | – |
| Reclassifications | – |
| Disposals due to changes in consolidation | – |
| Disposals | – |
| Reclassifications to assets held for sale | – |
| Depreciation | – |
| Reversal of impairment losses | – |
| **Carrying amount 31.12.2009** | **3** |
| Cost as of 1.1.2010 | 3 |
| Accumulated depreciation | 0* |
| **Carrying amount 1.1.2010** | **3** |
| Currency translation differences | 0* |
| Additions due to changes in consolidation | – |
| Additions | – |
| Reclassifications | – |
| Disposals due to changes in consolidation | – |
| Disposals | –3 |
| Reclassifications to assets held for sale | – |
| Depreciation | – |
| Reversal of impairment losses | – |
| **Carrying amount 31.12.2010** | **0*** |
| Cost as of 31.12.2010 | 0* |
| Accumulated depreciation | 0* |

* Rounded below EUR 1m.

A plot of land held exclusively as a financial investment is carried at EUR 0.1m. Its fair value as estimated by surveyors using market data is EUR 1m. In the 2010 financial year a plot of land previously held as a financial investment with a carrying amount and a fair value of EUR 3m was sold for a price of EUR 3m.

In the previous year the fair value of the two plots was EUR 4m.

## 21 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 sub-lessor of aircraft and reserve engines | Lessee of buildings | Lessor of buildings and land | Lessee of intangible assets and technical equipment | Lessee of other equipment, operating and office equipment |
|---|---|---|---|---|---|---|---|
| Cost as of 1.1.2009 | 243 | 239 | 5 | 170 | – | 6 | 17 |
| Accumulated depreciation | –190 | –95 | –2 | –65 | – | 0* | –17 |
| **Carrying amount 1.1.2009** | **53** | **144** | **3** | **105** | **–** | **6** | **1** |
| Currency translation differences | – | 3 | – | 0* | – | 0* | 0* |
| Additions due to changes in consolidation | 43 | – | – | 108 | – | – | – |
| Additions | 0* | 195 | – | 9 | – | – | – |
| Reclassifications | 2 | 5 | –2 | –8 | – | – | – |
| Disposals due to changes in consolidation | – | – | – | – | – | – | – |
| Disposals | 0* | –8 | – | –2 | – | 0* | – |
| Reclassifications to assets held for sale | – | –10 | – | – | – | – | – |
| Depreciation | –4 | –52 | –1 | –10 | – | 0* | 0* |
| Reversal of impairment losses | – | – | – | – | – | – | – |
| **Carrying amount 31.12.2009** | **94** | **277** | **–** | **202** | **–** | **6** | **0*** |
| Cost as of 1.1.2010 | 269 | 387 | – | 273 | – | 6 | 16 |
| Accumulated depreciation | –175 | –110 | – | –71 | – | 0* | –16 |
| **Carrying amount 1.1.2010** | **94** | **277** | **–** | **202** | **–** | **6** | **0*** |
| Currency translation differences | – | 49 | – | 7 | – | 0* | 0* |
| Additions due to changes in consolidation | – | – | – | – | – | – | – |
| Additions | – | 76 | – | 1 | – | 0* | – |
| Reclassifications | 78 | 5 | 9 | –5 | – | 0* | – |
| Disposals due to changes in consolidation | – | – | – | – | – | – | – |
| Disposals | –24 | – | – | 0* | – | 0* | – |
| Reclassifications to assets held for sale | –40 | –3 | – | – | – | – | – |
| Depreciation | –5 | –62 | –1 | –14 | – | 0* | 0* |
| Reversal of impairment losses | – | – | – | – | – | – | – |
| **Carrying amount 31.12.2010** | **103** | **342** | **8** | **191** | **–** | **6** | **0*** |
| Cost as of 31.12.2010 | 219 | 489 | 9 | 275 | – | 7 | 1 |
| Accumulated depreciation | –116 | –147 | –1 | –84 | – | –1 | –1 |

* Rounded below EUR 1m.

### Finance leases

The total amount of leased assets attributed to the Group's economic ownership under IAS 17 is EUR 547m (previous year: EUR 485m), of which EUR 350m (previous year: EUR 277m) relates to aircraft (two Airbus A340s, five Airbus A321s, ten Airbus A320s, four Airbus A319s, one Boeing B737, three Embraer 145s, one Dash 8-300 and one Fokker 70).

As a rule, aircraft finance lease agreements cannot be terminated during a fixed basic lease term of at least four years and they run for a maximum of twelve years.

Once the lease term has expired the lessee is usually entitled to acquire the asset at its residual value. If the lessee does not exercise this option the lessor will sell the aircraft at the best possible market price. If the sales price is lower than the residual value, the difference has to be paid by the lessee. Some lease agreements provide for variable lease payments to the extent that the interest portion is linked to market interest rates, normally the three- or six-month Libor rate.

In addition, the Group has a variety of finance leases for buildings, fixtures and for operating and office equipment. For buildings and fixtures the leases run for 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 | 2011 | 2012 – 2015 | from 2016 |
|---|---|---|---|
| Lease payments | 92 | 338 | 261 |
| Discounted amounts | 7 | 69 | 129 |
| Present values | 85 | 269 | 132 |
| Payments from sub-leasing | 2 | 4 | 0 |

In the previous year the following figures were given for finance leases:

| in €m | 2010 | 2011 – 2014 | from 2015 |
|---|---|---|---|
| Lease payments | 78 | 257 | 266 |
| Discounted amounts | 4 | 55 | 132 |
| Present values | 74 | 202 | 134 |
| Payments from sub-leasing | 2 | 6 | – |

One aircraft legally owned by the Group at the end of 2010 has been let to third parties under a finance lease until 2016. The lease is to generate the following cash inflows in subsequent periods:

| in €m | 2011 | 2012 – 2015 | from 2016 |
|---|---|---|---|
| Lease payments | 2 | 8 | 5 |
| Discounted amounts | 0 | 2 | 2 |
| Present values | 2 | 6 | 3 |

In the previous year the following figures were given for this finance lease:

| in €m | 2010 | 2011 – 2014 | from 2015 |
|---|---|---|---|
| Lease payments | 2 | 7 | 6 |
| Discounted amounts | 0 | 2 | 2 |
| Present values | 2 | 5 | 4 |

### 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 98 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 | 2011 | 2012–2015 | from 2016 |
|---|---|---|---|
| Aircraft | 210 | 377 | 30 p.a. |
| Various buildings | 237 | 886 | 198 p.a. |
| Other leases | 75 | 256 | 54 p.a. |
| | **522** | **1,519** | **282 p.a.** |
| Payments from sub-leasing | 17 | 39 | 2 p.a. |

In the previous year the following figures were given for operating leases:

| in €m | 2010 | 2011–2014 | from 2015 |
|---|---|---|---|
| Aircraft | 227 | 351 | 14 p.a. |
| Various buildings | 229 | 898 | 186 p.a. |
| Other leases | 81 | 279 | 63 p.a. |
| | **537** | **1,528** | **263 p.a.** |
| Payments from sub-leasing | 11 | 34 | 2 p.a. |

Eleven aircraft as well as reserve engines and intangible assets, legally and economically the property of the Group at the end of 2010, have been leased to third parties under non-terminable operating leases. These leases, which run for up to ten years, give rise to the following payments:

| in €m | 2011 | 2012–2015 | from 2016 |
|---|---|---|---|
| Aircraft | 19 | 12 | 5 p.a. |
| Intangible assets | 11 | 8 | – |
| | **30** | **20** | **5 p.a.** |

At the end of 2009 nine aircraft and spare engines legally and economically the property of the Group had been leased to third parties under non-terminable operating leases. These leases gave rise to the following payments:

| in €m | 2010 | 2011–2014 | from 2015 |
|---|---|---|---|
| Payments received from operating leases | 17 | 30 | 5 p.a. |

## 22 Investments accounted for using the equity method

| in €m | Investments in joint ventures | Investments in associated companies | **Total** |
|---|---|---|---|
| Cost as of 1.1.2009 | 165 | 140 | 305 |
| Accumulated impairment losses | – | –7 | –7 |
| **Carrying amount 1.1.2009** | **165** | **133** | **298** |
| Currency translation differences | –2 | –2 | –4 |
| Additions due to changes in consolidation | – | 4 | 4 |
| Additions | 17 | 79 | 96 |
| Reclassifications | 5 | 0* | 5 |
| Disposals due to changes in consolidation | –4 | –14 | –18 |
| Disposals | –33 | –25 | –58 |
| Reclassifications to assets held for sale | –1 | – | –1 |
| Impairment losses | –2 | – | –2 |
| Reversal of impairment losses | – | – | – |
| **Carrying amount 31.12.2009** | **145** | **175** | **320** |
| Cost as of 1.1.2010 | 145 | 183 | 328 |
| Accumulated impairment losses | – | –8 | –8 |
| **Carrying amount 1.1.2010** | **145** | **175** | **320** |
| Currency translation differences | 11 | 7 | 18 |
| Additions due to changes in consolidation | – | – | – |
| Additions | 39 | 18 | 57 |
| Reclassifications | 31 | – | 31 |
| Disposals due to changes in consolidation | – | – | – |
| Disposals | –28 | –7 | –35 |
| Reclassifications to assets held for sale | –2 | –4 | –6 |
| Impairment losses | – | – | – |
| Reversal of impairment losses | – | – | – |
| **Carrying amount 31.12.2010** | **196** | **189** | **385** |
| Cost as of 31.12.2010 | 196 | 194 | 390 |
| Accumulated impairment losses | – | –5 | –5 |

* Rounded below EUR 1m.

In one case (previous year: two cases) the carrying amounts for associated companies were not reduced below EUR 0m. Losses at associated companies of EUR 16m (previous year: EUR 21m) were not taken into account.

## 23 Financial assets by category

**Financial assets in the balance sheet as of 31.12.2010**

| 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 | – | – | 1,128 | – |
| Non-current securities | – | – | 250 | – |
| Loans | 170 | – | – | – |
| Non-current receivables | 450 | – | – | – |
| Non-current derivative financial instruments | – | 124 | – | 226 |
| Trade receivables and other current receivables | 3,401 | – | – | – |
| Current derivative financial instruments | – | 167 | – | 317 |
| Current securities | – | 7 | 4,276 | – |
| Cash and cash equivalents | – | – | 1,097 | – |
| **Total** | **4,021** | **298** | **6,751** | **543** |

**Financial assets in the balance sheet as of 31.12.2009**

| 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 | – | – | 878 | – |
| Non-current securities | – | – | 349 | – |
| Loans | 132 | – | – | – |
| Non-current receivables | 374 | – | – | – |
| Non-current derivative financial instruments | – | 121 | – | 134 |
| Trade receivables and other current receivables | 3,033 | – | – | – |
| Current derivative financial instruments | – | 107 | – | 145 |
| Current securities | – | 9 | 3,294 | – |
| Cash and cash equivalents | – | – | 1,136 | – |
| **Total** | **3,539** | **237** | **5,657** | **279** |

The financial assets in the category "at fair value through profit or loss" in both financial years include assets held for trading and time values of options used for hedging of EUR 218m (previous year: EUR 179m) 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:

**2010**

| in €m | Other operating income | Other operating expenses | Result of equity investments | Other financial items | **Net result** |
|---|---|---|---|---|---|
| Loans and receivables | 52 | –110 | – | –11 | **–69** |
| Financial assets at fair value through profit or loss | – | – | – | 25 | **25** |
| Ineffective portion of derivatives used as cash flow hedges | – | – | – | –18 | **–18** |
| Available-for-sale financial assets | 210 | -15 | – | –5 | **190** |

**2009**

| in €m | Other operating income | Other operating expenses | Result of equity investments | Other financial items | **Net result** |
|---|---|---|---|---|---|
| Loans and receivables | 43 | –129 | – | –21 | **–107** |
| Financial assets at fair value through profit or loss | – | – | – | –75 | **–75** |
| Ineffective portion of derivatives used as cash flow hedges | – | – | – | 95 | **95** |
| Available-for-sale financial assets | 59 | –27 | – | –145 | **–113** |

**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 prices for which are taken for measurement unchanged.

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.

In the financial year 2009 the fair value hierarchy for assets held at fair value was as follows:

**Assets as of 31.12.2010**

| 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 | – | 291 | – | 291 |
| Current securities | – | 3 | 4 | 7 |
| **Total financial assets through profit and loss** | **–** | **294** | **4** | **298** |
| **Derivative financial instruments which are an effective part of a hedging relationship** | **–** | **543** | **–** | **543** |
| **Available-for-sale financial assets** | | | | |
| Equity instruments | 841 | – | – | 841 |
| Debt instruments | 809 | 3,684 | 20 | 4,513 |
| | **1,650** | **3,684** | **20** | **5,354** |
| **Total assets** | **1,650** | **4,521** | **24** | **6,195** |

**Assets as of 31.12.2009**

| 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 | – | 228 | – | 228 |
| Current securities | – | 6 | 3 | 9 |
| **Total financial assets through profit and loss** | **–** | **234** | **3** | **237** |
| **Derivative financial instruments which are an effective part of a hedging relationship** | **–** | **279** | **–** | **279** |
| **Available-for-sale financial assets** | | | | |
| Equity instruments | 652 | – | – | 652 |
| Debt instruments | 780 | 2,694 | 24 | 3,498 |
| | **1,432** | **2,694** | **24** | **4,150** |
| **Total assets** | **1,432** | **3,207** | **27** | **4,666** |

**Additional disclosures on financial assets in Level 3 as of 31.12.2010**

| in €m | 1.1.2010 | Recognised in result for the period | Change in market value recognised in equity | Disposals | **31.12.2010** |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 3 | 1 | – | 0* | 4 |
| Available-for-sale financial assets | 24 | 0* | 0* | –4 | 20 |
| **Total** | **27** | **1** | **0*** | **–4** | **24** |

* Rounded below EUR 1m.

**Additional disclosures on financial assets in Level 3 as of 31.12.2009**

| in €m | 1.1.2009 | Recognised in result for the period | Change in market value recognised in equity | Disposals | **31.12.2009** |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 4 | –1 | – | – | 3 |
| Available-for-sale financial assets | 27 | –2 | –1 | – | 24 |
| **Total** | **31** | **–3** | **–1** | **–** | **27** |

## 24 Other equity investments and non-current securities

The following table shows changes in other equity investments and non-current securities in the years 2010 and 2009:

| in €m | Investments in affiliated companies | Equity investments | Non-current securities | **Total** |
|---|---|---|---|---|
| Cost as of 1.1.2009 | 272 | 674 | 516 | 1,462 |
| Accumulated impairment losses | –43 | –113 | –7 | –163 |
| **Carrying amount 1.1.2009** | **229** | **561** | **509** | **1,299** |
| Currency translation differences | 0* | –2 | 0* | –2 |
| Additions due to changes in consolidation | 93 | 2 | 175 | 270 |
| Additions | 16 | 194 | 12 | 222 |
| Reclassifications | –5 | – | – | –5 |
| Disposals due to changes in consolidation | –10 | – | – | –10 |
| Disposals | –4 | –53 | –346 | –403 |
| Reclassifications to assets held for sale | 2 | – | – | 2 |
| Impairment losses | –4 | –141 | –1 | –146 |
| Reversal of impairment losses | – | – | – | – |
| **Carrying amount 31.12.2009** | **317** | **561** | **349** | **1,227** |
| Cost as of 1.1.2010 | 361 | 814 | 354 | 1,529 |
| Accumulated impairment losses | –44 | –253 | –5 | –302 |
| **Carrying amount 1.1.2010** | **317** | **561** | **349** | **1,227** |
| Currency translation differences | 4 | 0* | 0* | 4 |
| Additions due to changes in consolidation | – | – | – | – |
| Additions | 12 | 667 | 3 | 682 |
| Reclassifications | –34 | –1 | – | –35 |
| Disposals due to changes in consolidation | –11 | – | – | –11 |
| Disposals | –5 | –377 | –102 | –484 |
| Reclassifications to assets held for sale | – | – | – | – |
| Impairment losses | –5 | – | 0* | –5 |
| Reversal of impairment losses | – | – | – | – |
| **Carrying amount 31.12.2010** | **278** | **850** | **250** | **1,378** |
| Cost as of 31.12.2010 | 327 | 979 | 250 | 1,556 |
| Accumulated impairment losses | –49 | –129 | 0* | –178 |

* Rounded below EUR 1m.

Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. For equity investments held at EUR 20m (previous year: EUR 51m) and non-current securities held at EUR 8m (previous year: EUR 9m) there is no active market with publicly available market prices. Following the company's successful flotation in April 2010 the stake in Amadeus IT Holding S.A. held in the 2009 financial statements at cost (EUR 34m) is marked to market in the consolidated balance sheet.

As of 31 December 2010 the market value was EUR 534m. In the 2010 financial year equity investments carried at EUR 34m were sold, which were not previously held at fair value as no active market existed for them.

This resulted in a gain of EUR 73m. EUR 67m of the total was realised on the sale of 6.2 million shares in Amadeus IT Holding S.A.

Securities held at EUR 11m (previous year: EUR 26m) were pledged as collateral for liabilities.

## 25 Non-current loans and receivables

**Loans and receivables**

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Loans to and receivables from affiliated companies | 84 | 91 |
| Loans to and receivables from other equity investments | 0* | 1 |
| Other loans and receivables | 535 | 414 |
| Pre-financed rental property | 1 | 0* |
| | **620** | **506** |

* 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.

Collateral received for other loans has a fair value of EUR 3m.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 2m (previous year: EUR 5m).

Of the non-current receivables, EUR 122m (previous year: EUR 113m) serves as collateral for liabilities.

## 26 Derivative financial instruments

Derivative financial instruments qualifying as effective hedging instruments within a hedging relationship have the following balances:

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Positive market values – long-term | 226 | 134 |
| Positive market values – short-term | 317 | 145 |
| Negative market values – long-term | –78 | –137 |
| Negative market values – short-term | –85 | –100 |
| | **380** | **42** |

They relate to the following hedged items:

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Fuel price hedges | 311 | 192 |
| Exchange rate hedges | –76 | –251 |
| Interest rate hedges | 145 | 101 |

Derivative financial instruments measured at fair value through profit or loss are shown in the following table:

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Positive market values – long-term | 124 | 121 |
| Positive market values – short-term | 167 | 107 |
| Negative market values – long-term | –33 | –88 |
| Negative market values – short-term | –18 | –6 |
| | **240** | **134** |

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.

Fair values are all calculated on the basis of recognised financial and mathematical methods, using publicly available market information.

## 27 Inventories

**Inventories**

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Raw materials, consumables and supplies | 550 | 536 |
| Finished goods and work in progress | 111 | 110 |
| Advance payments | 1 | 0* |
| | **662** | **646** |

* Rounded below EUR 1m.

Inventories valued at EUR 39m (previous year: EUR 32m) are pledged as collateral for loans.

The gross value of inventories as of 31 December 2010 was EUR 841m (previous year: EUR 810m). Of these, inventories at a carrying amount of EUR 499m (previous year: EUR 516m) were recognised at fair value less costs to sell (net realisable value). Write-downs of EUR 179m (previous year EUR 164m) were made to net realisable value. In the reporting period new write-downs were made for EUR 30m (previous year: EUR 15m). Write-downs of EUR 4m made the previous year were reversed (previous year: EUR 2m).

## 28 Trade receivables and other receivables

| in €m | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Trade receivables** | | |
| Trade receivables from affiliated companies | 117 | 102 |
| Trade receivables from other equity investments | 3 | 1 |
| Trade receivables from third parties | 2,542 | 1,937 |
| | **2,662** | **2,040** |
| of which: from unfinished orders less advance payments received | (148) | (116) |
| **Other receivables** | | |
| Receivables from affiliated companies | 93 | 88 |
| Receivables from other equity investments | 0* | 0* |
| Other receivables | 646 | 905 |
| | **739** | **993** |
| **Total** | **3,401** | **3,033** |

* Rounded below EUR 1m.

The carrying amount of these receivables corresponds fo their fair value.

Collateral received for trade receivables has a fair value of EUR 1m.

EUR 61m of trade receivables (previous year: EUR 5m) were pledged as collateral for loans.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 5m (previous year: EUR 4m).

Of the other receivables, EUR 30m served the previous year as collateral for liabilities.

## 29 Deferred charges and prepaid expenses

Deferred charges and prepaid expenses consist mainly of rents, insurance premiums and interest paid in advance for subsequent periods.

## 30 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.

## 31 Cash and cash equivalents

The bank balances denominated in euros with various banks mostly earned interest at a rate of 0.3 to 1.5 per cent (previous year: 0.2 to 0.9 per cent). USD balances were invested at an average interest rate of 1.5 per cent (previous year: 0.1 per cent) and balances in Swiss francs at an average rate of 0.25 per cent (previous year: 0.25 per cent).

EUR 47m of the bank balances (previous year: EUR 27m) was pledged as collateral for liabilities.

Bank balances in foreign currencies are translated at the exchange rate on the balance sheet date.

## 32 Assets held for sale

At year-end 2010 held-for-sale assets consisted of one Airbus A340-300, one Airbus A330-200, two Airbus A330-300s, six Canadair Regional Jet 200s, five ATR 42-500s, two Dash 8-300s and four Cessna Citations. Impairment losses of EUR 24m were recognised on these assets.

At year-end 2009 this item consisted of one Airbus A340-300, six Airbus A300-600s, twelve Canadair Regional Jet 200s, three ATR 42-500s and two Dash 8-300s. All assets were sold in the 2010 financial year, “Note 44” on p. 200.

## SHAREHOLDERS' EQUITY AND LIABILITIES

### 33 Issued capital

Deutsche Lufthansa AG's issued capital totals EUR 1,172.3m. Issued capital is divided into 457,937,572 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 on one or more occasions 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. To the extent that it had not previously been used, the Executive Board authorisation given at the Annual General Meeting on 25 May 2005, which expired on 24 May 2010, was revoked from the date the new authorisation took effect.

A resolution passed at the Annual General Meeting on 17 May 2006 authorised the Executive Board until 16 May 2011, subject to approval by the Supervisory Board, to issue bearer or registered convertible bonds, bond/warrant packages, profit sharing rights or participating bonds, on one or more occasions, for a total nominal value of up to EUR 1.5bn, with or without restrictions on maturity. To do so, contingent capital (contingent capital II) was created for a contingent capital increase of up to EUR 117,227,520, by issuing up to 45,792,000 new registered shares. The contingent capital increase will only take place insofar as the holders of convertible bonds or warrants from bond/warrant packages decide to exercise their conversion and or option rights.

Under the authorisation dated 16 June 1999 Deutsche Lufthansa AG had issued EUR 750m in convertible bonds with effect from 4 January 2002. The pre-emptive right of the old shareholders was excluded. A total of 750,000 conversion rights were issued that after the 2004 capital increase entitled the holders to convert them into up to 37,764,350 Deutsche Lufthansa AG shares at a price of EUR 19.86 each. 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 the balance sheet date 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.

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.

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. At the same Annual General Meeting the existing authorisation to purchase treasury shares which expired on 23 October 2010 was revoked.

In 2010 Deutsche Lufthansa AG bought back a total of 495,122 of its own shares at an average price of EUR 16.14. This is equivalent to 0.11 per cent of issued capital.

The shares were used as follows:

- 493,610 shares were used as part of performance-related variable remuneration in 2010 for managers and non-payscale staff of Deutsche Lufthansa AG and 24 further affiliated companies and equity investments at a price of EUR 15.38.
- 372 shares were allocated to managers and non-payscale staff as part of performance-related remuneration for 2008 at a price of EUR 10.73.
- 1,140 shares were allocated to managers and non-payscale staff as part of performance-related remuneration for 2009 at a price of EUR 10.50.

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 2010 and 2009, equity and total assets were as follows:

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Shareholders' equity | 8,340 | 6,202 |
| in % of total assets | 28.4 | 23.5 |
| Liabilities | 20,980 | 20,190 |
| in % of total assets | 71.6 | 76.5 |
| **Total capital** | **29,320** | **26,392** |

In the financial year 2010 the equity ratio rose again year on year by 4.9 percentage points to EUR 28.4 per cent. The improvement is largely due to the positive after-tax result of EUR 1,143m, the first-time market valuation of the stake in Amadeus IT Holding S.A. (EUR +524m), changes in market values of other financial assets (EUR +170m) and positive exchange rate differences (EUR +311m).

Lufthansa ist not subject to any statute-like capital requirements. Obligations to issue shares still exist in connection with the convertible bond to the extent that the options have not yet been exercised. No conversion rights were exercised in 2010. The still outstanding conversion rights are listed in the comments on contingent capital.

## 34 Notifications on the shareholder structure

**Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 19 April 2010**

On 14 April 2010 Deka Investment GmbH, Frankfurt, Germany, notified us on behalf and with the authorisation of Deka International S.A, Luxembourg, Luxembourg, that the voting rights of Deka International S.A, Luxembourg, Luxembourg, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 9 April 2010 and came to 3.21 per cent on this date (14,690,725 voting shares).

**Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 23 April 2010**

On 21 April 2010 Deka Investment GmbH, Frankfurt, Germany, notified us on behalf and with the authorisation of Deka International S.A, Luxembourg, Luxembourg, that the voting rights of Deka International S.A, Luxembourg, Luxembourg, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 19 April 2010 and came to 2.55 per cent on this date (11,690,725 voting shares).

**Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 4 May 2010**

On 30 April 2010 Janus Capital Management LLC, Denver, Colorado, USA, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG had fallen below the threshold of 3 per cent on 29 April 2010, and that it now held 3.29 per cent of voting rights (15,088,270 voting shares). Of the total, 3.29 per cent (15,088,270 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) dated 18 January 2011**

On 14 January 2011 BlackRock Investment Management (UK) Limited, London, UK, notified us on behalf and with the authorisation of the following companies that the voting rights of BlackRock, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 10 January 2011 and on this date came to 5.08 per cent (23,255,011 voting shares). Of the total, 5.08 per cent (23,255,011 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 10 January 2011 and on this date came to 5.003 per cent (22,912,821 voting shares). Of the total, 5.003 per cent (22,912,821 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 10 January 2011 and on this date came to 5.003 per cent (22,912,821 voting shares). Of the total, 5.003 per cent (22,912,821 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

## 35 Reserves

Capital reserves only include the share premium paid on capital increases and a convertible bond. No conversion rights were exercised in 2010, as in the previous year.

The statutory reserve included in retained earnings remains unchanged at EUR 26m; other reserves consist of retained earnings.

The following table shows changes in other neutral reserves in 2010:

**Other comprehensive income (OCI)**

| in €m | **2010** | 2009 |
|---|---|---|
| **Other comprehensive income after income taxes** | | |
| **Differences from currency translation** | 311 | –18 |
| of which reclassified through profit or loss | – | – |
| **Subsequent measurement of available-for-sale financial assets** | | |
| Profit/loss for the period | 666 | 117 |
| Reclassification adjustments | –181 | 76 |
| **Subsequent measurement of cash flow hedges** | | |
| Profit/loss for the period | 396 | –205 |
| Reclassification adjustments | –11 | –94 |
| Transfer to cost of hedged items | –97 | 111 |
| **Other comprehensive income from investments accounted for using the equity method** | –4 | –7 |
| **Revaluation due to business combinations** | – | –44 |
| **Other expenses and income recognised directly in equity** | 14 | –13 |
| **Income taxes on items in other comprehensive income** | –79 | 34 |
| **Other comprehensive income after income taxes** | **1,015** | **–43** |

**Note on income taxes recognised for other comprehensive income**

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| in €m | **Amount before income taxes** | **Tax expense/income** | **Amount after income taxes** | Amount before income taxes | Tax expense/income | Amount after income taxes |
| Differences from currency translation | 311 | – | 311 | –18 | – | –18 |
| Subsequent measurement of available-for-sale financial assets | 485 | –15 | 470 | 193 | –5 | 188 |
| Subsequent measurement of cash flow hedges | 288 | –64 | 224 | –188 | 39 | –149 |
| Other comprehensive income from investments accounted for using the equity method | –4 | – | –4 | –7 | – | –7 |
| Revaluation due to business combinations | – | – | – | –44 | – | –44 |
| Other expenses and income recognised directly in equity | 14 | – | 14 | –13 | – | –13 |
| **Other comprehensive income** | **1,094** | **–79** | **1,015** | **–77** | **34** | **–43** |

The overall change in equity is shown in the consolidated statement of changes in Lufthansa shareholders' equity.

## 36 Pension provisions

A company pension scheme exists for staff working in Germany and staff delegated abroad. For staff who joined the Group before 1995 the supplementary pension scheme for state employees (VBL) was initially retained as the Company's pension scheme. Following collective agreements in 2003 to harmonise retirement benefits for ground and flight staff, the pension scheme for ground and flight staff was also converted to an average salary plan for cockpit staff under the terms of the 4 December 2004 wage settlement. The retirement benefit commitment is now equal to that for staff who joined the Company after 1994. 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 runs no financial or actuarial risks from these obligations. In 2010 contributions toward defined-contribution pension plans amounted to EUR 358m (previous year: EUR 345m).

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 2004 Lufthansa Pension Trust had been started financing funds assets for future annuity payments and its assignment to fund future pension payments. The aim was to outsource the pension obligations in full within 10 to 15 years. In 2010 a further EUR 576m was transferred for staff, taking the total transferred to the pension trust to EUR 4,342m.

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 Airlines 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 assumptions**

| in % | **31.12.2010** | 31.12.2009 | 31.12.2008 |
|---|---|---|---|
| Interest rate in Germany | 5.0 | 5.5 | 6.0 |
| Projected salary increase in Germany | 2.75 | 2.75 | 2.75 |
| Projected pension increase in Germany | 1.0 – 2.75 | 1.0 – 2.75 | 1.0 – 2.75 |
| Interest rate abroad | 2.75 – 5.75 | 3.3 – 5.9 | 3.9 – 6.7 |
| Projected salary increase abroad | 1.5 – 5.0 | 1.5 – 5.0 | 1.5 – 4.5 |
| Projected pension increase abroad | 0.0 – 3.7 | 0.0 – 3.5 | 0.0 – 2.8 |
| Health care cost trend for pensioners abroad | 7.5 | 12.0 | 10.0 |
| Expected return on external plan assets in Germany* | 5.2 | 5.2 | 5.2 |
| Expected return on external plan assets abroad | 2.4 – 8.3 | 2.8 – 8.3 | 3.5 – 8.3 |

* Post-tax interest since 2008.

Since 31 December 2005 biometric calculations have been based on the 2005 G Heubeck life-expectancy tables, with fluctuation estimated on the basis of age and gender.

The projected return on plan assets is generally based on the plan's investment policy relating to the selection of asset classes. The expected return on equity investments takes into account historic interest rates, future inflation rates, expected dividends and economic growth. The projected return on fixed-interest instruments is based on current interest rates for long-term securities, subject to a risk discount if appropriate. The projected return on property assets corresponds to that of equity investments. For other assets, mainly bank balances, the interest paid on current deposits on the balance sheet date was applied.

An increase or decrease in the assumed health care costs for pensioners by 1 per cent would have the following effects:

| in € thousands | Increase | Decrease |
|---|---|---|
| Service costs and interest expenses | +21 | −22 |
| Health care commitments | +420 | −427 |

On the balance sheet date the present value of pension obligations and the fair values of plan assets were as follows:

| in €m | **31.12.2010** | 31.12.2009 | 31.12.2008 | 31.12.2007 | 31.12.2006 |
|---|---|---|---|---|---|
| Present value of funded pension obligations in Germany | 5,485 | 4,730 | 4,081 | 4,068 | 4,455 |
| Plan assets in Germany | 4,805 | 3,921 | 3,445 | 3,580 | 1,839 |
| **Deficit (+) / surplus (–)** | **680** | **809** | **636** | **488** | **2,616** |
| Present value of funded pension obligations abroad | 3,266 | 2,726 | 1,712 | 1,603 | 532 |
| Plan assets abroad | 2,682 | 2,212 | 1,476 | 1,648 | 469 |
| **Deficit (+) / surplus (–)** | **584** | **514** | **236** | **−45** | **63** |
| **Present value of unfunded pension obligations** | **2,411** | **2,157** | **1,961** | **1,948** | **2,042** |

On the balance sheet date for 2010 the portfolio of external plan assets was made up as follows:

| | **Plan assets Germany** | | **Plan assets abroad** | |
|---|---|---|---|---|
| | in €m | in % | in €m | in % |
| Shares | 1,494 | 31.1 | 1,155 | 43.1 |
| Fixed-income instruments, bonds | 2,220 | 46.2 | 1,135 | 42.3 |
| Property | – | – | 283 | 10.5 |
| Other | 1,091 | 22.7 | 109 | 4.1 |
| | **4,805** | **100.0** | **2,682** | **100.0** |

In 2010 the effective gain on plan assets came to EUR 426m (previous year: gain of EUR 392m).

**Change in fair value of plan assets**

| in €m | **2010** | 2009 |
|---|---|---|
| Carried forward 1.1. | 9,613 | 7,754 |
| Currency translation differences carried forward | 304 | −13 |
| Additions from company acquisitions | – | 901 |
| Other changes in the group of consolidated companies | 17 | – |
| Current service costs | 353 | 299 |
| Past service costs | 23 | −73 |
| Interest expenses | 497 | 444 |
| Contributions by plan participants | 27 | 29 |
| Actuarial gains / losses | 652 | 557 |
| Pension payments | −290 | −268 |
| Plan cuts / settlements | −34 | −17 |
| **Balance on 31.12.** | **11,162** | **9,613** |

**Change in fair value of plan assets**

| in €m | 2010 | 2009 |
|---|---|---|
| Carried forward 1.1. | 6,133 | 4,921 |
| Currency translation differences carried forward | 282 | –3 |
| Additions from company acquisitions | – | 479 |
| Other changes in the group of consolidated companies | 17 | – |
| Expected return on plan assets | 315 | 261 |
| Actuarial gains / losses | 111 | 133 |
| Contributions by plan participants | 27 | 29 |
| Employer contributions | 690 | 380 |
| Pension payments | –83 | –67 |
| Plan cuts / settlements | –5 | – |
| **Balance on 31.12.** | **7,487** | **6,133** |

The carrying amount of pension provisions is lower than the present value of pension obligations due to unrecognised actuarial losses:

**Funding status**

| in €m | 2010 | 2009 |
|---|---|---|
| Present value of unfunded pension obligations | 2,411 | 2,157 |
| Present value of funded pension obligations abroad | 3,266 | 2,726 |
| Present value of funded pension obligations Germany | 5,485 | 4,730 |
| External plan assets abroad | –2,682 | –2,212 |
| External plan assets Germany | –4,805 | –3,921 |
| Unrecognised actuarial losses | –1,416 | –866 |
| Unrecognised past service costs | 75 | 68 |
| "Unrealised" asset surpluses | 237 | 28 |
| | **2,571** | **2,710** |

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 of the interest rate on domestic pension obligations.

In financial years 2010 and 2009 pension provisions developed as follows:

**Pension provisions**

| in €m | 2010 | 2009 |
|---|---|---|
| Carried forward | 2,710 | 2,400 |
| Currency translation differences carried forward | 9 | –7 |
| Changes in the group of consolidated companies | – | 421 |
| Pensions payments | –207 | –201 |
| Additions | 545 | 480 |
| Allocation to plan assets / staff changes | –486 | –383 |
| **Year-end total** | **2,571** | **2,710** |

In addition to recognised contributions that reduce the amount of provisions, further plan assets totalling EUR 237m are also shown under consolidated assets as an "artificial" 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 | 2010 | 2009 |
|---|---|---|
| Current service costs | 353 | 299 |
| Recognised actuarial losses | 15 | 21 |
| Recognised actuarial gains | – | – |
| Past service costs | 19 | –6 |
| Plan curtailments / settlements | –29 | –17 |
| Interest effect of projected pension obligations | 497 | 444 |
| Projected earnings from external plan assets | –315 | –261 |
| Net effect of adjustment for asset ceiling | 5 | – |
| | **545** | **480** |

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:

**Adjustments from past experience**

| in €m | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Pension obligations | –111 | –139 | +122 | +30 | +7 |
| Plan assets | +111 | +132 | –1,006 | –77 | 0* |
| **Total** | **+222** | **+271** | **–1,128** | **–107** | **–7** |

* Rounded below EUR 1m.

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 2011 an estimated EUR 950m 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.

## 37 Other provisions

Other provisions disclosed in the balance sheet as non-current and current provisions are made up as follows:

| | **31.12.2010** | | | 31.12.2009 | | |
|---|---|---|---|---|---|---|
| in €m | **Total** | **Non-current** | **Current** | Total | Non-current | Current |
| Obligations under partial retirement contracts | 41 | 6 | 35 | 64 | 10 | 54 |
| Other staff costs | 279 | 219 | 60 | 284 | 214 | 70 |
| Onerous contracts | 197 | 126 | 71 | 142 | 73 | 69 |
| Environmental restoration | 32 | 28 | 4 | 30 | 25 | 5 |
| Legal proceedings | 72 | 17 | 55 | 77 | 15 | 62 |
| Restructuring / severance payments | 61 | 3 | 58 | 199 | 4 | 195 |
| Fixed-price customer maintenance contracts | 104 | 19 | 85 | 139 | 22 | 117 |
| Maintenance of aircraft on operating leases | 363 | 175 | 188 | 402 | 209 | 193 |
| Warranties | 38 | – | 38 | 30 | – | 30 |
| Other provisions | 337 | 50 | 287 | 375 | 48 | 327 |
| **Total** | **1,524** | **643** | **881** | **1,742** | **620** | **1,122** |

Provisions for staff costs mainly relate to staff anniversary bonuses, variable payment portions and other current obligations. 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. Provision for legal proceedings is based on an assessment of the likely outcome of the proceedings.

Changes in groups of individual provisions in 2010 were as follows:

| in €m | Obligations under partial retirement contracts | Other staff costs | Onerous contracts | Environmental restoration | Legal proceedings | Restructuring / severance payments |
|---|---|---|---|---|---|---|
| As of 1.1.2010 | 64 | 284 | 142 | 30 | 77 | 199 |
| Changes in the group of consolidated companies | – | 0* | – | – | – | – |
| Currency translation differences | – | 2 | 7 | 0* | 1 | 0* |
| Utilisation | −64 | −36 | −59 | −2 | −7 | −109 |
| Increase / additional provisions | 34 | 39 | 112 | 3 | 17 | 27 |
| Interest added back | 7 | 16 | 2 | 1 | 0* | 0* |
| Reversal | 0* | −11 | −7 | 0* | −16 | −56 |
| Transfers | 0* | −15 | – | – | 0* | 0* |
| **As of 31.12.2010** | **41** | **279** | **197** | **32** | **72** | **61** |

* Rounded below EUR 1m.

| in €m | Fixed-price customer maintenance contracts | Maintenance of aircraft on operating leases | Warranties | Other provisions | **Total** |
|---|---|---|---|---|---|
| As of 1.1.2010 | 139 | 402 | 30 | 375 | **1,742** |
| Changes in the group of consolidated companies | – | 5 | 1 | – | **6** |
| Currency translation differences | 0* | 10 | 0* | 2 | **22** |
| Utilisation | –89 | –160 | –14 | –130 | **–670** |
| Increase/additional provisions | 60 | 106 | 24 | 123 | **545** |
| Interest added back | 1 | 12 | – | 1 | **40** |
| Reversal | –7 | –3 | –3 | –20 | **–123** |
| Transfers | – | –9 | – | –14 | **–38** |
| **As of 31.12.2010** | **104** | **363** | **38** | **337** | **1,524** |

* Rounded below EUR 1m.

The funding status for provisions for obligations to staff under partial retirement agreements is as follows:

**Funding status**

| in €m | **2010** | 2009 |
|---|---|---|
| Present value of funded obligations under partial retirement agreements | 190 | 219 |
| External plan assets | –149 | –155 |
| | **41** | **64** |

In 2005 EUR 97m was transferred to an external trust fund as insolvency insurance for employer's performance arrears, under phased 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 % | **2010** | 2009 | 2008 |
|---|---|---|---|
| Interest rate | 2.2 | 5.5 | 6.0 |
| Projected earnings from external plan assets | 3.1 | 3.2 | 6.0 |

The following cash outflows are estimated for the non-current portion of the other groups of provisions:

| in €m | 2012 | 2013 | 2014 | 2015 and thereafter |
|---|---|---|---|---|
| Onerous contracts | 43 | 18 | 16 | 57 |
| Environmental restoration | 4 | 3 | 3 | 20 |
| Restructuring/severance payments | 2 | 0* | 0* | 0* |
| Fixed-price customer maintenance contracts | 11 | 7 | 0* | 2 |
| Maintenance of aircraft on operating leases | 89 | 42 | 22 | 35 |
| Other provisions | 22 | 18 | 5 | 47 |

* Rounded below EUR 1m.

At the end of 2009 the cash outflows were estimated as follows:

| in €m | 2011 | 2012 | 2013 | 2014 and thereafter |
|---|---|---|---|---|
| Onerous contracts | 35 | 15 | 23 | 10 |
| Environmental restoration | 3 | 3 | 3 | 19 |
| Restructuring/severance payments | 1 | 1 | 0* | 0* |
| Fixed-price customer maintenance contracts | 17 | 6 | – | – |
| Maintenance of aircraft on operating leases | 99 | 63 | 30 | 36 |
| Other provisions | 12 | 6 | 4 | 46 |

* Rounded below EUR 1m.

## 38 Financial liabilities by category

**Financial liabilities in the balance sheet as of 31.12.2010**

| 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 | – | – | 7,184 |
| Derivative financial instruments | 51 | 163 | – |
| Trade payables | – | – | 2,902 |
| Other financial liabilities | – | – | 1,401 |
| **Total** | **51** | **163** | **11,487** |

**Financial liabilities in the balance sheet as of 31.12.2009**

| 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 | – | – | 6,802 |
| Derivative financial instruments | 94 | 237 | – |
| Trade payables | – | – | 2,552 |
| Other financial liabilities | – | – | 1,331 |
| **Total** | **94** | **237** | **10,685** |

The measurement of derivative financial instruments held at fair value was made on the basis of observable market data.

## 39 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 31.12.2010**

| in €m | **Total** | Non-current | Current |
|---|---|---|---|
| Bonds | 2,177 | 2,177 | 0* |
| Liabilities to banks | 1,925 | 1,358 | 567 |
| Leasing liabilities and other loans | 3,082 | 2,692 | 390 |
| | **7,184** | **6,227** | **957** |

* Rounded below EUR 1m.

**Borrowings 31.12.2009**

| in €m | **Total** | Non-current | Current |
|---|---|---|---|
| Bonds | 2,264 | 2,170 | 94 |
| Liabilities to banks | 1,909 | 1,535 | 374 |
| Leasing liabilities and other loans | 2,629 | 2,404 | 225 |
| | **6,802** | **6,109** | **693** |

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 valid interest rates for the remaining term to maturity and repayment structures at the balance sheet date based on available market information (Reuters).

| **Borrowings** | **31.12.2010** | | 31.12.2009 | |
|---|---|---|---|---|
| in €m | **Carrying amount** | **Market value** | Carrying amount | Market value |
| Bonds | 2,177 | 2,462 | 2,264 | 2,597 |
| Liabilities to banks | 1,925 | 2,089 | 1,909 | 1,961 |
| Leasing liabilities and other loans | 3,082 | 3,133 | 2,629 | 2,752 |
| **Total** | **7,184** | **7,684** | **6,802** | **7,310** |

Collateral was provided for EUR 1,155m of the liabilities to banks (previous year: EUR 1,095m).

There were no delays or defaults on payment obligations under these loan agreements in either 2010 or 2009.

Leasing liabilities and other loans relate exclusively to finance leases described in "Note 21" from p. 179 and aircraft financing arrangements described in "Note 18" from p. 176.

## 40 Other non-current financial liabilities

**Other non-current financial liabilities**

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Liabilities to banks | – | – |
| Payables to affiliated companies | – | – |
| Liabilities to other equity investments | – | – |
| Other financial liabilities | 110 | 87 |
| | **110** | **87** |

The carrying amount for financial liabilities is equivalent to their fair value, as they pay interest at a floating or market standard rate.

## 41 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 | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Advance payments received | 5 | 4 |
| Deferred income | 666 | 623 |
| Other non-financial liabilities | 416 | 373 |
| | **1,087** | **1,000** |

Deferred income includes EUR 630m (previous year: EUR 581m) of deferred income for obligations under bonus miles programmes. Other non-financial liabilities include EUR 401m (previous year: EUR 364m) in obligations under bonus mile programmes.

Other non-financial liabilities include obligations to return material valued at EUR 4m (previous year: EUR 4m) and the EUR 6m (previous year: EUR 4m) 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 7m (previous year: EUR 7m) 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 2008, 2009 and 2010 consist of an outperformance option and a performance option. 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 options for 2008 and 2009 result in a cash payment if the share price goes up by more than 33 per cent. This is capped for share price increases of more than 49 per cent (48 per cent for staff outside payscales). The performance option for 2010 results in a cash payment if the share price goes up by more than 29 per cent. This is capped for share price increases of more than 45 per cent (44 per cent for staff outside payscales).

**2008, 2009 and 2010 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 | 200 | 1,000 |

**2008, 2009 programmes Performance option**

| | € per percentage point from 33% performance | Maximum per tranche in € |
|---|---|---|
| Executive Board | 10,000 + 1,250 per percentage point | 20,000 |
| Managers | 4,000 + 500 per percentage point | 8,000 |
| Non-payscale staff | 500 + 100 per percentage point | 1,000 |

**2010 programme Performance option**

| | € per percentage point from 29% performance | Maximum per tranche in € |
|---|---|---|
| Executive Board | 10,000 + 625 per percentage point | 20,000 |
| Managers | 4,000 + 250 per percentage point | 8,000 |
| Non-payscale staff | 500 + 100 per three percentage points | 1,000 |

The 2008, 2009 and 2010 programmes each run for three years.

All options can be exercised at a fixed time in the final year. The (out)performance is calculated on the principle of total shareholder return. The shares invested of Lufthansa's own may not be sold until the option is exercised.

The 2007 outperformance option for Executive Board members, managers and non-payscale staff matured in 2010. A total of EUR 16m was paid out on the 2007 outperformance option. No payment was made on the performance option for 2007 as the 33 per cent hurdle was not reached. The outperformance option for 2006 could be exercised for the last time in 2010 and resulted in payments of EUR 0.4m.

Over the financial years 2010/2009 the number of options changed as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Number of options / option packages*** | **Cash settlement in € thousands** | Number of options / option packages* | Cash settlement in € thousands |
| Outstanding options on 1.1. | 9,884 | – | 8,547 | – |
| Options issued | 3,697 | – | 3,464 | – |
| Expired or unused options | 126 | – | 80 | – |
| Options exercised | 3,126 | 16,231 | 2,047 | 12,562 |
| Outstanding options on 31.12. | 10,329 | – | 9,884 | – |

* The outperformance option and the performance option from the 2009 and 2008 programmes are known as an option package.

On 1 January 2010 members of the Executive Board, managers and non-payscale staff held 2,483,781 shares under the various programmes, and on 31 December 2010 they held 2,481,196 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 benchmark 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 2008 | 2,000 | 10,949 |
| Options 2009 | 2,000 | 16,131 |
| Options 2010 | 2,000 | 14,337 |
| **Managers** | | |
| Options 2008 | 2,000 | 4,379 |
| Options 2009 | 2,000 | 6,452 |
| Options 2010 | 2,000 | 5,735 |
| **Non-payscale staff** | | |
| Options 2008 | 1,000 | 555 |
| Options 2009 | 1,000 | 810 |
| Options 2010 | 1,000 | 723 |

The weighted average share prices at the calculation date were used in the Monte Carlo simulation. As stated in the terms of the programme, these are 100-day averages (2008, 2009 and 2010 programmes: 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 2008 | Options 2009 | Options 2010 |
|---|---|---|---|
| Lufthansa | 13.54 | 11.57 | 13.74 |
| Air France-KLM | 15.14 | 11.51 | 11.60 |
| British Airways | 191.45 | 209.98 | 246.88 |
| Iberia | 1.82 | 2.00 | 2.90 |
| Ryanair | 2.46 | 3.33 | 4.19 |
| easyJet | 326.86 | 365.33 | 400.87 |
| Air Berlin | 3.46 | 3.78 | 3.27 |

**Projected volatilities for**

| in % | Options 2008 | Options 2009 | Options 2010 |
|---|---|---|---|
| Lufthansa | 28.14 | 33.70 | 37.69 |
| Air France-KLM | 36.54 | 44.36 | 48.82 |
| British Airways | 35.67 | 47.23 | 56.01 |
| Iberia | 35.93 | 38.88 | 48.15 |
| Ryanair | 32.68 | 39.54 | 52.41 |
| easyJet | 30.88 | 38.35 | 50.89 |
| Air Berlin | 30.32 | 40.60 | 56.26 |
| Risk-free interest rate | 0.67% – 1.16% for euro zone<br>0.58% – 1.20% for UK | | |
| Fluctuation | 5.1% | | |

Staff costs include total expenses of EUR 19m (previous year: EUR 10m) for options programmes.

## 42 Trade payables and other current financial liabilities

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| **Trade payables** | | |
| Trade payables to affiliated companies | 107 | 105 |
| Trade payables to other equity investments | 18 | 12 |
| Trade payables to third parties | 2,777 | 2,435 |
| | **2,902** | **2,552** |
| **Other liabilities** | | |
| Liabilities to banks | 23 | 58 |
| Other liabilities to affiliated companies | 197 | 185 |
| Other liabilities to equity investments | 1 | – |
| Other financial liabilities | 1,070 | 1,001 |
| | **1,291** | **1,244** |
| **Total** | **4,193** | **3,796** |

The carrying amount of these liabilities corresponds to their fair value.

## 43 Current advance payments received, deferred income and other non-financial liabilities

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Advance payments received | 187 | 192 |
| Net debit balance of advance payments received and receivables from unfinished contracts | 107 | 81 |
| Deferred income | 351 | 344 |
| Other non-financial liabilities | 421 | 391 |
| | **1,066** | **1,008** |

Obligations under bonus miles programmes, see also "Note 37" from p. 194 and "Note 41" from p. 197 are recognised in deferred income with EUR 314m (previous year: EUR 306m) and in other non-financial liabilities with EUR 204m (previous year: EUR 185m).

In addition, deferred income includes EUR 10m (previous year: EUR 7m) for grants and subsidies received for capital expenditure, which are realised over the useful life of the assets.

Other liabilities include deferrals of EUR 210m (previous year: EUR 199m) for outstanding holiday allowance and overtime and EUR 7m (previous year: EUR 7m) for the current portion of fair value obligations under share-based remuneration agreements, see "Note 41" from p. 197.

## Other disclosures

### 44 Contingencies and events after the balance sheet date

**Contingent liabilities**

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| From guarantees, bills of exchange and cheque guarantees | 883 | 855 |
| From warranty contracts | 960 | 897 |
| From providing collateral for third-party liabilities | 14 | 13 |

Guarantees include EUR 867m (previous year: EUR 831m) and warranty agreements include EUR 296m (previous year: EUR 290m) in contingent liabilities toward creditors of joint ventures. A total of EUR 1,157m (previous year: EUR 1,114m) relates to joint and several guarantees and warranties. This amount is offset by compensatory claims against the co-debtors for EUR 1,062m (previous year: EUR 1,022m). Insofar as annual financial statements have yet to be published, these figures are preliminary.

Several provisions could not be made because an outflow of resources was not sufficiently probable. The potential financial effect of these provisions on the result would have been EUR 210m (previous year: EUR 163m) for subsequent years.

Contracts signed the previous year for the sale of six Airbus A300-600s yielded profits of EUR 12m in the financial year 2010. These sales, as well as other contracts for the sale of twelve Canadair Regional Jet 200s also signed in 2009, resulted in a total cash inflow of EUR 77m in 2010.

Signed contracts for the sale of five Canadair Regional Jet 200s are expected to yield profits of EUR 3m and cash receipts of EUR 16m.

Information on events after the balance sheet date can be found on p. 131 of the management report.

### 45 Other financial commitments

As of 31 December 2010 there were order commitments for EUR 6.8bn (previous year: EUR 6.4bn) for capital expenditure on property, plant and equipment and for intangible assets. There were also capital and shareholder loan commitments of EUR 34m regarding equity investments (previous year: EUR 49m). Sales contracts and put options granted to third parties gave rise to purchase commitments for company shares amounting to EUR 14m (previous year: EUR 15m).

### 46 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 US dollar-denominated. For other currencies there is always a net surplus. The main risks in this respect stem from the British pound sterling and the Japanese yen. Currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts. The aim is to reach an average hedging level of 50 per cent.

At the end of 2010 exposure from operations for the next 24 months was as follows:

| in €m | USD | JPY | GBP |
|---|---|---|---|
| Exposure (currency) | −11,645 | 161,414 | 1,091 |
| Exposure (EUR at spot rate) | −8,715 | 1,486 | 1,267 |
| Hedges (currency) | 4,967 | −73,529 | −387 |
| Hedging level | 43% | 46% | 35% |

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 2010 exposure for capital expenditure was as follows:

| in million | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| Exposure from net capital expenditure (USD) | −2,235 | −1,902 | −1,081 | −742 | −457 | −280 | – |
| Exposure from net capital expenditure (EUR at spot rate) | −1,673 | −1,424 | −809 | −555 | −342 | −210 | – |
| Hedges (USD) | 1,946 | 1,504 | 900 | 604 | 329 | 207 | – |
| Hedging level | 87% | 79% | 83% | 81% | 72% | 74% | – |

Lufthansa aims to finance 85 per cent of its financial liabilities at floating rates of interest. This proportion recognises the need to both minimise long-term interest expense and reduce earnings volatility. Interest rate risks on financial liabilities are therefore only hedged to 15 per cent.

At the end of 2010 the ratio of floating to fixed interest rates for long-term borrowing was as follows:

**Exposure**

| in €m | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Fixed | 1,100 | 858 | 669 | 558 | 464 | 388 | 301 | 230 | 151 | 82 |
| Floating | 4,972 | 4,391 | 3,674 | 2,260 | 1,870 | 864 | 693 | 509 | 318 | 237 |
| Floating / fixed ratio | 82% | 84% | 85% | 80% | 80% | 69% | 70% | 69% | 68% | 74% |

In contrast, foreign currency risks from financial liabilities are always hedged to 100 per cent by means of interest rate/currency swaps. These hedging transactions are treated as trading in accordance with IAS 39.

In 2010 fuel costs accounted for 17.8 per cent of the Lufthansa Group's operating expenses (previous year: 14.7 per cent). Significant changes in fuel prices can therefore have a considerable effect on the Group's result.

Fuel price risk is generally limited by the use of crude oil hedges. The hedging level and the time horizon depend on the risk profile, which is derived from the business model of a Group company. As a rule up to 5 per cent of exposure is hedged monthly for up to 24 months by spread options and other combinations of hedges. This means that the maximum hedging level reached in month seven is 85 per cent.

Deviations from the rule-based hedging policy described above are permitted within the scope of a pre-defined system of limits.

From a year-end perspective fuel exposure was as follows:

**Fuel exposure**

| | | 2011 | 2012 |
|---|---|---|---|
| Fuel requirement | in 1,000 tonnes | 9,854 | 10,579 |
| Hedges | in 1,000 tonnes | 6,951 | 2,681 |
| Hedging level | in % | 70.5 | 25.3 |

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 31.12.2010** | Market value 31.12.2009 | **Market value 31.12.2010** | Market value 31.12.2009 |
| Interest rate swaps | 145 | 101 | – | – |
| Spread options for fuel hedging | – | – | 43 | 142 |
| Hedging combinations for fuel hedging | – | – | 268 | 49 |
| Futures contracts for currency hedging | −6 | −14 | −152 | −227 |
| Spread options for fuel hedging | – | – | 82 | −9 |
| **Total** | **139** | **87** | **241** | **−45** |

The market values stated for financial derivatives correspond to the price at which an independent third party would assume the rights and/or obligations from the financial instrument.

The fair values of interest rate derivatives correspond to their respective market values, which are measured using appropriate mathematical methods, such as discounting future cash flows. Discounting takes market standard interest rates and the residual term of the respective instruments into account.

Currency futures and swaps are individually discounted to the balance sheet date based on their respective futures rates and the appropriate interest rate curve. The market prices of currency options and the options used to hedge fuel prices are determined using acknowledged option pricing models.

From a current perspective, the fuel price and currency cash flow hedges will have the following effects on the result for the period and/or on the acquisition costs of hedged capital expenditure:

| Financial year in €m | Result for the period | First-time measurement of acquisition costs** | **Total** |
|---|---|---|---|
| 2011 | 215 | 14 | 229 |
| 2012 | 40 | 17 | 57 |
| 2013 | 0* | 24 | 24 |
| 2014 | 0* | −10 | −10 |
| 2015 | 0* | −31 | −31 |
| 2016 | −1 | −27 | −28 |
| **Total** | **254** | **−13** | **241** |

* Rounded below EUR 1m.
** Minus signs mean increased acquisition costs.

In the 2010 financial year, EUR 136m was transferred for maturing fuel price hedges from equity to fuel expenses, reducing these expenses. For currency hedges EUR 541m was transferred from equity to other operating income and EUR 502m to other operating expenses. A further EUR 111m 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, see also “Note 13” on p. 171.

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% | −114 | +344 |
| − 10% | −25 | −179 |
| **Currency – USD** | | |
| + 10% | −182 | +516 |
| − 10% | +169 | −646 |
| **Currency – JPY** | | |
| + 10% | −10 | −46 |
| − 10% | +8 | +56 |
| **Currency – GBP** | | |
| + 10% | +19 | −36 |
| − 10% | −15 | +44 |
| **Interest** | | |
| − 100 basis points | +30 | +23 |
| + 100 basis points | −30 | −22 |

* All amounts after deferred tax effects;
+/− signs relate to net profit and/or equity.

The figures shown above for the interest risk component do not reflect sensitivity for a borrower’s note loan included in the value-at-risk analysis. The performance of this borrower’s note loan is linked to a special portfolio of investments.

The historical value-at-risk analysis carried out shows that in 99 per cent of all cases losses did not exceed 2.0 per cent (EUR 2m) in the following ten days.

### Liquidity risk

Complex financial planning systems enable Lufthansa to identify its future liquidity position at an early stage. Based on the results of the Group strategy and planning processes, a monthly rolling liquidity plan is drawn up with a planning horizon of 24 months. This planning method offers an up-to-date picture of anticipated liquidity developments as regards the Company and currencies.

Lufthansa holds a liquidity reserve of at least EUR 2.3bn that is available at short notice. As of 31 December 2010 the Lufthansa Group held confirmed unused lines of credit totalling EUR 1.9bn (previous year: EUR 1.7bn).

A maturity analysis for the borrowing stated in “Note 39” from p. 196 and the derivative financial instruments listed in “Note 26” on p. 186 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 2010.

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 | 3,865 | –3,757 | **108** |
| Up to 1 year [1] | 6,492 | –6,287 | **205** |
| 1–5 years | 7,692 | –7,522 | **170** |
| Later | 1,007 | –987 | **20** |

[1] Without payments in 1st quarter.

**Non-derivative financial instruments**

| in €m | Inflows [2] | Outflows | Net |
|---|---|---|---|
| 1st quarter | 3 | –459 | **–456** |
| Up to 1 year [1] | 4 | –852 | **–848** |
| 1–5 years | 90 | –4,630 | **–4,540** |
| Later | 0 | –2,844 | **–2,844** |

[1] Without payments in 1st quarter.
[2] The cash inflows from financial liabilities shown here are inflows from a deposit used to repay the loan. The cash inflows are matched by cash outflows of the same amount.

### 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. 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 2010 the maximum credit risk from the potential insolvency of debtors for loans and receivables was EUR 4,021m, made up as follows:

| in €m | **31.12.2010** | 31.12.2009 |
|---|---|---|
| Loans | 170 | 132 |
| Non-current receivables | 450 | 374 |
| Trade receivables and other current receivables | 3,401 | 3,033 |
| | **4,021** | **3,539** |

Impairments on loans and receivables developed as follows:

| in €m | **1.1.2010** |
|---|---|
| Gross amount | 211 |
| Impairment charges | –188 |
| **Carrying amount 1.1.2010** | **23** |

| in €m | **31.12.2010** |
|---|---|
| Gross amount | 193 |
| Impairment charges | –171 |
| **Carrying amount 31.12.2010** | **22** |

A further EUR 116m (previous year: EUR 127m) was already overdue, but not yet impaired.

The term structure of overdue receivables is as follows:

| in €m | |
|---|---|
| Up to 90 days | 80 |
| Between 90 and 180 days | 19 |
| Over 180 days | 17 |

There is collateral of EUR 4m (previous year: EUR 13m) for the receivables that were impaired. There is no collateral for overdue receivables not yet impaired.

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 | **31.12.2010** |
|---|---|
| Debt instruments | 4,521 |
| Equity instruments | 12 |
| **Total securities** | **4,533** |

Securities representing debt are rated as follows (Standard & Poor's):

| in €m | |
|---|---|
| AAA | 2,028 |
| AAA– | – |
| AA+ | 85 |
| AA | 288 |
| AA– | 194 |
| A+ | 696 |
| A | 521 |
| A– | 367 |
| BBB+ | 161 |
| BBB | 139 |
| Below BBB or unrated | 42 |
| **Total** | **4,521** |

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 2010 the credit risk from derivative financial instruments, which are an effective part of a hedging relationship, was EUR 543m (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 | 154 |
| AA– | 122 |
| A+ | 247 |
| A | 5 |
| A– | 11 |
| BBB+ | 2 |
| Unrated | 2 |
| **Total** | **543** |

The credit risk arising from financial derivatives shown at fair value through profit and loss amounted to EUR 290m as of 31 December 2010, and consisted of the total amount of business with contractual partners that on balance showed a positive market value. This figure includes EUR 218m for the time values of options used for hedging, changes in which must be recognised in the financial result as from 1 January 2010. The contractual partners have the following ratings (Standard & Poor's):

| in €m | |
|---|---|
| AA– | 75 |
| A+ | 12 |
| A | 187 |
| A– | 2 |
| BBB+ | 5 |
| BBB | 9 |
| **Total** | **290** |

## 47 Segment reporting

The Lufthansa Group operates in five major business segments: scheduled passenger air traffic ("Passenger Airline Group") consists of Deutsche Lufthansa AG, Lufthansa CityLine GmbH, Swiss International Airlines AG, Austrian Airlines AG, British Midland Ltd., Air Dolomiti S.p.A., Eurowings Luftverkehrs AG and Germanwings GmbH; scheduled airfreight services ("Logistics") consists of the Lufthansa Cargo group; maintenance, repair and overhaul ("MRO") consists of the Lufthansa Technik group; information technology ("IT Services") consists of the Lufthansa Systems group; and catering ("Catering") consists of 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. 167.

## Segment information by operating segment for 2010

| in €m | Passage Airline Group[2] | Logistics | MRO[2] | IT Services | Catering[2] | Total reportable operating segments | Other | Reconciliation Not allocated | Reconciliation Consol-idation | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| External revenue | 20,233 | 2,770 | 2,373 | 232 | 1,716 | 27,324 | – | – | – | 27,324 |
| of which traffic revenue | 19,186 | 2,633 | – | – | – | 21,819 | – | 449 | – | 22,268 |
| Inter-segment revenue | 679 | 25 | 1,645 | 363 | 533 | 3,245 | – | – | −3,245 | – |
| **Total revenue** | **20,912** | **2,795** | **4,018** | **595** | **2,249** | **30,569** | **–** | **–** | **−3,245** | **27,324** |
| Other operating income | 1 174 | 95 | 211 | 32 | 67 | 1,579 | 1,232 | – | −592 | 2,219 |
| **Total operating income** | **22,086** | **2,890** | **4,229** | **627** | **2,316** | **32,148** | **1,232** | **–** | **−3,837** | **29,543** |
| Operating expenses | 21,650 | 2,580 | 3,961 | 617 | 2,240 | 31,048 | 1,458 | – | −3,839 | 28,667 |
| of which cost of materials and services | 13,250 | 1,846 | 2,056 | 75 | 997 | 18,224 | 100 | – | −2,954 | 15,370 |
| of which staff costs | 3,829 | 338 | 1,101 | 247 | 811 | 6,326 | 320 | – | −6 | 6,640 |
| of which depreciation and amortisation | 1,261 | 107 | 94 | 34 | 59 | 1,555 | 44 | – | 10 | 1,609 |
| of which other operating expenses | 3,310 | 289 | 710 | 261 | 373 | 4,943 | 994 | – | −889 | 5,048 |
| **Operating result[1]** | **436** | **310** | **268** | **10** | **76** | **1,100** | **−226** | **–** | **2** | **876** |
| Other segment income | 244 | 9 | 34 | 1 | 2 | 290 | 49 | 387 | −125 | 601 |
| Other segment expenses | 98 | 12 | 2 | 17 | 5 | 134 | 19 | 139 | −55 | 237 |
| of which impairment losses | 65 | 9 | – | 14 | 0* | 88 | 0* | – | – | 88 |
| Result of investments accounted for using the equity method | −10 | 23 | 19 | – | 14 | 46 | 0* | – | – | 46 |
| **Segment result[3]** | **572** | **330** | **319** | **−6** | **87** | **1,302** | **−196** | **248** | **−68** | **1,286** |
| Other financial result | | | | | | | | | | −308 |
| Profit before income taxes | | | | | | | | | | 978 |
| Segment assets[4] | 14,839 | 805 | 3,030 | 222 | 1,215 | 20,111 | 1,337 | 14,691 | −6,819 | 29,320 |
| of which from investment measured at equity | 112 | 46 | 155 | – | 67 | 380 | 5 | – | – | 385 |
| Segment liabilities[5] | 9,416 | 431 | 1,376 | 221 | 479 | 11,923 | 1,196 | 10,632 | −2,771 | 20,980 |
| Segment capital expenditure[6] | 2,047 | 21 | 67 | 36 | 38 | 2,209 | 17 | 998 | −951 | 2,273 |
| of which from investment measured at equity | – | – | – | – | – | – | – | – | – | – |
| Employees on balance sheet date | 57,157 | 4,517 | 20,159 | 2,935 | 28,499 | 113,267 | 3,752 | – | – | 117,019 |
| Average number of employees | 57,226 | 4,469 | 20,297 | 2,974 | 28,369 | 113,335 | 3,731 | – | – | 117,066 |

* Rounded below EUR 1m.
[1] See page 67 of the management report for reconciliation between operating result and profit from operating activities.
[2] Previous year's figures only partially comparable due to changes in the group of consolidated companies.
[3] Profit from operating activities including result of investments measured at equity.
[4] 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".
[5] 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".
[6] Capital expenditure on intangible assets, property, plant and equipment, and investments accounted for using the equity method.

## Segment information by operating segment for 2009

| in €m | Passenger Airline Group[2] | Logistics[2] | MRO | IT Services | Catering[2] | Total reportable operating segments | Other | Reconciliation Not allocated | Reconciliation Consol-idation | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| External revenue | 16,225 | 1,928 | 2,297 | 244 | 1,589 | 22,283 | – | – | – | 22,283 |
| of which traffic revenue | 15,430 | 1,844 | – | – | – | 17,274 | – | 330 | – | 17,604 |
| Inter-segment revenue | 573 | 23 | 1,666 | 361 | 513 | 3,136 | – | – | –3,136 | – |
| **Total revenue** | **16,798** | **1,951** | **3,963** | **605** | **2,102** | **25,419** | **–** | **–** | **–3,136** | **22,283** |
| Other operating income | 1,265 | 111 | 157 | 38 | 125 | 1,696 | 1,230 | – | –454 | 2,472 |
| **Total operating income** | **18,063** | **2,062** | **4,120** | **643** | **2,227** | **27,115** | **1,230** | **–** | **–3,590** | **24,755** |
| Operating expenses | 18,071 | 2,233 | 3,804 | 627 | 2,155 | 26,890 | 1,364 | – | –3,629 | 24,625 |
| of which cost of materials and services | 10,904 | 1,511 | 1,979 | 81 | 941 | 15,416 | 89 | – | –2,805 | 12,700 |
| of which staff costs | 3,330 | 311 | 1,059 | 233 | 775 | 5,708 | 299 | – | –5 | 6,002 |
| of which depreciation and amortisation | 1,032 | 123 | 87 | 37 | 58 | 1,337 | 44 | – | 6 | 1,387 |
| of which other operating expenses | 2,805 | 288 | 679 | 276 | 381 | 4,429 | 932 | – | –825 | 4,536 |
| **Operating result [1]** | **–8** | **–171** | **316** | **16** | **72** | **225** | **–134** | **–** | **39** | **130** |
| Other segment income | 183 | 15 | 18 | 1 | 3 | 220 | 69 | 487 | –492 | 284 |
| Other segment expenses | 88 | 1 | 2 | 1 | 8 | 100 | 29 | 432 | –418 | 143 |
| of which impairment losses | 80 | – | – | – | 8 | 88 | – | – | – | 88 |
| Result of investments accounted for using the equity method | –9 | 5 | –1 | – | 8 | 3 | – | – | – | 3 |
| **Segment result [3]** | **78** | **–152** | **331** | **16** | **75** | **348** | **–94** | **55** | **–35** | **274** |
| Other financial result | | | | | | | | | | –503 |
| Profit before income taxes | | | | | | | | | | –229 |
| Segment assets [4] | 13,612 | 798 | 2,843 | 241 | 1,184 | 18,678 | 1,372 | 11,366 | –5,024 | 26,392 |
| of which from investment measured at equity | 127 | 30 | 110 | – | 49 | 316 | 4 | – | – | 320 |
| Segment liabilities [5] | 8,840 | 454 | 1,318 | 199 | 466 | 11,277 | 1,187 | 11,099 | –3,373 | 20,190 |
| Segment capital expenditure [6] | 1,898 | 25 | 121 | 52 | 58 | 2,154 | 65 | 387 | –201 | 2,405 |
| of which from investment measured at equity | 65 | 5 | – | – | – | 70 | – | – | – | 70 |
| Employees on balance sheet date | 58,083 | 4,488 | 19,796 | 3,027 | 28,390 | 113,784 | 3,737 | – | – | 117,521 |
| Average number of employees | 52,317 | 4,568 | 19,758 | 3,041 | 28,935 | 108,619 | 3,701 | – | – | 112,320 |

[1] See page 67 of the management report for reconciliation between operating result and profit from operating activities.
[2] Previous year's figures only partially comparable due to changes in the group of consolidated companies.
[3] Profit from operating activities including result of investments shown at equity.
[4] 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".
[5] 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".
[6] Capital expenditure for 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 other income). In the 2010 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 2010 in EUR m

| in €m | Europe | North America | Central and South America | Asia/Pacific | Middle East | Africa | **Total** |
|---|---|---|---|---|---|---|---|
| Traffic revenue [1)] | 14,239 | 3,147 | 513 | 3,239 | 681 | 449 | **22,268** |
| Other revenue | 2,380 | 1,014 | 147 | 975 | 305 | 235 | **5,056** |
| Non-current assets [2)] | 14,829 | 155 | 10 | 162 | 1 | 10 | **15,167** |
| Capital expenditure on non-current assets | 2,157 | 61 | 1 | 6 | 0* | 1 | **2,226** |

The figures for the main countries are as follows:

| in €m | Germany | USA |
|---|---|---|
| Traffic revenue [1)] | 5,809 | 2,748 |
| Other revenue | 930 | 901 |
| Non-current assets [2)] | 8,589 | 151 |
| Capital expenditure on non-current assets | 1,149 | 61 |

* 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 2009 in EUR m**

| in €m | Europe | North America | Central and South America | Asia/Pacific | Middle East | Africa | **Total** |
|---|---|---|---|---|---|---|---|
| Traffic revenue [1] | 11,356 | 2,680 | 251 | 2,376 | 635 | 306 | **17,604** |
| Other revenue | 2,339 | 882 | 140 | 813 | 274 | 231 | **4,679** |
| Non-current assets [2] | 14,082 | 146 | 11 | 159 | 0* | 9 | **14,407** |
| Capital expenditure on non-current assets | 2,111 | 29 | 2 | 5 | 0* | 2 | **2,149** |

The figures for the main countries are as follows:

| in €m | Germany | USA |
|---|---|---|
| Traffic revenue [1] | 5,291 | 2,383 |
| Other revenue | 937 | 804 |
| Non-current assets [2] | 8,673 | 146 |
| Capital expenditure on non-current assets | 1,409 | 28 |

* Rounded below EUR 1m.
** Regional classification adjusted in line with IATA standard.
[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.

The information on the Passenger Airline Group business segment and Logistics segment in the management report includes a presentation of traffic revenue generated in the Passenger Airline Group and Logistics segment by traffic region, rather than by original location of sale.

## 48 Related party disclosures

The Lufthansa Group business segments render numerous services to related parties within the scope of their ordinary business activities. Conversely, the companies in question provide services to the Lufthansa Group as part of their normal business. These extensive supply and service relationships take place on the basis of market prices.

In addition, the Group and certain non-consolidated subsidiaries have concluded numerous billing agreements, partly governing the joint use of services. In these cases the administrative services provided are charged as cost allocations.

The Group's cash management is centralised, and, in this respect, the Lufthansa Group also performs a "banking function" vis-à-vis the non-consolidated companies of the Group. Non-consolidated Group companies included in the Group's cash management invest their available cash with the Group or borrow funds from the Group and carry out their derivative hedging transactions with the Group. All transactions take place on arm's length terms.

Due to geographical proximity in many cases, a large number of subletting contracts 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 2010 | 2009 | Volume of services received 2010 | 2009 |
|---|---|---|---|---|
| **Non-consolidated subsidiaries** | | | | |
| Airline Accounting Center Sp. z o.o., Poland | 0* | 1 | 6 | 5 |
| Albatros Versicherungsdienste GmbH, Germany | 10 | 6 | 53 | 47 |
| Austrian Airlines Technik-Bratislava, s.r.o., Slovakia | 3 | 1 | 6 | 1 |
| Cargo Future Communications (CFC) GmbH, Germany | 0* | 0* | 5 | 4 |
| City Net Catering Holdings Ltd., UK | 3 | 0* | 7 | – |
| Delvag Luftfahrtversicherungs-AG, Germany | 7 | 7 | 9 | 6 |
| DLH Fuel Company mbH, Germany | 2 | 3 | 508 | 370 |
| Global Tele Sales (PTY) Ltd., South Africa | 1 | 1 | 13 | 11 |
| Global Tele Sales Ltd., Ireland | 1 | 1 | 8 | 7 |
| Global Tele Sales Pty Limited, Australia | 0* | 0* | 5 | 3 |
| Global Telesales of Canada, Inc., Canada | 0* | 0* | 8 | 6 |
| handling counts GmbH, Germany | 1 | 1 | 10 | 5 |
| LRS Lufthansa Revenue Services GmbH, Germany | 7 | 7 | 46 | 45 |
| Lufthansa Cagri Merkezi ve Müsteri Hizmetleri A.S., Turkey | 0* | 0* | 5 | 5 |
| Lufthansa Engineering and Operational Services GmbH, Germany | 4 | 5 | 30 | 31 |
| Lufthansa Global Tele Sales GmbH, Germany | 1 | 1 | 12 | 11 |
| Lufthansa Service-Center Kassel GmbH, Germany | 0* | 0* | 3 | 7 |
| Lufthansa Systems FlightNav AG, Switzerland | 2 | 2 | 15 | 13 |
| Lufthansa Systems Hungaria Kft., Hungary | 2 | 2 | 28 | 29 |
| Lufthansa Systems Network Services GmbH, Germany | 1 | 1 | 28 | 46 |
| Lufthansa Systems Poland Sp. z o.o., Poland | 1 | 0* | 7 | 7 |
| Lufthansa Technical Training GmbH, Germany | 5 | 7 | 25 | 26 |
| Lufthansa Technik Component Services LLC, USA | 3 | 2 | 5 | 5 |
| Lufthansa Technik Logistik of America LLC, USA | 5 | 5 | 13 | 12 |
| Lufthansa Technik Logistik Services GmbH, Germany | 6 | 2 | 27 | 16 |
| Lufthansa Technik Milan s.r.l., Italy | 6 | 2 | 9 | 2 |
| Lufthansa Technik Services India Private Limited, India | 10 | 1 | 7 | 9 |
| Lufthansa Technik Shenzhen Co., Ltd., China | 11 | 5 | 3 | 5 |
| Lufthansa Technik Sofia OOD, Bulgaria | 4 | 2 | 26 | 24 |
| Lufthansa Technik Tulsa Corporation, USA | 1 | 1 | 7 | 5 |
| Lufthansa Technik Turbine Shannon Limited, Ireland | 7 | 3 | 23 | 20 |
| LZ-Catering GmbH, Germany | 10 | 10 | 16 | 16 |
| Swiss Private Aviation AG, Switzerland | 4 | 2 | 0* | 15 |
| **Joint ventures** | | | | |
| Aerologic GmbH, Germany | 5 | 2 | 68 | 8 |
| Aircraft Maintenance and Engineering Corp., China | 7 | 9 | 11 | 13 |
| Airfoil Services Sdn. Bhd., Malaysia | 1 | 0* | 6 | 4 |
| EFM - Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH, Germany | 0* | 0* | 14 | 9 |
| FraCareServices GmbH, Germany | 10 | 11 | 1 | 2 |
| Günes Ekspres Havacilik Anonim Sirketi (Sun Express), Turkey | 13 | 2 | 0* | 0* |
| LTQ Engineering Pty Limited, Australia | 2 | 2 | 22 | 7 |
| Lufthansa Bombardier Aviation Services GmbH, Germany | 4 | 7 | 0* | 0* |
| N3 Engine Overhaul Services GmbH & Co. KG, Germany | 5 | 5 | 0* | 0* |
| Shanghai Pudong International Airport Cargo Terminal Co. Ltd., China | 1 | 0* | 5 | 5 |
| Spairliners GmbH, Germany | 11 | 11 | 1 | – |
| Star Alliance Services GmbH, Germany | 8 | 7 | 7 | 7 |
| Terminal 2 Betriebsgesellschaft mbH & Co oHG, Germany | 15 | 12 | 83 | 83 |
| Terminal One Group Association, L.P., USA | 0* | 0* | 10 | 9 |

* Rounded below EUR 1m.

| in €m | Volume of services rendered 2010 | 2009 | Volume of services received 2010 | 2009 |
|---|---|---|---|---|
| **Associated companies** | | | | |
| Airmail Center Frankfurt GmbH, Germany | 0* | 0* | 7 | 6 |
| AviationPower GmbH, Germany | 0* | 0* | 24 | 19 |
| BELAC LLC, USA | 1 | 0* | 9 | 5 |
| HEICO Aerospace Holdings Corp., USA | 0* | 0* | 17 | 16 |
| Jade Cargo International Company Limited, China | 12 | 5 | 109 | 126 |

* Rounded below EUR 1m.

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 49".

## 49 Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed on p. 217.

### Remuneration report for the Executive Board

The Executive Board's remuneration consists of the following components:

- Basic remuneration, paid monthly as a salary.
- Variable remuneration depends on the Lufthansa Group's operating result and the change in this result compared with the previous year. In years with weak operating results due to extraordinary exogenous factors, the Steering Committee may award Executive Board members a discretionary bonus.
- Executive Board members are also able to participate in the option programmes for managers, since 2006 with their own parameters which vary from those of the general managers' programme, see "Note 41" from p. 197.

The following remuneration was paid to individual Executive Board members in 2010:

| in € | Basic salary | Variable remuneration | Payments from maturing options programmes | Change in fair value of option programmes | Other* | **Total** |
|---|---|---|---|---|---|---|
| Wolfgang Mayrhuber | 805,000 | 1,610,000 | 900,000 | 66,255 | 110,434 | 3,491,689 |
| Christoph Franz | 700,000 | 1,378,700 | – | 226,101 | 86,946 | 2,391,747 |
| Stephan Gemkow | 575,000 | 1,135,400 | 600,000 | 44,170 | 86,701 | 2,441,271 |
| Stefan Lauer | 575,000 | 1,135,400 | 600,000 | 36,262 | 110,536 | 2,457,198 |
| **Effective remuneration for the 2010 financial year** | **2,655,000** | **5,259,500** | **2,100,000** | **372,788** | **394,617** | **10,781,905** |

* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Note 41), 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 2009:

| in € | Basic salary | Variable remuneration | Payments from maturing options programmes | Change in fair value of option programmes | Other* | **Total** |
|---|---|---|---|---|---|---|
| Wolfgang Mayrhuber | 805,000 | 130,000 | 1,647,000 | –290,087 | 211,772 | 2,503,685 |
| Christoph Franz (Executive Board member since 1.6.2009) | 350,000 | 55,250 | – | 35,477 | 79,066 | 519,793 |
| Stephan Gemkow | 575,000 | 91,000 | 1,098,000 | –193,391 | 85,806 | 1,656,415 |
| Stefan Lauer | 575,000 | 91,000 | 1,098,000 | –192,687 | 102,986 | 1,674,299 |
| **Effective remuneration for the 2009 financial year** | **2,305,000** | **367,250** | **3,843,000** | **–640,688** | **479,630** | **6,354,192** |

* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Note 41), 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 2010 (2009) the members of the Executive Board hold the following shares from current option programmes:

| | 2007 programme | | 2008 programme | | 2009 programme | | **2010 programme** | |
|---|---|---|---|---|---|---|---|---|
| Number of shares | Number of shares purchased from own funds | Number of outperformance options | Number of shares purchased from own funds | Number of outperformance options | Number of shares purchased from own funds | Number of outperformance options | **Number of shares purchased from own funds** | **Number of outperformance options** |
| Wolfgang Mayrhuber | –<br>(11,714) | –<br>(45) | 16,740<br>(16,740) | 45<br>(45) | 17,100<br>(17,100) | 45<br>(45) | 11,700<br>(–) | 45<br>(–) |
| Christoph Franz<br>(Executive Board member since 1.6. 2009) | – | – | – | – | 14,060<br>(14,060) | 37<br>(37) | 9,620<br>(–) | 37<br>(–) |
| Stephan Gemkow | –<br>(7,809) | –<br>(30) | 11,160<br>(11,160) | 30<br>(30) | 11,400<br>(11,400) | 30<br>(30) | 7,800<br>(–) | 30<br>(–) |
| Stefan Lauer | –<br>(7,809) | –<br>(30) | 10,788<br>(10,788) | 29<br>(29) | 11,400<br>(11,400) | 30<br>(30) | 7,800<br>(–) | 30<br>(–) |

See “Note 41” from p. 197 for the caps on payments.

The pro rata change for 2010 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 2010 option programme for Mr Mayrhuber on the date of issue was EUR 645,165. For Mr Franz the figure was EUR 530,469, for Mr Gemkow EUR 430,110 and for Mr Lauer EUR 430,110.

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 guaranteed into which Deutsche Lufthansa AG pays contributions amounting to 25 per cent of the contractually guaranteed annual salary plus bonus during the time of their employment. The same investment guidelines for the pension account are based on the same investment concept as applies to staff members of Deutsche Lufthansa AG.

As of 31 December 2010 Mr Mayrhuber’s retirement benefit entitlement amounted to EUR 11.3m (previous year: EUR 10.9m). That of Mr Franz was EUR 0.6m (previous year: EUR 0.1m), that of Mr Gemkow EUR 4.1m (previous year: EUR 3.7m) and that of Mr Lauer EUR 5.7m (previous year: EUR 5.2m). Further entitlements for Mr Mayrhuber amounting to EUR 0.6m result from compensation rights for the two-year non-competition agreement in place.

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.

For Messrs Franz, Gemkow and Lauer, and from 2011 for Mr Spohr as well, 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 an annuity. On application by the Executive Board member or his surviving dependants a single payment or payment in fewer than ten instalments may also be made.

The widow’s pension is 60 per cent of the deceased’s pension entitlement. If the Board member dies while in the Company’s employment his widow will be paid his full salary until the end of the financial year or for a period of at least six months.

The cost of pension entitlements accrued in 2010 for Mr Mayrhuber was EUR 0.6m, for Mr Franz EUR 0.5m, for Mr Gemkow EUR 0.2m and for Mr Lauer EUR 0.1m. The total cost of EUR 1.4m (previous year: EUR 0.9m), plus EUR 10.8m (previous year: EUR 6.4m) in overall remuneration as shown in the remuneration table, is listed under staff costs, amounting to EUR 12.2m (previous year: EUR 7.3m).

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. As of 31 December 2010 his transitional pension entitlement came to 57 per cent of basic annual salary excluding bonus. Since 1 January 2011 the transitional pension entitlement has reached its maximum benefit level of 60 per cent of basic annual salary. As the basic annual salary was increased from 2011 as part of the new remuneration structure ("Note 49" from p. 210), this benefit level was reduced proportionately to 40 per cent, leaving the absolute amount of the transitional pension entitlement unchanged.

If Mr Gemkow'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. As of 31 December 2010 his transitional pension entitlement came to 36 per cent of basic annual salary. As the basic annual salary was increased from 2011 as part of the new remuneration structure ("Note 49" from p. 210), this benefit level was reduced proportionately to 24 per cent, leaving the absolute amount of the transitional pension entitlement unchanged. The benefit level rises by two percentage points for every year as an ordinary member of the Executive Board starting from 1 February 2011, up to a maximum of 40 per cent.

As from 1 January 2011, 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.

Mr Mayrhuber left the Executive Board as of 31 December 2010 in line with the terms of his contract. For the period from 1 January 2011 until he reaches the entitlement age for benefits, Mr Mayrhuber will receive 65 per cent of his previous basic annual salary as compensation for the two-year non-competition agreement. During this period all pension entitlements are dormant.

If a contract is terminated early for reasons other than good cause or a change of control, the Company will not remunerate more than the value of outstanding entitlements for the remainder of the contract, as recommended by the German Corporate Governance Code, whereby these payments including ancillary benefits may not exceed annual remuneration for two years (maximum compensation). Maximum compensation is calculated by reference to total remuneration for the last full financial year before departure from the Executive Board, as shown in the remuneration report, and including expected total remuneration for the current financial year.

If the contract between the Executive Board member and Deutsche Lufthansa AG is terminated in connection with a change of control at the Company, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract. In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract and described above.

Current payments to former members of the Executive Board and their surviving dependants came to EUR 3.2m (EUR 3.2m). 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 39.5m (previous year: EUR 38.3m). They are included in pension provisions, "Note 36" from p. 191.

**Remuneration report for the Supervisory Board**

In the 2010 financial year Supervisory Board remuneration included EUR 1,304,000 (previous year: EUR 525,000) in fixed payments for work on the Deutsche Lufthansa AG Supervisory Board. In addition, variable payments were made amounting to EUR 1,304,000 (previous year: EUR 0). A change in the articles of association means that from the financial year 2010 onwards variable payments are linked to net profit per share and no longer to the dividend paid for the financial year. The figures for the individual Supervisory Board members are shown in the following table.

Other remuneration, mainly attendance fees, amounted to EUR 82,000 (previous year: EUR 76,000). The previous year Dr Schlede was paid EUR 27,000 for consultancy services in connection with the integration of Swiss International Airlines into the Lufthansa Group. These consultancy services ended in October 2009.

The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 56,000 (previous year: EUR 50,000) for work on supervisory boards of Group companies.

| | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| 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 | 60,000 | 15,000 | 0 | 75,000 |
| Frank Bsirske, Deputy Chairman | 75,000 | 12,500 | 87,500 | 175,000 | 30,000 | 5,000 | 0 | 35,000 |
| Jacques Aigrain | 50,000 | 0 | 50,000 | 100,000 | 20,000 | 0 | 0 | 20,000 |
| John Allan (until 31.12.2009) | 0 | 0 | 0 | 0 | 20,000 | 0 | 0 | 20,000 |
| Dr. Werner Brandt | 50,000 | 12,500 | 62,500 | 125,000 | 20,000 | 5,000 | 0 | 25,000 |
| Bernd Buresch | 50,000 | 12,500 | 62,500 | 125,000 | 20,000 | 5,000 | 0 | 25,000 |
| Jörg Cebulla | 50,000 | 0 | 50,000 | 100,000 | 20,000 | 0 | 0 | 20,000 |
| Dipl.-Vwt. Jürgen Erwert | 50,000 | 12,500 | 62,500 | 125,000 | 20,000 | 5,000 | 0 | 25,000 |
| Herbert Hainer (from 29.4.2010) | 33,750 | 0 | 33,750 | 67,500 | 0 | 0 | 0 | 0 |
| Dr. Jürgen Hambrecht | 50,000 | 20,950 | 70,950 | 141,900 | 20,000 | 5,000 | 0 | 25,000 |
| Ulrich Hartmann (until 29.4.2010) | 16,250 | 8,100 | 24,350 | 48,700 | 20,000 | 10,000 | 0 | 30,000 |
| Dominique Hiekel | 50,000 | 0 | 50,000 | 100,000 | 20,000 | 0 | 0 | 20,000 |
| Dr. h.c. Robert Kimmitt (from 29.4.2010) | 33,750 | 0 | 33,750 | 67,500 | 0 | 0 | 0 | 0 |
| Martin Koehler (from 2.3.2010) | 41,800 | 8,450 | 50,250 | 100,500 | 0 | 0 | 0 | 0 |
| Dr. Nicola Leibinger-Kammüller | 50,000 | 0 | 50,000 | 100,000 | 20,000 | 0 | 0 | 20,000 |
| Eckhard Lieb | 50,000 | 12,500 | 62,500 | 125,000 | 20,000 | 5,000 | 0 | 25,000 |
| Simon Reimann | 50,000 | 0 | 50,000 | 100,000 | 20,000 | 0 | 0 | 20,000 |
| Marlies Rose | 50,000 | 0 | 50,000 | 100,000 | 20,000 | 0 | 0 | 20,000 |
| Dr. Klaus G. Schlede | 50,000 | 37,500 | 87,500 | 175,000 | 20,000 | 15,000 | 0 | 35,000 |
| Dr. Herbert Walter (until 29.4.2010) | 16,250 | 0 | 16,250 | 32,500 | 20,000 | 0 | 0 | 20,000 |
| Matthias Wissmann | 50,000 | 0 | 50,000 | 100,000 | 20,000 | 0 | 0 | 20,000 |
| Dr. Michael Wollstadt | 50,000 | 12,500 | 62,500 | 125,000 | 20,000 | 5,000 | 0 | 25,000 |
| Stefan Ziegler | 50,000 | 0 | 50,000 | 100,000 | 20,000 | 0 | 0 | 20,000 |
| **Total** | **1,116,800** | **187,500** | **1,304,300** | **2,608,600** | **450,000** | **75,000** | **0** | **525,000** |

* Individual amounts rounded to the nearest euro.

## 50 Declaration of compliance in accordance with Section 161 German Stock Corporation Act

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.lufthansa.com/en/corporate-governance/corporate-governance-declaration-section-289a-hgb/declaration-of-compliance-section-161-aktg.html.

## 51 Auditors' fees

The fees paid to the auditors in the financial year and charged to expenses in accordance with Section 319 Paragraph 1 HGB is made up as follows:

| in €m | **2010** | 2009 |
|---|---|---|
| Annual audit | 2.8 | 2.8 |
| Other certification services | 0.5 | 0.7 |
| Tax advisory services | 0.3 | 0.8 |
| Other services | 1.2 | 1.7 |
| **Total** | **4.8** | **6.0** |

The following fees paid to overseas companies in the global PricewaterhouseCoopers federation were also recognised as expenses:

| in €m | **2010** | 2009 |
|---|---|---|
| Annual audit | 2.5 | 2.4 |
| Other certification services | 0.2 | 0.3 |
| Tax advisory services | 0.5 | 0.4 |
| Other services | 0.3 | 0.1 |
| **Total** | **3.5** | **3.2** |

Executive Board, 9 March 2011

Dr Christoph Franz
Chairman of the
Executive Board

Stephan Gemkow
Member of the
Executive Board
Chief Financial Officer

Stefan Lauer
Member of the
Executive Board
Chief Officer Group Airlines
and Corporate Human Resources

Carsten Spohr
Member of the
Executive Board
Chief Officer 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 gives a true and fair view of the course of business, including the business result, and the situation of the Group, and suitably presents the opportunities and risks to its future development.

Executive Board, 9 March 2011

Dr Christoph Franz
Chairman of the
Executive Board

Stephan Gemkow
Member of the
Executive Board
Chief Financial Officer

Stefan Lauer
Member of the
Executive Board
Chief Officer Group Airlines
and Corporate Human Resources

Carsten Spohr
Member of the
Executive Board
Chief Officer Lufthansa
German Airlines

# Auditors' report

We have audited the consolidated financial statements prepared by Deutsche Lufthansa Aktiengesellschaft, comprising the balance sheet, the income statement, the statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2010 to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent company's executive board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's executive board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 9 March 2011
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Norbert Vogelpoth
Wirtschaftsprüfer
(German Public Auditor)

Frank Hübner
Wirtschaftsprüfer
(German Public Auditor)

# Supervisory Board and Executive Board

## Supervisory Board

**Dr Wolfgang 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 Executive Board
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
(from 29 April 2010)

**Dr Jürgen Hambrecht**
Chairman of the
Executive Board
BASF SE

**Ulrich Hartmann**
Chairman of the
Supervisory Board
E.ON AG
(until 29 April 2010)

**Dominique Hiekel**
Purser
Employee representative

**Dr h.c. Robert Kimmitt**
Senior International Counsel
WilmerHale, USA
(from 29 April 2010)

**Martin Koehler**
Managing Director
The Boston Consulting
Group Inc.
(from 2 March 2010)

**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

**Dr Herbert Walter**
Former Chairman
of the Executive Board
Dresdner Bank AG and
former member of the
Executive Board Allianz SE
(until 29 April 2010)

**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

**Wolfgang Mayrhuber**
Chairman of the Executive Board
(until 31 December 2010)

**Dr Christoph Franz**
Deputy Chairman
of the Executive Board
CEO Lufthansa German Airlines
(until 31 December 2010)
Chairman of the Executive Board
(from 1 January 2011)

**Stephan Gemkow**
Member of the Executive Board
Chief Financial Officer

**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
(from 1 January 2011)

## Supervisory Board Committees

**Steering Committee**
**Dipl.-Ing. Dr-Ing. E.h. Jürgen Weber** (Chairman)
**Frank Bsirske** (Deputy Chairman)
**Bernd Buresch**
**Dr Jürgen Hambrecht**
Five meetings in 2010

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**
**Ulrich Hartmann** (until 29 April 2010)
**Martin Koehler** (from 29 April 2010)
**Eckhard Lieb**
**Dr Michael Wollstadt**
Four meetings in 2010

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, accounting, risk management matters and compliance, the necessary independence of the external auditors, the appointment of external auditors, the focus of audits and the remuneration 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 separate 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** (from 29 April 2010)
**Ulrich Hartmann** (until 29 April 2010)
**Dr Klaus G. Schlede**
**Dipl.-Ing. Dr-Ing. E.h. Jürgen Weber**
One meeting in 2010

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. The Supervisory Board should be so composed that its members together have the knowledge, skills and professional experience necessary for them to carry out their tasks correctly. Taking this precondition into account, an appropriate share of women members and of members with considerable business experience in countries other than Germany is to be aimed for.

**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 2010

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 2010**

**Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber**
a) Allianz Lebensversicherungs-AG
Bayer AG
Voith GmbH
Willy Bogner GmbH & Co. KGaA
(Chairman of the Supervisory Board)
b) Loyality 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)

**Jacques Aigrain**
b) J.A. Consulting SA, Switzerland
Resolution Limited, UK
SWISS International Air Lines AG

**Dr Werner Brandt**
a) Heidelberger Druckmaschinen AG
b) QIAGEN N.V.

**Bernd Buresch**
a) Lufthansa Systems AG

**Herbert Hainer**
a) Allianz Deutschland AG
FC Bayern München AG
(Deputy Chairman of the
Supervisory Board)
Engelhorn KGaA

**Dr Jürgen Hambrecht**
a) Daimler AG

**Ulrich Hartmann** (as of 29 April 2010)
a) E.ON AG (Deputy Chairman
of the Supervisory Board)

**Martin Koehler**
a) Delton AG

**Dr Nicola Leibinger-Kammüller**
a) Axel Springer AG
Siemens AG
Voith GmbH

**Eckhard Lieb**
b) Albatros Versicherungsdienste GmbH

**Dr Herbert Walter** (as of 29 April 2010)
a) E.ON Ruhrgas AG
b) Banco BPI S.A.
Banco Popular Espaniol S.A.
Depfa Bank plc., Dublin

**Matthias Wissmann**
a) Seeburger AG (Deputy Chairman)

## Mandates of the Executive Board members of Deutsche Lufthansa AG
**As of 31 December 2010**

**Wolfgang Mayrhuber**
a) BMW AG
Lufthansa Technik AG*
Münchener Rückversicherungs-
Gesellschaft AG
b) Austrian Airlines AG
HEICO Corp., Florida
Österreichische Luftverkehrs-Holding
GmbH (Chairman of
the Supervisory Board)
SN Airholding SA/NV
UBS AG, Switzerland

**Dr Christoph Franz**
a) DF Deutsche Forfait AG
Lufthansa Technik AG*
b) JetBlue Airways Corp.
SWISS International Air Lines AG*

**Stephan Gemkow**
a) Delvag Luftfahrtversicherungs-AG*
(Chairman of the Supervisory Board)
Evonik Industries AG
GfK SE
LSG Lufthansa Service Holding AG*
(Chairman of the Supervisory Board)
Lufthansa AirPlus Servicekarten GmbH*
(Chairman of the Supervisory Board)
Lufthansa Cargo AG*
(Chairman of the Supervisory Board)
Lufthansa Systems Aktiengesellschaft*
(Chairman of the Supervisory Board)
Lufthansa Technik AG*
(Chairman of the Supervisory Board)
b) Amadeus IT Group S.A.
Amadeus IT Holding S.A.
JetBlue Airways Corp.

**Stefan Lauer**
a) Fraport AG
LSG Lufthansa Service Holding AG*
Lufthansa Cargo AG*
Lufthansa Flight Training GmbH*
(Chairman of the Supervisory Board)
Pensions-Sicherungs-Verein VVaG
(Supervisory Board)
b) Aircraft Maintenance and
Engineering Corp. (Deputy Chairman
of the Board of Directors)
Austrian Airlines AG
(Chairman of the Supervisory Board)
British Midland Ltd.*
(Chairman of the Board of Directors)
ESMT European School
of Management and Technology GmbH
Landesbank Hessen-Thüringen
Girozentrale
SN Airholding SA/NV
Günes Ekspres Havacilik A.S.
(Sun Express) (Deputy Chairman
of the Board of Directors)
SWISS International Air Lines AG*

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 31.12.2010 | 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 | | |
| AUA 2006 MSN 263 Ltd., George Town, Grand Cayman, Cayman Islands | 0.00 | 0.00 | SPE | |
| AUA A320/A321 2001 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 | | |
| British Midland Airways Ltd., Donington Hall, UK | 100.00 | 100.00 | | |
| British Midland Ltd., Donington Hall, UK | 100.00 | 100.00 | | |
| Edelweiss Air AG, Kloten, Switzerland | 100.00 | 100.00 | | |
| Ellen Finance 2010 S.N.C., Paris, France | 0.00 | 0.00 | SPE | |
| Eurowings Luftverkehrs AG, Dusseldorf | 100.00 | 100.00 [1)] | | |
| FI Beauty Leasing Ltd, Tokyo, Japan | 0.00 | 0.00 | SPE | |
| First Valley Highway Kumiai, Tokyo, Japan | 0.00 | 0.00 | SPE | |
| Germanwings GmbH, Cologne | 100.00 | 100.00 | | |
| Global Brand Management AG, Basel, Switzerland | 100.00 | 100.00 | | |
| GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 7 oHG, Grünwald | 100.00 | 66.67 | | |
| Ingrid Finance 2010 S.N.C., Paris, France | 0.00 | 0.00 | SPE | |
| Jour Leasing Co., Ltd., Tokyo, Japan | 0.00 | 0.00 | SPE | |
| Lauda Air Luftfahrt GmbH, Vienna Airport, Austria | 100.00 | 100.00 | | |
| LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dortmund | 100.00 | 100.00 | | |
| LHBD Holding Limited, London, UK | 100.00 | 100.00 [2)] | | |
| 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 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 2, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 3, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 4, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 5, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 6, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 7, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 8, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 9, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing Austria GmbH & Co. OG Nr. 10, Salzburg, Austria | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Alfa oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Delta oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Echo oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Golf oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Hotel oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Quebec oHG, Grünwald | 100.00 | 66.67 | | |

| Name, registered office | Equity stake in % | Voting share in % | | Different reporting period |
|---|---|---|---|---|
| Lufthansa Leasing GmbH & Co. Fox-Romeo oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Sierra oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Tango oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Uniform oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Victor oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Fox-Yankee oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Golf-Lima oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Leasing GmbH & Co. Golf-Mike oHG, Grünwald | 100.00 | 66.67 | | |
| Lufthansa Malta Aircraft-Leasing Ltd., St. Julians, 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 | | |
| ÖLB Österreichische Luftverkehrs-Beteiligungs GmbH, Vienna Airport, Austria | 100.00 | 100.00 | | |
| ÖLH Österreichische Luftverkehrs-Holding GmbH, Vienna Airport, Austria | 100.00 | 100.00 | [3] | |
| ÖLP Österreichische Luftverkehrs-Privatstiftung, Vienna Airport, Austria | 0.00 | 0.00 | [4] | |
| 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., Basel, 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 | |
| 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, Kelsterbach | 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 | 50.21 | 50.21 | | |
| 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 | | |
| Hawker Pacific Aerospace Ltd., Kestrel Way, Hayes, UK | 100.00 | 100.00 | | |
| JASEN Grundstücksgesellschaft mbH & Co. oHG, Grünwald | 100.00 | 50.00 | SPE | |
| Lufthansa Technik AERO Alzey GmbH, Alzey | 100.00 | 100.00 | | |
| Lufthansa Technik AG, Hamburg | 100.00 | 100.00 | | |
| Lufthansa Technik 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 Immobilien- und Verwaltungsgesellschaft mbH, Hamburg | 100.00 | 100.00 | | |
| Lufthansa Technik Logistik GmbH, Hamburg | 100.00 | 100.00 | | |
| Lufthansa Technik Maintenance International GmbH, Frankfurt/M. | 100.00 | 100.00 | | |
| Lufthansa Technik Malta Limited, Luqa, Malta | 92.00 | 92.00 | | |

Continued on page 222

| **Major subsidiaries as of 31.12.2010** (continued) | **Equity stake** | **Voting share** | **Different reporting period** |
|---|---|---|---|
| Name, registered office | in % | in % | |
| Lufthansa Technik North America Holding Corp., Wilmington, USA | 100.00 | 100.00 | |
| Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH, Hamburg | 100.00 | 100.00 | |
| Lufthansa Technik Philippines, Inc., Manila, Philippines | 51.00 | 51.00 | |
| Lufthansa Technik Switzerland GmbH, Basel, Switzerland | 100.00 | 100.00 | |
| Shannon Aerospace Ltd., Co. Claire, Ireland | 100.00 | 100.00 | |
| **IT Services segment** | | | |
| Lufthansa Systems Aeronautics GmbH, Raunheim | 100.00 | 100.00 | |
| Lufthansa Systems Airline Services GmbH, Kelsterbach | 100.00 | 100.00 | |
| Lufthansa Systems Aktiengesellschaft, Kelsterbach | 100.00 | 100.00 | |
| Lufthansa Systems Americas, Inc., Miami, USA | 100.00 | 100.00 | |
| Lufthansa Systems AS GmbH, Norderstedt | 100.00 | 100.00 | |
| Lufthansa Systems Berlin GmbH, Berlin | 100.00 | 100.00 | |
| Lufthansa Systems Business Solutions GmbH, Raunheim | 100.00 | 100.00 | |
| Lufthansa Systems Infratec GmbH, Kelsterbach | 100.00 | 100.00 | |
| Lufthansa Systems Passenger Services GmbH, Kelsterbach | 100.00 | 100.00 | |
| **Catering segment** | | | |
| 41 / 42 Bartlett (Pty) Ltd., Johannesburg, South Africa | 100.00 | 100.00 | |
| Aerococina S.A. de C.V., Mexico City, Mexico | 51.00 | 51.00 | |
| AIRO Catering Services Eesti OÜ, Tallinn, Estonia | 100.00 | 100.00 | |
| Airo Catering Services Latvija SIA, Marupe, Latvia | 100.00 | 100.00 | |
| AIRO Catering Services Sweden AB, Stockholm-Arlanda, Sweden | 100.00 | 100.00 | |
| AIRO Catering Services - Ukraine, Boryspil, Ukraine | 100.00 | 100.00 | |
| Arlington Services, Inc., Wilmington, USA | 100.00 | 100.00 | |
| Arlington Services Mexico, S.A. de C.V., Mexico City, Mexico | 100.00 | 100.00 | |
| Arlington Services Panama S.A., Panama City, Panama | 100.00 | 100.00 | |
| AVIAPIT-SOCHI OOO, Sochi, Russia | 100.00 | 100.00 | |
| Bahia Catering Ltda., Sao Cristovao (Salvador), Brazil | 95.00 | 95.00 | |
| 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 | |
| CLS Catering Services Ltd., Richmond, Canada | 70.00 | 70.00 | |
| Comercializadora de Servicios Limitada, Santiago de Chile, Chile | 100.00 | 100.00 | |
| Comisariato de Baja California, S.A. de C.V., Tijuana, Mexico | 51.00 | 51.00 | |
| Comisariatos Gotre, S.A. de C.V., Torreon, Mexico | 51.00 | 51.00 | |
| 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 Limited, Daressalam, 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 | |

| Name, registered office | Equity stake in % | Voting share in % | Different reporting period |
|---|---|---|---|
| LSG Catering Saipan, Inc., Saipan, Micronesia | 100.00 | 100.00 | |
| LSG Catering (Thailand) Ltd., Bangkok, Thailand | 100.00 | 100.00 | |
| LSG-Food & Nonfood Handel GmbH, Frankfurt/M. | 100.00 | 100.00 | |
| LSG Holding Asia Ltd., Hong Kong, 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 [5)] | |
| 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 Australasia Pty Limited, Sydney, Australia | 100.00 | 100.00 | |
| LSG Sky Chefs Belgium N.V., Zaventem, Belgium | 100.00 | 100.00 | |
| LSG Sky Chefs Birmingham Ltd., Feltham, UK | 100.00 | 100.00 | |
| LSG Sky Chefs Building AB, Stockholm, Sweden | 100.00 | 100.00 | |
| LSG Sky Chefs Catering Logistics GmbH, Neu-Isenburg | 100.00 | 100.00 | |
| LSG Sky Chefs Culinary Service GmbH, Neu-Isenburg | 100.00 | 100.00 | |
| LSG Sky Chefs Danmark A/S, Kastrup, Denmark | 100.00 | 100.00 | |
| LSG Sky Chefs Deutschland GmbH, Neu-Isenburg | 100.00 | 100.00 | |
| LSG Sky Chefs de Venezuela C.A., Caracas, Venezuela | 99.99 | 99.93 | |
| LSG/Sky Chefs Europe Holdings Ltd., Horley, UK | 100.00 | 100.00 | |
| LSG Sky Chefs/GCC Ltd., Feltham, UK | 50.00 | 50.00 | |
| LSG Sky Chefs Gulf Solutions W.L.L., Manama, Bahrain | 60.00 | 60.00 | |
| LSG Sky Chefs Havacilik Hizmetleri A.S., Sefaköy-Istanbul, Turkey | 100.00 | 100.00 | |
| LSG Sky Chefs (India) Private Ltd., Mumbai, India | 100.00 | 100.00 | |
| LSG Sky Chefs In-Flight Logistics Asia Pacific Ltd., Hong Kong, China | 100.00 | 100.00 | |
| LSG Sky Chefs Istanbul Catering Hizmetleri A.S., Istanbul, Turkey | 100.00 | 100.00 [6)] | |
| LSG Sky Chefs Korea Co Ltd., Incheon, South Korea | 80.00 | 80.00 | |
| LSG Sky Chefs Lounge GmbH, Neu-Isenburg | 100.00 | 100.00 | |
| LSG Sky Chefs New Zealand Limited, Auckland, New Zealand | 100.00 | 100.00 | March |
| LSG Sky Chefs Norge AS, Oslo, Norway | 100.00 | 100.00 | |
| LSG Sky Chefs North America Solutions, Inc., Wilmington, USA | 100.00 | 100.00 | |
| LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH, Neu-Isenburg | 100.00 | 100.00 | |
| LSG Sky Chefs (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, Rümlang, Switzerland | 100.00 | 100.00 | |
| LSG Sky Chefs Solutions Asia Limited, 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., Case Nuove di Somma Lombardo, Italy | 100.00 | 100.00 | |
| LSG Sky Chefs Supply Chain Solutions, Inc., Wilmington, USA | 100.00 | 100.00 | |
| LSG Sky Chefs Sverige AB, Stockholm, Sweden | 100.00 | 100.00 | |
| LSG Sky Chefs (Thailand) Ltd., Bangkok, Thailand | 64.30 | 100.00 | |
| LSG Sky Chefs UK Ltd., Feltham, UK | 100.00 | 100.00 | |
| LSG Sky Chefs USA, Inc., Wilmington, USA | 100.00 | 100.00 | |
| LSG Sky Chefs Verwaltungsgesellschaft mbH, Neu-Isenburg | 100.00 | 100.00 | |

Continued on page 224

| Major subsidiaries as of 31.12.2010 | Equity stake | Voting share | | Different reporting period |
|---|---|---|---|---|
| Name, registered office | in % | in % | | |
| LSG-Sky Food GmbH, Alzey | 100.00 | 100.00 | | |
| LSG South America GmbH, Neu-Isenburg | 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, L.L.C., Wilmington, Delaware, 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 | | |
| 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 | 55.00 | 55.00 | | |
| **Other** | | | | |
| AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria | 66.67 | 66.67 | | |
| 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 Limited, 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 Commercial Holding GmbH, Cologne | 100.00 | 100.00 | | |
| Lufthansa Flight Training Berlin GmbH, Berlin | 100.00 | 100.00 | | |
| Lufthansa Flight Training GmbH, Frankfurt/M. | 100.00 | 100.00 | | |
| Lufthansa Malta Finance plc, 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] 50.91 per cent of the equity stakes and voting rights are attributed via a call option.
[2] 11.50 per cent of the equity stakes and 65.00 per cent of the voting rights are attributed via a call option.
[3] 50.20 per cent of the equity stakes and voting rights are attributed via ÖLP.
[4] Control over ÖLP results from the ability to nominate 3 out of 5 members of the Management Board.
[5] Management responsibility for the company lies with the Group.
[6] 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 31.12.2010*** | **Equity stake** | **Voting share** | **Different reporting period** |
|---|---|---|---|
| Name, registered office | in % | in % | |
| **Passenger Airline Group segment** | | | |
| CityLine Avro Simulator und Training GmbH Berlin, Berlin | 50.00 | 50.00 | |
| Günes Ekspres Havacilik Anonim Sirketi (Sun Express), Antalya, Turkey | 50.00 | 50.00 | |
| **Logistics segment** | | | |
| Aerologic GmbH, Leipzig | 50.00 | 50.00 | |
| Global Logistics System Europe Company for Cargo Information Services GmbH, Frankfurt/M.[1)] | 46.85 | 42.86 | |
| 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** | | | |
| Brahim's - LSG Sky Chefs Holdings Sdn Bhd, Bandar Baru Bangi, Malaysia | 49.00 | 49.00 | |
| **Other** | | | |
| Diners Club Spain S.A., Madrid, Spain | 25.00 | 25.00 | |

* Accounted for using the equity method.

| **Major associated companies as of 31.12.2010*** | **Equity stake** | **Voting share** | **Different reporting period** |
|---|---|---|---|
| Name, registered office | in % | in % | |
| **Passenger Airline Group segment** | | | |
| Alpar Flug- und Flugplatz-Gesellschaft AG, Belp, Switzerland | 17.00 | 17.00 | |
| SN Airholding SA/NV, Brussels, Belgium | 45.00 | 45.00 | |
| **Logistics segment** | | | |
| Jade Cargo International Company Limited, Shenzhen, China | 25.00 | 28.57 | |
| time:matters Holding GmbH, Dusseldorf [1)] | 49.26 | 49.00 | |
| **MRO segment** | | | |
| BELAC LLC, Oldsmar, USA | 21.05 | 21.05 | |
| HEICO Aerospace Holdings Corp., Hollywood, USA | 20.00 | 20.00 | |
| **Catering segment** | | | |
| CateringPor - Catering de Portugal, S.A., Lissabon, Portugal | 49.00 | 49.00 | |
| Hongkong Beijing Air Catering Ltd., Hong Kong, China | 45.00 | 45.00 | |
| Hongkong Shanghai Air Catering Ltd., Hong Kong, China | 45.00 | 45.00 | |
| Inflight Service Production Sweden AB, Sigtuna, Sweden | 25.00 | 25.00 | |
| Inflite Holdings (Cayman) Ltd., Grand Cayman, Cayman Islands | 49.00 | 49.00 | 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 | |
| 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 | |
| Gansu HNA LSG Sky Chefs Co., Ltd, Lanzhou, China | 49.00 | 40.00 | |

* Accounted for using the equity method.
[1)] Classified as "held for sale".

# Miscellaneous equity investments of Deutsche Lufthansa AG

| Miscellaneous equity investments of Deutsche Lufthansa AG as of 31.12.2010 | 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 Deutschland 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 400 021, India | 75.00 | 75.00 | |
| Airline Training Center Arizona Inc., Goodyear, AZ 85338, 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, 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 | |
| AVICON Aviation Consult Gesellschaft m.b.H., Vienna Airport, Austria | 100.00 | 100.00 | |
| Aviation Quality Services GmbH, Frankfurt/M. | 100.00 | 100.00 | |
| BM Handling Services Ltd., Derby, UK | 100.00 | 100.00 | |
| BMI Airways Ltd., Derby, UK | 100.00 | 100.00 | |
| bmibaby Ltd., Donington, Derby, UK | 100.00 | 100.00 | |
| British Mediterranean Airways Limited, Derby, UK | 59.38 | 79.68 | |
| British Midland Engineering Ltd., Derby, UK | 100.00 | 100.00 | |
| British Midland Holdings Ltd., Derby, UK | 100.00 | 100.00 | |
| British Midland Regional Ltd., Aberdeen, UK | 100.00 | 100.00 | |
| Cargo Future Communications (CFC) GmbH, Büchenbeuren | 65.00 | 65.00 | |
| Caterair Portugal - Assistencia A Bordo, Lda., Sacavém, Portugal | 100.00 | 100.00 | |
| City Net Catering Holdings Ltd., Alcester, UK [1] | 100.00 | 100.00 | |
| Crossair AG, Basel, Switzerland | 100.00 | 100.00 | |
| Cross Travel Club AG, Basel, Switzerland | 100.00 | 100.00 | |
| Diamond Insurance Company Limited, Douglas, Isle of Man, UK | 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 | |
| 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 | |
| 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, Grünwald | 100.00 | 83.33 | |

| Name, registered office | Equity stake in % | Voting share in % | Consolidated |
|---|---|---|---|
| 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 | |
| International Cargo Marketing Ltd., Derby, UK | 100.00 | 100.00 | |
| LCAG Malta Pension Ltd., 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 | |
| LH Cargo Holding GmbH, Kelsterbach | 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 | |
| LSG Sky Chefs Argentina S.A. i.G., Buenos Aires, Argentina | 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 Cagri Merkezi ve Müsteri Hizmetleri A.S., Istanbul, Turkey | 100.00 | 100.00 | |
| Lufthansa Cargo India (Priv) Ltd., New Delhi, India | 100.00 | 100.00 | |
| Lufthansa Cargo Servicios Logisticos de Mexico, S.A. de C.V., Mexico, Mexico | 100.00 | 100.00 | |
| Lufthansa City Center International GmbH, Frankfurt/M. | 50.00 | 50.00 | |
| Lufthansa Consulting GmbH, Cologne | 92.50 | 100.00 | |
| Lufthansa Consulting Managementbeteiligungs GmbH & Co. KG, Cologne | 62.50 | 62.50 | |
| Lufthansa Druck und Distribution GmbH, Cologne | 100.00 | 100.00 | |
| 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 Inmobiliaria S. A. de C. V., Mexico City, Mexico | 100.00 | 100.00 | |
| Lufthansa International Finance (Netherlands) N. V., Amsterdam, Netherlands | 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 Resource Technical Training Ltd., Cwmbran, UK | 51.00 | 51.00 | |
| Lufthansa Service-Center Kassel GmbH, Kassel | 100.00 | 100.00 | |
| Lufthansa Services (Thailand) Ltd., Bangkok, Thailand | 64.19 | 80.00 | |
| Lufthansa Shenzhen Management Company Limited, Shenzhen, China | 100.00 | 100.00 | |
| 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 Texas 75247-3726, 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 | |
| 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 Component Services LLC, Dallas, USA | 100.00 | 100.00 | |
| Lufthansa Technik Intercoat GmbH, Kaltenkirchen | 51.00 | 51.00 | |
| Lufthansa Technik Logistik of America LLC, New York 11554, USA | 100.00 | 100.00 | |
| Lufthansa Technik Logistik Services GmbH, Hamburg | 100.00 | 100.00 | |

Continued on page 228

| **Miscellaneous equity investments of Deutsche Lufthansa AG as of 31.12.2010** (continued) | **Equity stake** | **Voting share** | **Consolidated** |
|---|---|---|---|
| Name, registered office | in % | in % | |
| 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 | 90.00 | 71.40 | |
| Lufthansa Technik Sofia OOD, Sofia, Bulgaria | 80.00 | 80.00 | |
| 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 | |
| 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 | |
| Österreichische Luftfahrtschule Aviation TRAINING CENTER Austria Gesellschaft m.b.H., Feldkirchen bei Graz, Austria | 60.00 | 60.00 | |
| OP-Fonds LVG, Cologne | 88.73 | 88.73 | |
| Passage Services Holding GmbH, Munich | 100.00 | 100.00 | |
| 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, D.F., Mexico | 50.90 | 99.80 | |
| Shared Services International India Private Limited, New Delhi - 110 001, India | 100.00 | 100.00 | |
| Shared Services International, Singapore PTE. LTD, Singapore 238871, Singapore | 100.00 | 100.00 | |
| SLL, s.r.o., Bratislava, Slovakia | 100.00 | 100.00 | |
| Slovenske Aerolinie, a.s. (i.L.), Bratislava, Slovakia | 62.00 | 62.00 | |
| Star Risk Services Inc., Southlake, Texas 76092, USA | 100.00 | 100.00 | |
| Swiss Private Aviation AG, Kloten, Switzerland | 100.00 | 100.00 | |
| Swiss WorldCargo (India) Private Limited, Mumbai 400071, India | 75.00 | 75.00 | |
| TATS - Travel Agency Technologies & Services GmbH, Frankfurt / M. | 100.00 | 100.00 | |
| THG Grundbuchtreuhandgesellschaft mbH, Cologne | 85.00 | 85.00 | |
| TRAINICO Training und Ausbildung Cooperation in Berlin-Brandenburg GmbH, Berlin | 100.00 | 100.00 | |
| TTI Travel Transport Innovation Consult GmbH i.L., Kelsterbach | 100.00 | 100.00 | |
| TRAVI Holding GmbH, Vienna, Austria | 69.00 | 69.00 | |
| VPF Malta Pension Ltd., St. Julians, Malta | 100.00 | 100.00 | |
| Wien Oberlaa Liegenschaftsentwicklungs GmbH, Vienna Airport, Austria | 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 | |
| Amadeus IT Holding, S.A., Madrid, Spain | 7.61 | 7.61 | |
| ATLECON Fuel Corporation, Atlanta, USA | 11.11 | 11.11 | |
| AviationPower GmbH, Frankfurt | 49.00 | 49.00 | |
| AVS Privatkunden Versicherungsservice GmbH, Austria | 10.00 | 10.00 | |
| Beijing Lufthansa Center Co. Ltd., Beijing, China | 11.23 | 12.50 | |
| BGB-Gesellschaft der Gesellschafter der AFC Aviation Fuel Company mbH, Hamburg | 0.00 | 50.00 | |
| CommuniGate Kommunikationsservice GmbH, Passau | 50.00 | 50.00 | |
| Deutsche Akademie für Flug- und Reisemedizin gemeinnützige GmbH, Frankfurt / M. | 90.00 | 90.00 | |
| 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 | |
| Finairport Service S.r.l., Turin, Italy | 36.00 | 36.00 | |
| Flughafen München Baugesellschaft mbH, Munich Airport | 40.00 | 40.00 | |

| Name, registered office | Equity stake in % | Voting share in % | Consolidated |
|---|---|---|---|
| FMO Passenger Services GmbH, Greven | 33.33 | 33.33 | |
| FM Terminal 2 Immobilien-Verwaltungsgesellschaft mbH & Co oHG, Freising | 40.00 | 40.00 | |
| FraCareServices GmbH, Frankfurt/M. | 49.00 | 49.00 | |
| Fraport AG, Frankfurt/M. | 9.95 | 9.95 | |
| 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 | |
| Jetblue Airways Corporation, City of Dover, County of Kent, Delaware, USA | 15.85 | 15.85 | |
| LifeConEx, LLC, Miramar, USA | 50.00 | 50.00 | |
| 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 | |
| LSG Sky Chefs TAAG Angola S.A., Luanda, Angola | 40.00 | 40.00 | |
| LTQ Engineering Pty Limited, Tullamarine VIC 3043, Australia | 50.00 | 50.00 | |
| Luftfahrzeugverwaltungsgesellschaft GOAL mbH, Grünwald | 40.00 | 40.00 | |
| Lufthansa HNA Technical Training Co., Ltd., Meilan Airport, Hainan, 571126, China | 50.00 | 1.00 | |
| Lufthansa LAN Technical Training S.A., Santiago de Chile, Chile | 50.00 | 50.00 | |
| Lufthansa Leasing GmbH & Co. Bravo-Juliett KG i.L., Grünwald | 100.00 | 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 | |
| Santander AirPlus Corporate Payment Solutions S.A., Pozuelo de Alarcón (Madrid), Spain | 25.00 | 50.00 | |
| Sanya LSG Air Catering Co. Ltd, Sanya, China | 45.00 | 40.00 | |
| SCA Schedule Coordination Austria GmbH, Vienna, 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 | |
| Skill Portal AG, Langen | 8.33 | 8.33 | |
| Sky Bird Services Ltd., Hongkong, China | 10.00 | 10.00 | |
| Sky Chefs for Airlines Catering Company, Tripolis, 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 2 Betriebsgesellschaft mbH & Co oHG, Oberding | 40.00 | 40.00 | |
| 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 | |
| Tianjin Airport Hua Yu Air Cargo Terminal Co. Ltd., Tianjin Airport, China | 46.00 | 46.00 | |
| Universal Air Travel Plan, Inc., Washington, DC, 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, Berlin | 50.00 | 50.00 | |

[1] 75.10 per cent of the equity stakes and voting rights are attributed from a call option.

# Ten-year overview

| | | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| **Income statement Lufthansa Group** | | | | |
| Revenue | €m | 27,324 | 22,283 | 24,842 |
| **Result** | | | | |
| Operating result | €m | 876 | 130 | 1,280 |
| Profit/loss from operating activities [1] | €m | 1,240 | 271 | 1 309 |
| Profit/loss before income taxes [1][8] | €m | 978 | –134 | 730 |
| Income taxes [8] | €m | –165 | –112 | 178 |
| Net profit/loss attributable to shareholders of Deutsche Lufthansa AG | €m | 1,131 | –34 | 542 |
| **Main cost items** | | | | |
| Staff costs | €m | 6,659 | 5,996 | 5,692 |
| Fees and charges | €m | 4,582 | 3,762 | 3,499 |
| Fuel for aircraft | €m | 5,158 | 3,645 | 5,377 |
| Depreciation, amortisation and impairment | €m | 1,682 | 1,475 | 1,289 |
| Net interest | €m | –357 | –325 | –172 |
| **Balance sheet Lufthansa Group** | | | | |
| **Asset structure** | | | | |
| Non-current assets [4] | €m | 18,963 | 17,696 | 14,975 |
| Current assets [4] | €m | 10,357 | 8,696 | 7,433 |
| of which liquid assets | €m | 5,380 | 4,439 | 3,278 |
| **Capital structure** | | | | |
| Shareholders' equity [2] | €m | 8,340 | 6,202 | 6,594 |
| of which issued capital [3] | €m | 1,172 | 1,172 | 1,172 |
| of which reserves | €m | 5,939 | 4,956 | 4,817 |
| of which profit/loss for the period | €m | 1,131 | –34 | 542 |
| of which minority interests | €m | 98 | 108 | 63 |
| Liabilities | €m | 20,980 | 20,190 | 15,814 |
| of which pension provisions | €m | 2,571 | 2,710 | 2,400 |
| of which borrowing | €m | 7,184 | 6,802 | 3,581 |
| Total assets | €m | 29,320 | 26,392 | 22,408 |
| **Other financial data Lufthansa Group** | | | | |
| Capital expenditure | €m | 2,271 | 2,304 | 2,152 |
| of which on tangible and intangible assets | €m | 2,222 | 2,177 | 1,798 |
| of which on financial investments | €m | 49 | 127 | 354 |
| Cash flow from operating activities | €m | 3,075 | 1,991 | 2,473 |
| Free cash flow | €m | 1,625 | 251 | 612 |
| Indebtedness | | | | |
| gross | €m | 7,207 | 6,860 | 3,639 |
| net [7] | €m | 1,596 | 2,195 | –125 |
| **Deutsche Lufthansa AG** | | | | |
| Net profit/loss for the year | €m | 483 | –148 | 276 |
| Loss carried forward | €m | – | – | – |
| Transfer to/from reserves | €m | –208 | 148 | 44 |
| Dividends proposed/paid | €m | 275 | – | 320 |
| Dividend per share proposed/paid | € | 0.6 | – | 0.7 |

| | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | 22,420 | 19,849 | 18,065 | 16,965 | 15,957 | 16,971 | 16,690 |
| | | | | | | | |
| | 1,378 | 845 | 577 | 383 | 36 | 718 | 28 |
| | 1,586 | 1,078 | 719 | 954 | −176 | 1,544 | −378 |
| | 2,125 | 1,129 | 875 | 541 | −814 | 904 | −807 |
| | 365 | 232 | 263 | 133 | 164 | 182 | −202 |
| | 1,655 | 803 | 453 | 404 | −984 | 717 | −633 |
| | | | | | | | |
| | 5,498 | 5,029 | 4,853 | 4,813 | 4,612 | 4,660 | 4,481 |
| | 3,174 | 2,824 | 2,543 | 2,542 | 2,290 | 2,239 | 2,311 |
| | 3,860 | 3,355 | 2,662 | 1,819 | 1,352 | 1,347 | 1,621 |
| | 1,204 | 1,051 | 1,398 | 1,112 | 1,930 | 1,243 | 1,714 |
| | −194 | −254 | −248 | −331 | −341 | −415 | −398 |
| | | | | | | | |
| | | | | | | | |
| | 14,076 | 12,969 | 12,318 | 11,543 | 10,885 | 12,103 | 13,244 |
| | 8,244 | 6,492 | 6,954 | 6,527 | 5,847 | 7,034 | 4,962 |
| | 3,607 | 2,538 | 3,598 | 3,788 | 2,721 | 3,638 | 1,182 |
| | | | | | | | |
| | 6,900 | 4,903 | 4,522 | 4,014 | 2,696 | 4,172 | 3,528 |
| | 1,172 | 1,172 | 1,172 | 1,172 | 977 | 977 | 977 |
| | 4,018 | 2,648 | 2,707 | 2,398 | 2,660 | 2,431 | 3,154 |
| | 1,655 | 803 | 453 | 404 | −984 | 717 | −633 |
| | 55 | 280 | 190 | 40 | 43 | 47 | 30 |
| | 15,420 | 14,558 | 14,750 | 14,056 | 14,036 | 14,965 | 14,678 |
| | 2,461 | 3,814 | 4,022 | 4,132 | 4,327 | 4,020 | 3,701 |
| | 3,345 | 2,956 | 3,563 | 3,306 | 3,240 | 4,713 | 4,446 |
| | 22,320 | 19,461 | 19,272 | 18,070 | 16,732 | 19,137 | 18,206 |
| | | | | | | | |
| | 1,737 | 1,929 | 1,829 | 1,783 | 1,155 | 880 | 2,979 |
| | 1,621 | 1,380 | 1,221 | 1,647 | 992 | 646 | 2,549 |
| | 116 | 549 | 608 | 136 | 163 | 234 | 430 |
| | 2,862 | 2,105 | 1,956 | 1,881 | 1,581 | 2,312 | 1,736 |
| | 2,688 | 584 | 815 | 1,061 | 1,024 | 2,813 | −796 |
| | | | | | | | |
| | 3,369 | 2,971 | 3,605 | 3,370 | 3,312 | 4,771 | 4,995 |
| | −768 | −101 | −143 | −418 | 591 | 1,133 | 3,812 |
| | | | | | | | |
| | 1,123 | 523 | 455 | 265 | −1,223 | 1,111 | −797 |
| | – | – | – | – | – | −797 | – |
| | −551 | −202 | −226 | −128 | 1,223 | −85 | – |
| | 572 | 321 | 229 | 137 | – | 229 | – |
| | 1.25 | 0.70 | 0.50 | 0.30 | – | 0.60 | – |

Continued on page 232

# Ten-year overview (continued)

| | | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **Operational ratios Lufthansa Group** | | | | |
| Return on sales (Profit/loss before income taxes[1) 8)]/revenue) | % | 3.6 | −0.6 | 2.9 |
| Return on capital employed (Profit/loss before income taxes[1) 8)] plus interest on liabilities/total assets) | % | 5.2 | 1.4 | 4.9 |
| Return on equity (Profit/loss after income taxes/shareholders' equity[2)]) | % | 13.7 | −0.4 | 8.4 |
| Return on equity (Profit/loss before income taxes[1) 8)]/shareholders' equity[2)]) | % | 11.7 | −2.2 | 11.1 |
| Equity ratio (Shareholders' equity[2)]/total assets) | % | 28.4 | 23.5 | 29.4 |
| Gearing[6)] (Net indebtedness plus pension provisions/shareholders' equity[2)]) | % | 50.0 | 79.1 | 34.5 |
| Leverage (Net indebtedness/total assets) | % | 5.4 | 8.3 | −0.6 |
| Internal financing ratio (Cash flow/capital expenditure) | % | 135.4 | 86.4 | 114.9 |
| Dynamic gearing (Net indebtedness/cash flow) | % | 51.9 | 110.2 | −5.1 |
| Revenue efficiency (Cash flow/revenue) | % | 11.3 | 8.9 | 10.0 |
| Net working capital (Current assets less current liabilities)[4)] | €bn | 0.5 | −0.1 | −0.6 |
| Non-current asset ratio (Non-current assets/total assets) | % | 64.7 | 67.1 | 66.8 |
| Depreciation ratio for aircraft/reserve engines (Accumulated acquisition costs/accumulated depreciation) | % | 53.9 | 54.2 | 58.9 |
| **Staff ratios** | | | | |
| Average number of employees | number | 117,066 | 112,320 | 108,123 |
| Revenue/employee | € | 233,407 | 198,384 | 229,757 |
| Staff costs/revenue | % | 24.4 | 26.9 | 22.9 |
| **Traffic figures Lufthansa Group**[5) 9)] | | | | |
| Total available tonne-kilometres | millions | 39,000.0 | 35,469.4 | 34,960.2 |
| Total revenue tonne-kilometres | millions | 29,033.4 | 24,942.7 | 24,972.5 |
| Cargo load factor | % | 74.4 | 70.3 | 71.4 |
| Available seat-kilometres | millions | 235,837.4 | 208,225.7 | 195,430.8 |
| Revenue seat-kilometres | millions | 187,000.1 | 162,286.2 | 154,155.5 |
| Passenger load factor | % | 79.3 | 77.9 | 78.9 |
| Passengers carried | millions | 91.2 | 77.3 | 70.5 |
| Revenue passenger tonne-kilometres | millions | 18,542.0 | 16,236.3 | 15,462.6 |
| Freight/mail | tonnes | 2,022,670 | 1,712,167 | 1,914,925 |
| Freight/mail tonne-kilometres | millions | 10,491.5 | 8,706.3 | 9,509.9 |
| Number of flights | number | 1,021,266 | 899,928 | 830,832 |
| Flight kilometres | millions | 1,324.2 | 1,177.9 | 1,124.6 |
| Aircraft utilisation (block hours) | number | 2,219,323 | 1,949,857 | 1,855,842 |
| Aircraft in service | number | 710 | 722 | 524 |

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.
4) Financial statements from 2004 according to new IAS 1 balance sheet standards; figures for previous years roughly comparable.

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| | | | | | | |
| 9.5 | 5.7 | 4.8 | 3.2 | −5.1 | 5.3 | −4.8 |
| 11.2 | 8.2 | 7.0 | 5.8 | −1.7 | 7.6 | −1.7 |
| 25.5 | 18.3 | 13.5 | 10.2 | −36.3 | 17.3 | −17.1 |
| 30.8 | 23.0 | 19.3 | 13.5 | −30.2 | 21.7 | −22.9 |
| 30.9 | 25.2 | 23.5 | 22.2 | 16.1 | 21.8 | 19.4 |
| 24.5 | 75.7 | 85.8 | 92.5 | 182.4 | 123.5 | 213.0 |
| −3.4 | −0.5 | −0.7 | −2.3 | 3.5 | 5.9 | 20.9 |
| 164.8 | 109.1 | 106.9 | 105.5 | 136.9 | 262.7 | 58.3 |
| −26.8 | −4.8 | −7.3 | −22.2 | 37.4 | 49.0 | 219.6 |
| 12.8 | 10.6 | 10.8 | 11.1 | 9.9 | 13.6 | 10.4 |
| 0 | −0.2 | 0 | 0.9 | −0.3 | −0.4 | −1.5 |
| 63.1 | 66.6 | 63.9 | 62.2 | 65.1 | 61.2 | 70.8 |
| 58.0 | 57.9 | 55.7 | 53.4 | 55.5 | 53.8 | 49.5 |
| | | | | | | |
| 100,779 | 93,541 | 90,811 | 92,743 | 94,798 | 94,135 | 87,975 |
| 222,467 | 212,196 | 198,930 | 182,925 | 168,326 | 180,284 | 189,713 |
| 24.5 | 25.3 | 26.9 | 28.4 | 28.9 | 27.5 | 26.8 |
| | | | | | | |
| 30,339.3 | 26,666.8 | 26,485.6 | 25,950.3 | 23,237.3 | 22,755.6 | 23,941.3 |
| 22,612.8 | 19,215.7 | 18,726.6 | 18,445.0 | 16,226.5 | 16,080.8 | 16,186.9 |
| 74.5 | 72.1 | 70.7 | 71.1 | 69.8 | 70.7 | 67.6 |
| 169,108.4 | 146,719.6 | 144,181.9 | 140,647.7 | 124,026.6 | 119,876.9 | 126,400.4 |
| 135,011.3 | 110,329.5 | 108,184.5 | 104,063.7 | 90,708.2 | 88,570.0 | 90,388.5 |
| 79.8 | 75.2 | 75.0 | 74.0 | 73.1 | 73.9 | 71.5 |
| 62.9 | 53.4 | 51.3 | 50.9 | 45.4 | 43.9 | 45.7 |
| 13,569.4 | 11,112.3 | 10,897.5 | 10,484.0 | 9,137.9 | 8,922.8 | 9,105.4 |
| 1,910,846 | 1,758,968 | 1,735,771 | 1,752,900 | 1,580,430 | 1,624,983 | 1,655,870 |
| 9,043.4 | 8,103.4 | 7,829.1 | 7,961.0 | 7,088.6 | 7,158.0 | 7,081.5 |
| 749,431 | 664,382 | 653,980 | 647,785 | 543,549 | 517,922 | 540,674 |
| 979.3 | 794.6 | 794.1 | 798.7 | 703.6 | 668.1 | 687.9 |
| 1,629,416 | 1,341,810 | 1,340,948 | 1,351,932 | 1,172,034 | 1,112,062 | 1,157,982 |
| 513 | 430 | 432 | 377 | 382 | 344 | 345 |

[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] From 2008 including the discontinued business segment Leisure Travel.
[9] Lufthansa Passenger Airlines, Lufthansa Regional (including Air Dolomiti's own traffic), Lufthansa Cargo, SWISS, (from 2010 incl. Edelweiss Air), British Midland (from July 2009) and Austrian Airlines (from September 2009).

# 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.

**MRO** Short for maintenance, repair and overhaul of aircraft.

**Network carrier** In contrast to no-frills carriers these airlines offer a wide-ranging, normally global route network via one or more hubs, with synchronised connecting flights.

**No-frills carrier** No-frills carriers 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).

**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.

**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.

## 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. 155.

**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. 48.

**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. 53. 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. 48.

**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. 65.

**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 2011 / 2012

## 2011

| | |
|---|---|
| **17 March** | Press Conference and Analysts' Conference on 2010 results |
| **3 May** | Annual General Meeting in Berlin |
| **5 May** | Release of Interim Report January – March 2011 |
| **28 July** | Release of Interim Report January – June 2011 |
| **27 Oct.** | Press Conference and Analysts' Conference on interim result January – September 2011 |

## 2012

| | |
|---|---|
| **15 March** | Press Conference and Analysts' Conference on 2011 results |
| **3 May** | Release of Interim Report January – March 2012 |
| **8 May** | Annual General Meeting in Cologne |
| **2 Aug.** | Release of Interim Report January – June 2012 |
| **31 Oct.** | Press Conference and Analysts' Conference on interim result January – September 2012 |

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