Lufthansa

Annual Report 2009

Ready for boarding

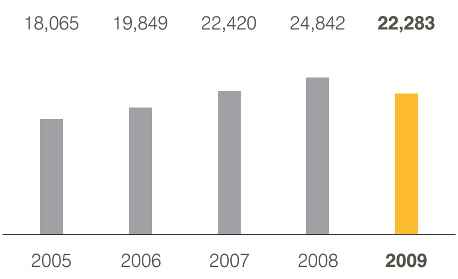
Key figures Lufthansa Group

		2009	2008 [3]	Change in %
Revenue and result				
Total revenue	€m	22,283	24,842	–10.3
of which traffic revenue	€m	17,604	19,970	–11.8
Operating result	€m	130	1,280	–89.8
EBIT	€m	96	902	–89.4
EBITDA	€m	1,743	2,347	–25.7
Net profit/loss	€m	–112	542	
Key balance sheet and cash flow statement figures				
Total assets	€m	26,392	22,408	17.8
Equity ratio	%	23.5	29.4	–5.9 pts
Net indebtedness	€m	2,195	–125	
Cash flow from operating activities	€m	1,991	2,473	–19.5
Capital expenditure (gross)	€m	2,405	2,154	11.7
Key profitability and value creation figures				
Adjusted operating margin [1]	%	1.4	5.8	–4.4 pts
EBITDA margin	%	7.8	9.4	–1.6 pts
CVA	€m	–858	654	–
CFROI	%	4.2	12.5	–8.3 pts
Lufthansa share				
Share price at year-end	€	11.75	11.19	5.0
Earnings per share	€	–0.24	1.18	
Suggested dividend per share	€	–	0.70	–100
Traffic figures [2]				
Passengers	thousands	76,543	70,543	8.5
Freight and mail	thousand tonnes	1,712	1,915	–10.6
Passenger load factor	%	77.9	78.9	–1.0 pts
Cargo load factor	%	60.3	62.8	–2.5 pts
Flights	number	893,235	830,832	7.5
Employees				
Average number of employees	number	112,320	108,123	3.9
Employees as of 31.12.	number	117,521	107,800	9.0

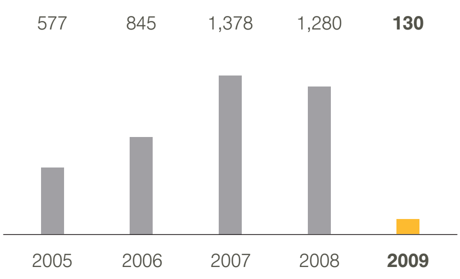
[1] Performance indicator to enable comparison with other airlines: (operating result + write-backs of provisions) / revenue
[2] Lufthansa Group without Germanwings.
[3] Last year's figures have been restated in line with measurement changes under IFRIC 13.

Date of publication: 11 March 2010.

Revenue in €m



Operating result in €m



Lufthansa Group overview

2009 figures

Key figures business segments

Passenger Airline Group		2009	Change in %
Revenue	€m	16,798	–8.5
of which external revenue	€m	16,225	–8.5
Operating result	€m	–8	–
Adjusted operating margin	%	0.8	–4.1 pts
Segment result	€m	78	–90.9
EBITDA[1)]	€m	1,430	–29.0
CVA	€m	–691	
Segment capital expenditure	€m	1,898	36.5
Employees as of 31.12.	number	58,083	25.3

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

Passenger Airline Group Falls in passenger numbers and prices affected the traffic figures for all the airlines in the Passenger Airline Group. An operating profit was narrowly missed. Lufthansa Passenger Airlines started the Climb 2011 programme in the summer to improve earnings sustainably. The airline group was extended in 2009 by Austrian Airlines, British Midland and Brussels Airlines.

22.3
Revenue in EUR bn

Logistics		2009	Change in %
Revenue	€m	1,951	–32.9
of which external revenue	€m	1,928	–33.1
Operating result	€m	–171	–
Adjusted operating margin	%	–8.0	–14.2
Segment result	€m	–152	–
EBITDA	€m	–28	–
CVA	€m	–264	
Segment capital expenditure	€m	25	13.6
Employees as of 31.12.	number	4,488	–3.6

Logistics Lufthansa Cargo was hit very hard by the collapse in the airfreight market. Measures to safeguard earnings were taken early and intensified successively, which made up for a large proportion of the one third of revenue that was lost. Even after a positive fourth quarter the operating loss was still substantial, however.

130
Operating result in EUR m

MRO		2009	Change in %
Revenue	€m	3,963	6.6
of which external revenue	€m	2,297	3.7
Operating result	€m	316	5.7
Adjusted operating margin	%	8.3	–0.5 pts
Segment result	€m	331	0.6
EBITDA	€m	436	2.6
CVA	€m	164	–12.8
Segment capital expenditure	€m	121	–0.8
Employees as of 31.12.	number	19,796	0.0

MRO Lufthansa Technik continued its course of profitable growth, further increasing revenue and operating result, against the market trend. By increasing customer loyalty Lufthansa Technik is stabilising its business performance. It was able to build successfully on its position as the world's leading MRO provider for civilian aircraft.

251
Free cash flow in EUR m

IT Services		2009	Change in %
Revenue	€m	605	–7.9
of which external revenue	€m	244	–12.5
Operating result	€m	16	–60.0
Adjusted operating margin	%	2.8	–3.4 pts
Segment result	€m	16	–59.0
EBITDA	€m	54	–30.8
CVA	€m	3	–89.7
Segment capital expenditure	€m	52	–10.3
Employees as of 31.12.	number	3,027	–0.2

IT Services Lufthansa Systems is the IT specialist of the Lufthansa Group. By combining airline and IT know-how to develop bespoke solutions for the air transport industry it was able to win new customers in 2009 and extend its market share. Revenue and operating result were nevertheless down on the previous year.

–858
Cash value added in EUR m

Catering		2009	Change in %
Revenue	€m	2,102	–9.6
of which external revenue	€m	1,589	–9.9
Operating result	€m	72	2.9
Adjusted operating margin	%	3.5	0.4 pts
Segment result	€m	75	–20.2
EBITDA	€m	120	–27.7
CVA	€m	–68	
Segment capital expenditure	€m	58	–50.0
Employees as of 31.12.	number	28,390	–6.2

Catering LSG Sky Chefs is the global market leader in airline catering. Despite a sharp decline in demand it was able to maintain its competitive position in 2009 and generate an operating profit. LSG Sky Chefs grows via partnerships and is increasingly differentiating itself in the market through innovations and environmental awareness.

11.3
Total shareholder return in per cent

Contents

We play a leading role in air transport, a fascinating market with enormous significance for global economic growth. We have a solid financial base that enables us to act autonomously and flexibly in overcoming the challenges currently facing the economy and our market. This is the foundation from which we are strengthening our future position, so as to use the forthcoming upturn again for profitable, value-creating growth.

Ready for boarding.

Christoph Franz
Deputy Chairman of the Executive Board, CEO Lufthansa German Airlines, born 1960, degree in engineering and business studies, member of Executive Board since 2009, appointed until 31 May 2012, with Lufthansa since 2009.

Stefan Lauer
Chief Officer Group Airlines and Corporate Human Resources, born in 1955, degree in law, member of Executive Board since 2000, appointed until 30 April 2015, with Lufthansa since 1990.

Wolfgang Mayrhuber
Chairman of the Executive Board and CEO, born 1947, degree in engineering, member of Executive Board since 2001, Chairman since 2003, appointed until 31 December 2010, with Lufthansa since 1970.

Stephan Gemkow
Chief Financial Officer, born 1960, degree in business studies, member of the Executive Board since 2006, appointed until 31 May 2014, with Lufthansa since 1990.

Ladies and Gentlemen,

We have a turbulent year behind us. Over the course of the year Lufthansa was hit by the full force of the global economic crisis. Just one year ago we were able to present our second-best results ever, but operating profit for the financial year 2009 came to only EUR 130m. Our net result for the period also fell considerably to EUR –112m. This corresponds to a loss of 24 cents per share. Even if this is still an impressive result in comparison with that of our competitors, we are certainly not satisfied with these figures.

All the business segments in the Lufthansa Group were hit by the crisis, albeit at different times and with differing intensity. They follow their own cycles, which has a smoothing effect on the operating result for the Group. To this extent the structure of the Group is advantageous because it is well balanced.

Our strong liquidity and financial profile also gave us a clear competitive advantage. We kept our business options open and were able to continue or begin important investments despite the crisis. Capital expenditure of the Lufthansa Group even rose by 11 per cent to EUR 2.4bn. The Passenger Airline Group segment accounted for the largest share at EUR 1.9bn, largely for new aircraft. We are convinced of our good prospects and think beyond the crisis, which is why we continue to invest in the future of our Company even when times are tough.

Our dividend policy also accords with our financial strategy. In good years our shareholders receive their share of success via high dividends. This was the case in eight of the last ten years. In weak years, however, distributions should not deplete the amount of equity. In view of the negative result reported in the consolidated and individual financial statements of Deutsche Lufthansa AG and with due regard for the uncertain macroeconomic environment, the Executive Board and Supervisory Board will therefore not be putting forward a proposal at the Annual General Meeting on 29 April 2010 to pay a dividend for the last financial year. This gives us no pleasure, but any other proposal would not be justifiable economically.

The good news is that despite all the turbulence Lufthansa was able to maintain its course in 2009. Our objective remains sustainable, profitable growth. In the crisis year 2009 our first priority was to stabilise earnings, however. This we were able to do, despite sharp falls in revenue caused by an abrupt contraction of average yields paired with weak demand, and despite the additional burden of the newly consolidated companies. We are still among the clear leaders in our industry and not only intend to maintain this position, but to strenghten it.

All business segments were able to respond to the market shift and adapt their costs, capacity and investment to the altered circumstances with great flexibility. Notwithstanding volume and price pressure, the passenger airlines in the Lufthansa Group stood their ground under the current difficult conditions. SWISS and Germanwings even delivered positive earnings contributions.

Lufthansa Passenger Airlines faced up to the crisis at an early stage. The Climb 2011 programme to safeguard earnings was launched as a result, in addition to ongoing capacity adjustments. Its aim is to reduce the cost base sustainably by EUR 1bn by the end of 2011. The considerably greater emphasis placed on cost-efficiency is not at odds with our position as a quality carrier. This is still a fundamental element of the strategy for Lufthansa Passenger Airlines – premium remains policy! The aim is rather to achieve the targeted high level of quality in the airline group ever more efficiently.

There is another piece of good news: our customers are more satisfied with Lufthansa than ever before. The customer satisfaction index went up again last year. This also fortifies us in our decision to invest in all segments as a premium provider.

The economic crisis also heightened the consolidation pressure in the air transport industry. We were able to play an active role in this process. The airline group of the Lufthansa Group was expended through the acquisitions:

- In July we acquired 45 per cent of the parent company of Brussels Airlines.
- In September we completed the takeover of Austrian Airlines.
- Since November Lufthansa has owned 100 per cent of British Midland via a british subsidiary.

Lufthansa can further strengthen its European presence with this airline group and offer its customers even more and even better connections. We think this makes all the difference. The same applies to the recently established Lufthansa Italia, which commenced flight operations in February 2009.

Crisis management was top priority in all business segments, including at Lufthansa Cargo. The steepest falls in volumes and revenue in percentage terms were experienced there, leading to a substantial operating loss. Programmes to safeguard earnings were launched swiftly and had to be tightened several times over the course of the year. Cargo aircraft were grounded, a hiring freeze and reduced working hours were imposed. This enabled the effects of the crisis to be absorbed considerably.

Against the trend, Lufthansa Technik grew again in 2009. The MRO segment was able to build further on its position as global market leader in its sector. It grew both in terms of new customers and new contracts and again increased its operating result. This puts Lufthansa Technik in a strong position for the start of the new financial year.

During the crisis many airlines not only cut costs but also postponed seminal projects. This spending freeze left its mark on Lufthansa Systems. The cost-cutting measures that were taken straight away nevertheless made it possible to report a positive operating result, even if it was below the previous year’s.

Despite the difficult market environment and a sharp fall in revenue, the global market leader in catering, our LSG Sky Chefs, improved its operating result in 2009. Here too, strict cost-cutting measures and programmes to increase efficiency proved effective. The strategy is right. LSG Sky Chefs adjusted successfully to the diminished airline catering market in 2009.

Cost management is a never-ending task and a tradition at Lufthansa – programmes with this objective were even launched in the good times, such as the Upgrade to Industry Leadership initiative that we concluded at the end of 2009. 140 projects were established as part of the initiative. The topics still running will be followed up and implemented by line management in the Group companies.

Overall, we continue to see the outlook for the Lufthansa Group in the years ahead as positive. Lufthansa's strategic direction will enable it to benefit disproportionately from the long-term growth that all experts are forecasting for the air traffic industry.

- Lufthansa is soundly financed and offers excellent products and brands. This enables us to act flexibly and autonomously.
- We have already proven our capacity to integrate new partners into the airline group and to realise synergies several times in the past.
- Lufthansa can be relied upon – all the business segments stand for our brand values. Quality and a focus on innovation, as well as reliability, safety and service remain top priority.

The route for the future has been logged. With an eye on the altered economic circumstances we have also adjusted our Group structure to make it stronger for the future, with an Executive Board member responsible for the group airlines, a CEO for Lufthansa Passenger Airlines with a reinforced management team, and the service companies now under the wing of the CFO. They can all rely on the support of a high-performance management crew and highly motivated, highly qualified staff.

Together we will navigate successfully through this crisis and regain altitude when the economy revives, because we would soon like to present you, our shareholders, with better results again – in the share price and in the dividend as well.

We are prepared for the time after the crisis. The course is set for profitable growth. We hope that you will accompany us as we move forward and continue to give us your support.

Wolfgang Mayrhuber
Chairman of the Executive Board of Deutsche Lufthansa AG

Lufthansa – a high-flying company

The symbol of the crane in full flight is one of the best known logos in the world. It stands for Lufthansa as a company and thus for values such as quality and safety, trust and reliability, innovation and technical proficiency as well as proximity to the customer.

Our defining characteristic is our special blend of tradition and vision. It gives us the strength to overcome challenges. With a motivated team and dynamic managers, who carry out their work with passion. We are not letting the turbulence push us off course, but are instead preparing for future growth.

- The world's economic and social development is inconceivable without air transport. Economic growth will continue. Emerging economies are creating important new business travel markets.

- Lufthansa is one of the world's leading airlines. In terms of quality, customer service, technical standards and innovation, it has a considerable head start over its competitors.

- Lufthansa has excellent staff and managers with experience of crises. The decentralised, market-focussed management structure fosters entrepreneurial thinking in all our business segments.

- Lufthansa offers its passengers a tightly meshed worldwide network, which meets the needs of business travellers in particular. It supplements its own strong network by the other group airlines and additional partnerships. Lufthansa is a founding member of Star Alliance, the largest airline alliance in the world.

- Lufthansa has a balanced customer structure. It is firmly anchored in the various regions, customer segments and industrial sectors. Its frequent-flyer programme Miles & More is the largest in Europe.

- The Group structure is also well balanced. The business segments Passenger Airline Group, Logistics, MRO, IT Services and Catering follow their own individual cycles, which has a stabilising effect on the Group's operating result, even at times of crisis.

- All segments support the Lufthansa brand values – aeronautical perfection, technical skills, service focus and partnerability. They offer orientation and trust, in times of both crisis and upswing.

- Lufthansa stands on solid financial foundations. Its independence and its strong financial profile, made up of a comfortable liquidity cushion, a solid capital structure and a largely unencumbered fleet, enable the Company to act flexibly and autonomously.

- Lufthansa secures its operating and strategic performance by means of systematic, forward-looking risk management.

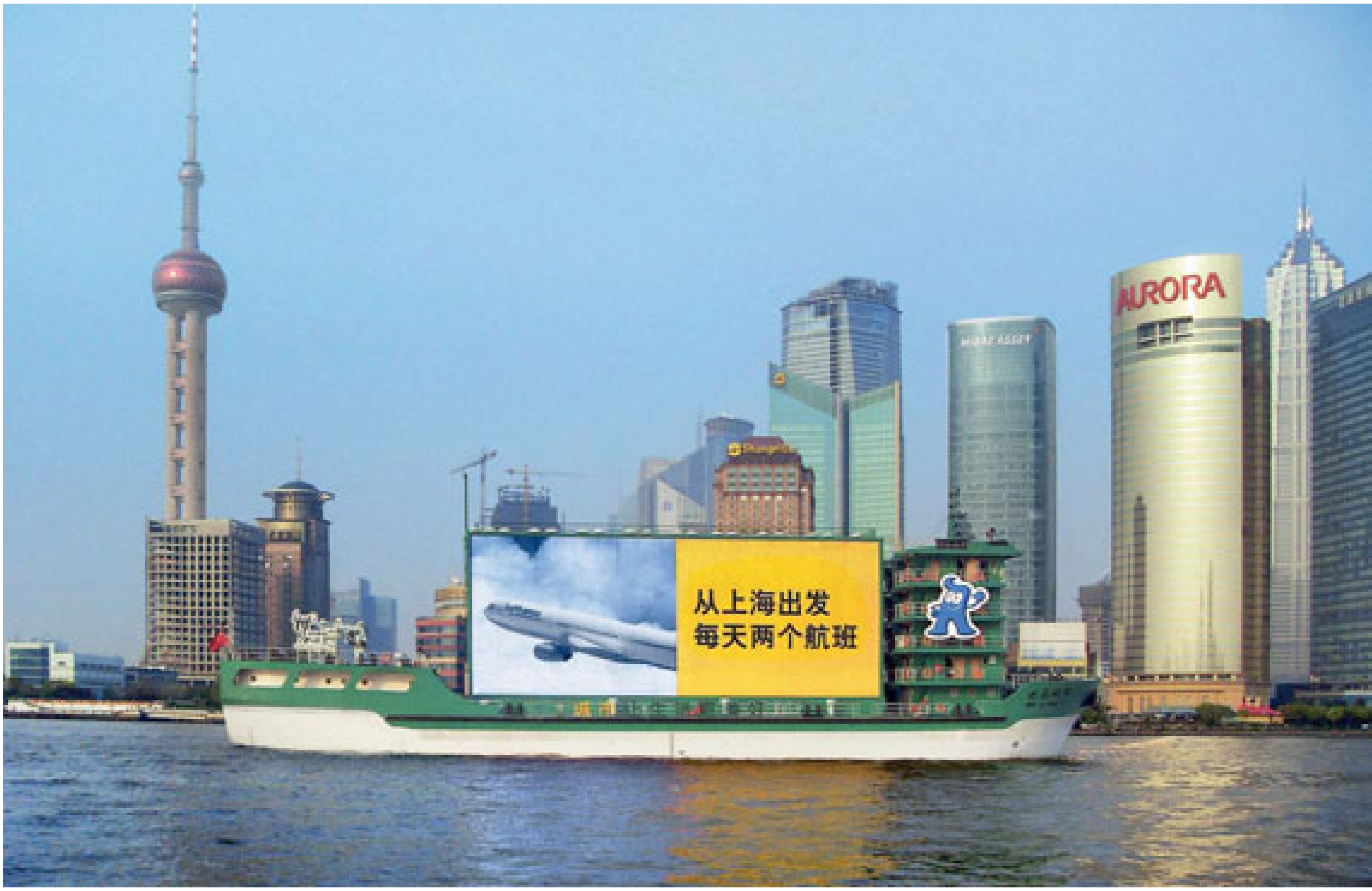
- All business segments have a high degree of cost flexibility, which they have used to good effect in the crisis year 2009. Ongoing investment in a modern, fuel-efficient fleet cuts costs further and helps the environment.

- With its new partners Austrian Airlines, British Midland and Brussels Airlines, the Lufthansa airline group has further strengthened its position, especially in the growth markets of Eastern Europe, Africa and the Middle East.

- Its capacity to integrate new partners into the airline group and to realise synergies has already been proven many times in the past.

Leaders in a fascinating market

We operate in a dynamic market that makes a major contribution to the prosperity of the global population and the growth of the global economy. Within this market, all our business segments play a leading role in their respective industries. This gives us decisive advantages over our competitors.



Air transport is a driver of globalisation

Pillar of growth Effective and efficient air traffic links the business centres of the world. This makes an important contribution to growth and prosperity and enables the world's population to benefit from globalisation.

A mobile world Increasing mobility requirements and ever greater international integration mean that the importance of air transport continues to rise. More than ever, it allows people and markets to move closer together, making it indispensable for the construction of a globally networked society.

Pacesetter for the economy As an employer at all qualification levels, a contracting customer and a logistical lynchpin, the air transport industry is a decisive factor for economic productivity and competitiveness in Germany and Europe.

“We have decisive competitive advantages”

Mr Mayrhuber, for you the year 2009 was ...
“... a very choppy year. We operate in a global market and so we feel the global consequences. Our industry is always particularly affected by crises, as it is by phases of economic expansion. This crisis is of a magnitude that exceeds our past experience, however, and demands far-reaching measures.”

Are you more worried at the moment for the industry as a whole or for your company?
“Neither one nor the other. Air transport is a key sector of the global economy. We connect people and markets; without us the world would quite literally not get off the ground. This is not something that will change in the future either. On the contrary, international air traffic is increasing. And it is sustainable growth that determines Lufthansa’s strategic course, particularly in these difficult times, through airline mergers for instance, or the expansion of the Star Alliance, our fleet and the route network.”

Wolfgang Mayrhuber
Chairman of the Executive Board and CEO

“The Lufthansa brand offers investors, customers and employees orientation and trust, precisely at difficult times.”

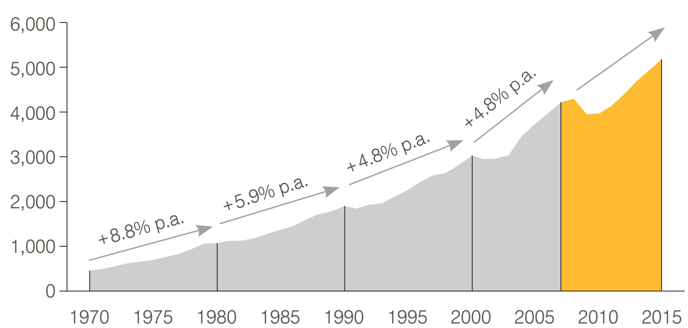
Leaders in a fascinating market

What makes you so optimistic?
“We have decisive competitive advantages. Lufthansa is economically and strategically well positioned, with solid financial structures, experienced management, excellent staff, a progressive Group structure and a proven capacity for alliances and partnerships. As a company that has overcome crises in the past, we know how to respond flexibly to change. Ultimately we are part of a cyclical industry, which has always been exposed to fluctuations in demand and exogenous factors such as changing kerosene prices. Nevertheless, the current situation prompts all our business segments to work even more cost-effectively.”

What does that mean?
“That we are making the necessary adjustments to maintain our long-term competitive position, in terms of both capacity and structures. But we are also keeping our options open for the future by capital expenditure and by maintaining success factors such as innovation and a focus on quality. That is a fundamental prerequisite for profitable growth. By modernising our fleet we cut tomorrow’s costs and avoid an investment backlog that is already plaguing many competitors today. So we also give a high priority to securing this capital expenditure financially.”

So the course for the future has been set?
“Yes, our strategy is set. We intend to grow profitably and create prospects for our shareholders, customers and staff. We know our strengths and the way to build on them. We are helped in this by the excellent reputation that Lufthansa enjoys worldwide. We stand for first-class quality and a broad offering, for service, for aeronautical and technical skills and for reliability. Measuring up to our reputation every day is our incentive.”

Global air traffic development Revenue seat-kilometres in bn



Source: International Air Transport Association (IATA)

The spirit of innovation triumphs

Thanks to permanent improvements in products and services, the business segments in the Lufthansa Group all play leading roles.

Check-in via mobile internet

Passenger Airline Group Substantial capital expenditure for the development of new products on the ground and on board enables Lufthansa to offer its customers real added value. Business travellers in particular appreciate the expansion of online and mobile services. The Lufthansa Passenger Airline's mobile portal was redesigned in 2009 to provide a wealth of new functions and improved usability. A significantly enhanced broadband internet package is also back on board with FlyNet, for more communication freedom in the skies.

Progress and comfort on board

Passenger Airline Group As quality carriers all the airlines in the Lufthansa group endeavour to make their customers' journeys as comfortable as possible. In 2009 new, exclusively equipped lounges were opened worldwide for frequent flyers. Comfort on board is constantly being improved too – in Economy Class by the introduction of individual seat screens for entertainment, on board the future Airbus A380 with an even more exclusive First Class section, and with the introduction of the A330-300 at SWISS by an exceptionally comfortable Business Class seat with innovative air-cushion technology, which also cuts kerosene consumption due to its lower weight.

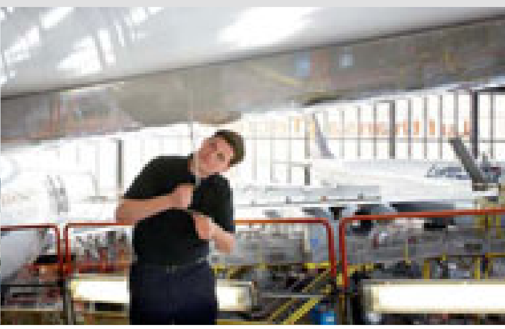
Leading airline for global trade

Logistics Lufthansa Cargo has high-frequency connections and a worldwide route network, making it one of the largest cargo airlines. The launch of AeroLogic GmbH, a joint venture with DHL Express, intensified freight transport to the Asian growth markets. The segment expanded its electronic services with the eClaims channel for customer queries. Four-legged passengers are taken care of perfectly at the Frankfurt Animal Lounge, the most up-to-date airport animal centre in the world.

Cutting-edge technology for customers worldwide

Simple solutions for complex tasks

Aesthetics and innovation in the skies



Leaders in a fascinating market

MRO Lufthansa Technik is the world's leading provider of maintenance, repair and overhaul services for civil aircraft. With its strategy of offering a wide range of flexible and customised products for airlines, the segment was even able to develop its position in the crisis year 2009. Innovations are part of the business model. New highlights of the in-flight entertainment and cabin management system nice® were presented in 2009. Lufthansa Technik is also active in the field of new propulsion technologies, working with the German Aerospace Center on experiments using fuel cells in aviation.

IT Services Cost-effectiveness is a dominant topic for airlines. With its portfolio of services Lufthansa Systems addresses precisely this need. Customers from the aviation sector and other industries are supplied with made-to-measure IT solutions and services that improve complex business processes and cut costs. Examples of current innovations include the crew-optimiser for efficient rostering of airborne staff and Lido/Flight for optimising flight routes while reducing fuel consumption.

Catering The LSG Sky Chefs group is already the global market leader in airline catering and in-flight services. It is now striving to differentiate itself still further from the competition by means of more innovation and environmental awareness. The innovation drive is illustrated by special catering products, but also by developments such as lightweight trolleys for use on board, extensive measures to cut energy and water consumption, or the use of easily degradable materials for the development and production of in-flight tableware. Particular attention is paid to the design of the equipment used, as was confirmed by a number of highly respected awards in 2009.

innovation@work: Always in motion

Hamburg, 10 o'clock in the street Weg beim Jäger. Brainstorming is on the agenda at Lufthansa Technik's Cabin Innovation Center. Not in a conventional conference room but in a think tank – in this case an orange cube that protrudes into the main stairway. Andrew Muirhead, Director of Innovation, leans back in his bright red beanbag, giving it a new shape. The flexible seating is a simple symbol of the philosophy at the Innovation Center: rather than being rigid and fixed, everything here is in motion and open for change. These are the best conditions for continuing to develop groundbreaking products for aircraft interiors on behalf of customers around the world.

Andrew Muirhead (40)
Director Innovation
"Today, as well as comfortable seating, passengers on long-haul routes also expect the same communications and entertainment environment they are used to elsewhere. This is something we work on permanently."

Dr Philip von Schroeter (44)
Head of Programs and Development
"Precise specifications, efficient processes, good cost-awareness and close cooperation with customers and suppliers: those are our targets for achieving profitability even in difficult times."

Dr Gerko Wende (40)
Manager Product Planning and Research
"Our deep involvement in aeronautical research ensures that we have the opportunity of achieving technological leadership with innovative products over the long term."

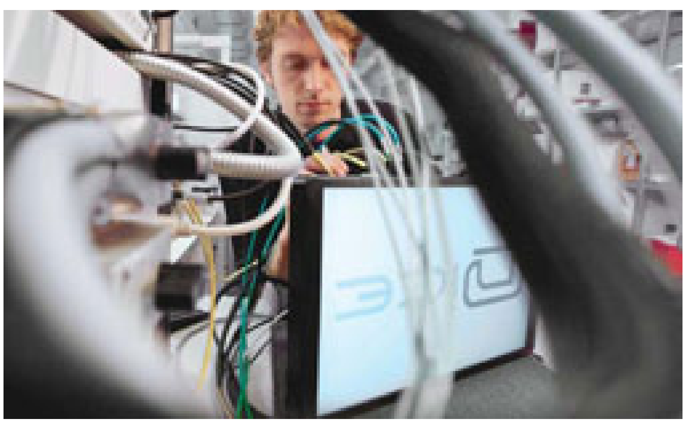
Andreas Wietzke (45)
Product Manager niceview™
"niceview™ is the new infotainment generation with virtual 3D flight depictions. Lufthansa passengers can now experience it in the A380."

Fine-tuning for perfection

Today, Muirhead and his colleagues are collecting ideas for refining the cutting-edge in-flight entertainment and cabin management system nice®. Installed in business and private aircraft it enables all passenger-related cabin functions to be controlled centrally via an Ethernet-based network, i.e. light, temperature and ventilation as well as all in-flight entertainment and communication products.

Since 2007 nice® has been fitted as standard in the Challenger 300 jet programme from the Canadian aircraft manufacturer Bombardier Aerospace. The system is also to be included from the start in the new model Learjet 85, and for the first time in high-definition quality. This is the customer request that the innovation team are fine-tuning at the moment, so that all the specifications are executed perfectly by the end of 2011. While nice® is deployed exclusively in the business and private jet segment, its spin-off niceview™ can also be used in large passenger aircraft. The infotainment system offers high-resolution 3D worldwide maps, virtual flight viewing and a multitude of auxiliary information. Passengers can already experience this comfort in planes flown by the Lufthansa contract airline PrivatAir. It is also due to be installed at Lufthansa in the Airbus A380 as of next year.

Leaders in a fascinating market



From the idea to start of production

Whether it be nice®, niceview™ or other products such as sleeper and children's seats or a special power socket – every new invention goes through an extensive development process at the Cabin Innovation Center. Many promising ideas are modelled and the innovations are then tested thoroughly in the laboratory to determine their serviceability for flight operations. The experts can draw on equipment to ensure electromagnetic compatibility as well as for vibration and impact testing. The Innovation business unit has been in place at Lufthansa Technik since 2003. What was initially a small ideas group is now an extremely productive innovation centre with 60 highly qualified and highly motivated employees. "We are always in close touch with the market and are often even a step ahead," explains Andrew Muirhead with enthusiasm. "Normally, working processes are adjusted to fit the building, but with us it was the other way around. We have ideal conditions here to let our pioneering and research spirits run free." Creative staff, production, suppliers, even patent management and the airworthiness department are all united under one roof. The Cabin Innovation Center is set up like an independent medium-sized company – with the same mixture of creative atmosphere and proven engineering skills – but it is still typical Lufthansa through and through.


NO STEP

Fundamentally healthy

As the leading company in air transport Lufthansa is well positioned to make use of the market's long-term prospects and structural changes, but also to absorb cyclical falls in demand and revenue. We are making lasting improvements to our cash flow and results with a wide-ranging package of measures in all segments that affects market-facing factors and costs as well as capital expenditure. This strengthens our financial position.

Financially stable and dependable

Strong financial profile With its established financial strategy Lufthansa promotes corporate performance and safeguards it against fluctuations in demand and on financial markets. The measures range from minimum liquidity available at short notice to ensuring unrestricted access to Group assets over the long term.

Solid capital structure Around two thirds of the fleet is owned by the Group and is free of financial constraints such as lease agreements. A significant proportion has already been fully depreciated. These are ideal conditions for being able to adjust capacity growth flexibly to market developments at all times.

Structured risk management An integrated system of risk management is used to analyse and limit financial risks, such as those stemming from volatility on crude oil markets. The great importance of fuel costs for the Group's profitability is reflected in Lufthansa's structured hedging policy to reduce price fluctuations.

Ready for boarding

“Financial flexibility and stability give us independence”

Stephan Gemkow
Chief Financial Officer

Mr Gemkow, is crisis management the concept of the year at Lufthansa?
“The current crisis certainly shaped a large part of our activities in 2009 and will continue to do so. We are confronted by a number of challenges at the moment that require rapid and at the same time very far-sighted decisions. Our objective is unchanged: we intend to overcome the crisis better than our competitors and use this as a base to benefit more than others from future growth.”

What conditions are necessary for that to happen?
“We must retain our strategic freedom of action in financial terms as well. We want to make ourselves as independent as possible from external influences by means of flexibility and stability. Thanks to our past performance we have a strong starting position. Our high liquidity, solid capital structure, largely unencumbered fleet and a rating that is still outstanding in the industry mean that our finances are very sound.”

“All our business segments have launched rigorous programmes to improve the operating result and cash flow sustainably.”

Fundamentally healthy

Doesn’t the considerable recent capital expenditure rather undermine that calculation?
“Naturally, the takeovers of Austrian Airlines and British Midland together with our ongoing capital expenditure have increased our debt. The Group’s result was also severely impaired by the consolidation and by the negative impact from the market conditions. But it is clear: strategically and in the mid term these investments make sense, as they are a vital part of our growth plans to strengthen the Group. How well that can work can be seen in the example of SWISS. Right now it is important to take comprehensive steps to improve the result effectively in all segments, as well as at Austrian Airlines and British Midland. We are helped by the fact that we can adjust our costs to lower revenue with great flexibility.”

Efficiency programmes at Lufthansa have delivered more than promised

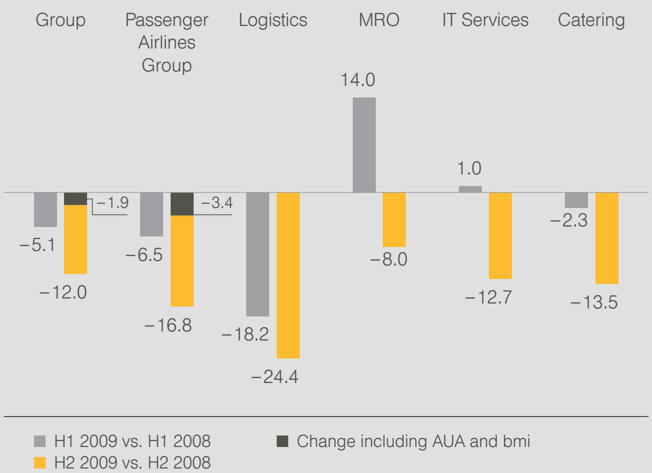
Year	Programme	Planned	Realised
2001	D-Check	€ 1.1bn	< € 1.6bn
2003	Action plan	€ 1.2bn	< € 1.23bn
2005	Operating result of € 1bn	€ 1.0bn in 2008	< € 1.4bn in 2007
2005	SWISS synergies	€ 165m[1)]	< € 233m[2)]
2009	Climb 2011	€ 1.0bn	

[1)] Forecast annual revenue and cost effects for 2008.
[2)] Revenue and cost effects achieved in 2007.

What are you doing specifically?
“We have launched rigorous programmes in all business segments. The programme Climb 2011 is up and running at Lufthansa Passenger Airlines, and Lufthansa Cargo’s programme to safeguard earnings is already well advanced. In Catering the Performance 2009 programme is aimed at improving short-term earnings, while Upgrade^{plus} concentrates on structural changes and therefore sustainable savings. Similar action is being taken at Lufthansa Technik, Lufthansa Systems and in the Group functions. On top of this, our planned capital expenditure is being adapted to the weaker state of the market. All these measures improve our result and our cash flow from operating activities systematically. As in the past, we will deliver what we have promised. This is also important in terms of our investment grade rating, which despite coming out top in industry comparisons, has also suffered from the weak environment. Creditworthiness is an issue that is close to our hearts – we have to protect it, and in the medium term improve it again.”

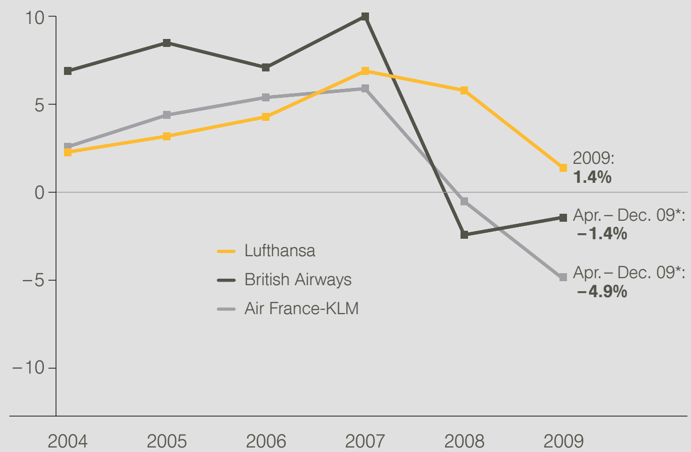
For a better result

Cost management pursued successfully
Change in total expenses per half-year 2009 vs. 2008 in %



We have increased the flexibility of our cost base in recent years. We are now reaping the rewards. In all business segments, costs have been cut sharply and adjusted to the lower revenue base.

Stable earnings development compared with competitors
Adjusted operating margin Lufthansa vs. peers in %



* The financial years for British Airways and Air France-KLM end on 31 March.

In comparison with competitors, Lufthansa's greater earnings stability is clearly visible. Even in the crisis year 2009, which many airlines are closing with heavy losses, Lufthansa was able to generate an operating profit.

With an operating profit of EUR 130m, the **Lufthansa Group** again takes a leading position among its competitors in 2009, thereby attaining one of the main goals of the Upgrade to Industry Leadership initiative. The Upgrade projects were devolved to line management in 2009.

Lufthansa Passenger Airlines responded swiftly to the crisis, cutting costs and imposing a hiring freeze. With Climb 2011 they also address structural shifts in demand patterns and aim at improving earnings by EUR 1bn by the end of 2011.

Austrian Airlines and **British Midland** in particular, both strongly hit by the crisis, initiated considerable restructuring measures in 2009, which are intended to bring them back to profitability in the medium term.

SWISS and **Germanwings** operate in different market segments and were affected by the crisis in different ways. They were nevertheless both able to report operating profits.

Ready for boarding

More stable results thanks to the different cycles of Lufthansa's business segments
Operating result in €m

	2005	2006	2007	2008	2009
Lufthansa Group	**577**	**845**	**1,378**	**1,280**	**130**
thereof					
Logistics	108	82	136	164	−171
Passenger Airlines Group	135	409	826	789	−8
Catering	5	50	100	70	72
IT Services	63	49	23	40	16
MRO	258	248	293	299	316

VOLATILITY

The business segments in the Lufthansa Group play leading roles in their markets. These markets follow their own cycles, which vary in terms of timing and intensity. In total, this has a stabilising effect on the Group's profitability and is therefore an important competitive advantage.

Lufthansa Cargo was able to make up for a large part of the fall in revenue by taking incremental counteracting measures from a very early stage, and in the fourth quarter 2009 again generated an operating profit.

Its modern product portfolio, long-term customer partnerships and increased efficiency enabled **Lufthansa Technik** to increase both revenue and operating profit, against the market trend.

The cost-cutting measures initiated by **Lufthansa Systems** had a clear effect in the second half of the year. Despite losing revenue, the company was again able to report an operating profit for 2009.

LSG Sky Chefs safeguarded its operating profit with the help of the Performance 2009 programme, and is now using Upgrade^{plus} to expedite adjustments to structures and processes that will ensure its organisational and cost structures remain competitive.

Climb 2011.
Being successful. Staying successful.

The right time to tackle tomorrow's challenges is now. It is already clear what they will be. Three main structural market shifts require active countermeasures: the decline in the number of business travellers, dwindling average yields per passenger due to the persistent trend towards cheap tickets, and a new competitive environment in which Lufthansa increasingly has to confront no-frills airlines and Gulf carriers. This is exacerbated by the current economic crisis, which has an amplifying effect at all levels.

In order to uphold and increase competitiveness in future, however, capital expenditure on renewing and expanding the fleet is indispensable. To overcome these challenges, Lufthansa Passenger Airlines have launched an extensive programme: the aim of the Climb 2011 project is to improve results sustainably by EUR 1bn by the end of 2011. This is to be achieved above all by targeted structural steps to cut costs durably. Considerable potential savings have already been defined and the first steps taken towards implementing them.

↗ New routes in fleet structuring and capacity planning

The goal of long-term competitiveness makes it necessary to review and adjust the structure of the fleet. The restructuring relates to the right choice of sites, but above all to the scale and the dimensions of the European fleet. The withdrawal from the segment of 50-seater regional jets had already been decided and has now been brought forward: by the end of 2010 a total of 45 aircraft are to be retired and partly replaced by larger planes. These cost less to operate, which is very important given the focus on reducing unit costs for direct connections from outlying sites such as Hamburg and Berlin.

↗ Processes under review

To relieve the cost base, the services and terms of both external and internal suppliers as well as joint processes are being subjected to a critical review and adjusted as necessary. At the same time one of our main goals is to maintain customer comfort at our premium level. The Climb 2011 project is also intended to improve productivity in all employee groups, in order to cut unit staff costs by 10 per cent. Lufthansa will examine its operating routines on the ground and on board and tackle a number of collective bargaining issues. We intend to avoid redundancies, because as is traditional at Lufthansa, the measures will be implemented with a sense of proportion and in full awareness of our responsibilities.

↗ Bolstering income

The sustainable thrust of Climb 2011 is not only directed at cutting costs, but also at bolstering income. This often also requires investments to be made, but ones which pay for themselves in the immediate future. The cabin equipment on the short-haul fleet is to be extensively refurbished. New, much lighter and more ergonomical seating enables the seating capacity to be raised to the same level as our competitors without sacrificing passenger comfort. This increases revenue without altering the cost base. At the same time, specific kerosene consumption is reduced thanks to the lower weight. New pricing models are also being critically reviewed.

“Our future is in our own hands”

The ultimate objective of Climb 2011 can be expressed very simply: we want to attain a structural and sustainable improvement in Lufthansa’s competitive position. This means that many individual steps need to be coordinated for the good of the whole. Working closely with the CEO of Lufthansa Passenger Airlines, Christoph Franz, we have agreed on the way forward and defined seven focus topics together with the relevant individual projects. It is now our task to carry out the project with a sense of proportion, but nevertheless at high speed.

The individual departments are responsible for implementation. They are supported by a core project team. Each team member is responsible for one focus topic and is simultaneously supported by a so called “promoter”.

Climb 2011 in dialogue
With a programme of this magnitude it is vital to include staff from day one, to make it clear that our future is in our own hands – and of course not to lose any time. We have discussed the current situation at a series of events and explained why there is no alternative to Climb 2011. The reason is that there is an urgent need for action at two levels: firstly we need to secure the financing

Fundamentally healthy

of our capital expenditure in the current crisis. Secondly, it is a matter of long-term competitiveness, particularly in European traffic. Alongside traditional cost savings, the route also involves adjustments and a painstaking review of our structures.

Effects on other areas of the Group
Many people are wondering whether Climb 2011 will also affect other areas of the Group. Lufthansa Passenger Airlines make use of many services from other business segments. As a result, changes at Lufthansa Passenger Airlines are always felt in other segments too. In joint working groups we nevertheless strive constantly for solutions that benefit both sides. In the joint 4MUC project between Lufthansa Passenger Airlines and Lufthansa Technik in Munich for instance, the production planning processes, from network planning through to maintenance planning, are to be coordinated in such a way that the aircraft return to their home base with greater regularity. Making maintenance more regular and easier to plan enables materials and maintenance staff to be deployed more efficiently, which in turn produces optimised costs and quality.

Thomas Klühr
Climb 2011 Project Manager

> “It’s all about the ability to finance our capital expenditure and about our long-term competitiveness.”

Climb 2011 focus topics, with a clear emphasis on cost savings

		Potential in €m
Administration	20% reduction in staff capacity for administrative services	55
Suppliers	Contributions from internal and external suppliers	230
Staff productivity	Cutting unit staff costs by 10%	190
Income	Increasing seating capacity and examining new pricing models	170
Fleet structure	Reviewing the dimensions of short-haul air traffic (sites, fleet, partners)	130
Capacities	Adjusting flight capacities (greater flexibility)	55
+		
Capital expenditure	Adjusting aircraft deliveries from 2010	

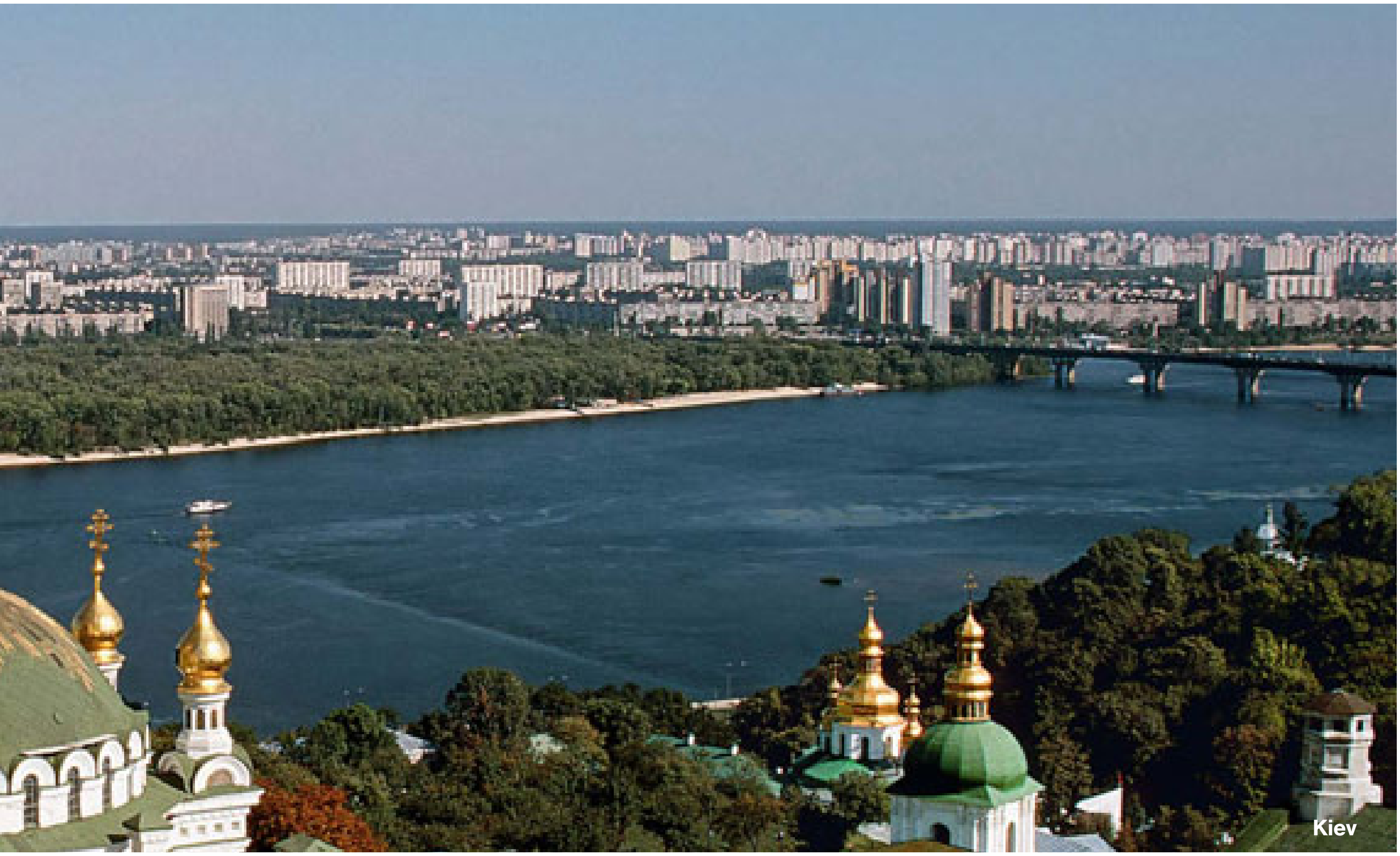
In position for the upturn

Our solid foundations enable us to exploit the next economic upswing for our advantage. We are capable of continuing our profitable growth by making farsighted investments in our fleet, products, networks and infrastructure. This will enable all business segments to contribute to the Group's development and value creation. We also have the financial and business skills to integrate new partners into the Lufthansa airline group successfully.

Good prospects in new markets

The decisions we make today will strengthen our position in the next upturn. We are expanding systematically into growth markets, be they new regions or new customer segments.

Whether in Eastern Europe or Africa – Lufthansa's route network in growth markets is developing constantly. The acquisitions made in 2009 will make a particularly important contribution. Brussels Airlines strengthens our presence on the African continent, while Austrian Airlines gives us an important mainstay in Eastern Europe.



In position for the upturn

Investing in the future of the Company

Efficient fleet The A380 will take us into a new dimension: thanks to its great capacity, range and technology the A380 is the plane of the future on busy long-haul routes. Lufthansa has ordered 15 of these planes and is preparing to deploy them in the summer flight timetable for 2010.

Strong network Lufthansa is expanding its own network, partly by means of partnerships: the joint venture A++ is to start in 2010 with Air Canada, Continental and United Airlines. It will coordinate activities such as network and route planning to improve the range of connections on offer for our customers.

New infrastructure Lufthansa is developing its hubs, investing in lounges and preparing for the A380. Lufthansa is investing more than EUR 40m in new lounges and gates at the new A-Plus pier alone, which is to be a key element of A380 handling in Frankfurt when it goes operational in 2012.

“What we want is profitable growth and value creation”

Christoph Franz
Deputy Chairman and
CEO Lufthansa Passenger Airlines

Mr Franz, Lufthansa is undergoing an upheaval. Is crisis management enough to deal with it?
“Very simply: no. That would not be enough. Even if many of the structural changes underway at the moment are necessarily aimed at cutting costs in the short term, our thoughts are very much focussed on the longer-term prospects. I see the route we have chosen as a decisive qualification for the future. The whole market has evolved and we intend to continue marching in the vanguard.”

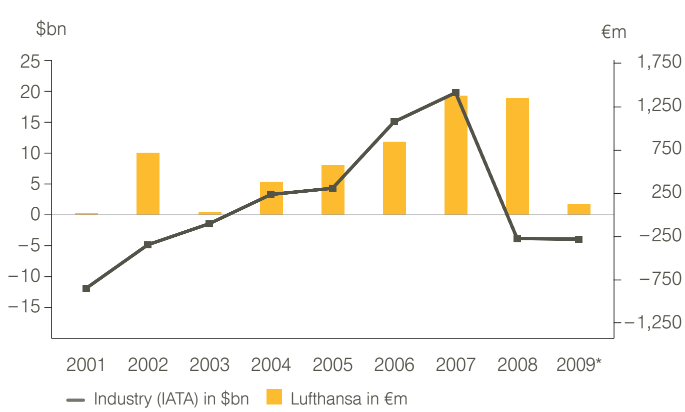
How is that to work in practice?
“By responding to structural shifts in the marketplace with adjustments to our structures and processes and thereby laying the foundations for further profitable growth and value creation. In European traffic in particular we are coming up against increasing competition, which we are confronting robustly. The challenge is to position Lufthansa as a quality brand in this market and to make it more profitable at the same time. We have some scope: as well as reducing unit costs we also want to reduce our complexity, for instance in deploying aircraft or in route planning. But we haven’t just removed unprofitable routes from the network; we have also added promising new destinations.”

“We must not let the ongoing crisis management distract us from furthering our Company’s sustainable development.”

In position for the upturn

Such as?
“Now that our choice of African destinations has been expanded substantially, with flights to Libreville, Luanda and Malabo for example, the West and Central Africa region represents a focus of our network growth. We can also make use of code-sharing offers from our new partner Brussels Airlines. We are strategically well positioned in long-haul in any case thanks to the Star Alliance.

Operating results for the industry (IATA) and Lufthansa



* Forecast industry performance.

In recent years and into the crisis year 2009 we have continued to build on our position in this segment. In 2009 we increased our range of transatlantic code-share flights with Continental Airlines and JetBlue. That offers our customers attractive benefits.”

So the signs are pointing towards growth, rather than to Lufthansa becoming a “low-cost” airline, as reported in the press?
“We are going to remain a quality airline. Lufthansa is a well-positioned company; our multilayered regional orientation and broad customer structure are success factors that distinguish us from our competitors, especially at difficult times. We have to adapt to the conditions in different markets. At the same time we continue to develop our Company constantly, we examine and assess many options and alternatives, both with regard to our internal organisation and to promising partnerships. That also means change – and for me change is a positive thing. Our goal is profitable growth and value creation. This not only relates to Lufthansa Passenger Airlines – other segments are pursuing this course as well: Lufthansa Technik experienced above-average growth in the crisis year 2009 and Lufthansa Cargo is responding to its volatile environment with a flexible set-up and asset-light expansion. As you can see, there’s a lot going on in the Group.”

Consolidation is an opportunity

Stefan Lauer
Chief Officer Group Airlines
and Corporate Human Resources

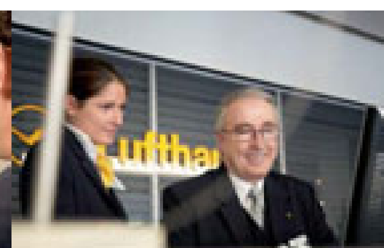
"The takeover of Austrian Airlines brings Lufthansa synergies and additional income."

Providing long-term mobility is Lufthansa's goal and vocation. Pan-European collaboration in the airline group is the way to achieve this goal. We have expanded the airline group in recent years by a number of highly promising equity investments and acquisitions, thereby bolstering Lufthansa's position in its European home market. The core premise is to deliver benefits and the best possible offering to our customers.

The environment in which an acquisition takes place is not always a matter of choice, however, and there are definitely better times for doing so than during a global economic crisis. Despite this, I am convinced of the opportunities offered by the integration of Austrian Airlines, for instance. Measured by passenger numbers the Lufthansa Group is now the largest European airline. But even more important is the fact that, together, Lufthansa and Austrian Airlines have an excellent position in the growth markets of Eastern Europe. This is something we will benefit from in the next upturn.

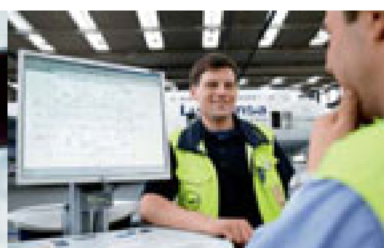
Even if a stiff turnaround programme is required for Austrian Airlines to start with, in the long term we expect this integration to deliver the same benefits as all the successful ones in the past: valuable synergies, networks and additional income. We have shown many times that we can lead companies out of difficult waters to success and integrate them into the Group for our mutual benefit. The best example of this is SWISS, where we have seen how it works.






On course with a joint strategy
We see consolidation as an opportunity. Equity investments and the full acquisition of other companies are an alternative form of growth that takes us forward. Of course, potential members of the airline group have to meet some crucial criteria for them to fit with our strategy. They must fundamentally support our course. There must also be the entrepreneurial, cultural and economic basis for positive cooperation. Once we have made a decision in favour of an equity investment or a takeover, we do everything we can to integrate the company and its individual strengths into our Group structures as well as possible. So our customers and we benefit equally.

In position for the upturn

A strong position in Europe secures global growth
Europe is and will remain our home market. A leading position on our own continent makes us a strong, attractive partner and is also a good starting point for growth markets outside Europe. Brussels Airlines' route network, for instance, covers important destinations in Africa in addition to Europe. The takeover of bmi also reinforced our market position due to its large number of slots at London Heathrow and its established route network to Africa and the Middle East.

Lufthansa share

↗ In a turbulent year on the stock markets the Lufthansa share generated a total shareholder return of 11.3 per cent. ↗ Its performance was nevertheless behind that of the DAX and some competitors. ↗ The overwhelming majority of analysts continues to rate the Lufthansa share as a buy. ↗ Lufthansa is also represented in many international sustainability indices.

Hope on the stock markets

The year 2009 was another turbulent one for the stock markets and was characterised by severe swings. At the start of 2009 stock markets around the world continued the precipitous fall that had begun in the previous year, whereas from March onwards market valuations improved significantly. This upswing was initially triggered by better news from the financial sector and thereafter by hopes of an economic recovery. Investors therefore gave less weight to fundamental data and rather more to momentum. Share purchases were largely justified by improvements in business climate indices and adjustments to forecasts of economic growth. Furthermore, sharp falls in yields from money markets and bonds increased the liquidity available for equities. The upswing remained frail, however – negative or qualifying statements on business expectations often elicited a nervous response from investors, leading to abrupt drops in share prices. Despite this, the leading German index DAX climbed by 19.8 per cent over the course of the year, closing at 5,957 points.

Total shareholder return of 11.3 per cent

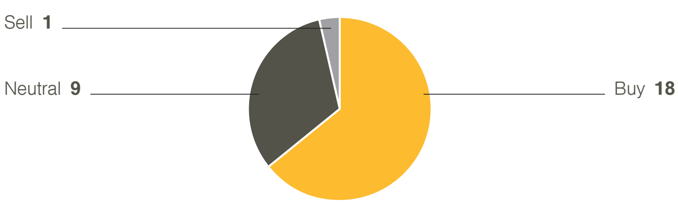
The Lufthansa share also took part in the rally. Its performance over the calendar year was nevertheless behind that of the DAX and some competitors. In the general maelstrom of the first quarter the share initially fell by 27.0 per cent to EUR 7.86 before recovering again, with a correction over the summer months. In the third quarter especially, sentiment towards European airlines improved due to resurgent load factors in cargo and passenger businesses. The Lufthansa share also rose over these three months, by 36.5 per cent, clearly outperforming the DAX (+18.0 per cent). At the end of September the share ultimately reached its high for the year of EUR 12.31. In the fourth quarter the price moved sideways along with the whole market, but leaving competitors trailing. At year-end the share was trading at EUR 11.75, an increase of 5.0 per cent over its closing price for 2008 (EUR 11.19). Including the dividend, which Lufthansa was the only European airline to distribute in 2009, total shareholder return for Lufthansa shareholders came to 11.3 per cent.

The Lufthansa share: key figures

		2009	2008	2007	2006	2005
Year-end share price	€	11.75	11.19	18.22	20.85	12.51
Highest share price	€	12.31	18.32	22.72	21.03	12.51
Lowest share price	€	7.86	8.99	17.17	12.29	9.95
Number of shares	millions	457.9	457.9	457.9	457.9	457.9
Market capitalisation (at year-end)	€bn	5.4	5.1	8.3	9.6	5.7
Earnings per share	€	−0.24	1.18	3.61	1.75	0.99
Cash flow from operating activities per share	€	4.35	5.40	6.25	4.60	4.27
Dividend per share	€	–	0.70	1.25	0.70	0.50
Dividend yield (gross)	%	–	6.3	6.9	3.4	4.0
Dividend	€m	–	320.5	572.4	321.0	229.0
Total shareholder return	%	11.3	−31.7	−9.3	+70.7	+21.4

The British Airways share put in a much weaker performance over the year at 5.3 per cent, although the potential merger with Iberia fired imaginations of consolidation. The Air France share rose faster than Lufthansa's, gaining 17.6 per cent after having sustained heavy losses in the previous year.

Analysts' recommendations* as of 31.12.2009



* Target price: EUR 13.22, average of 28 analysts.
Range: EUR 9.00 to EUR 16.50.

↗ We have increased our presence in strategic growth regions in order to gain a disproportionate share of the upturn.

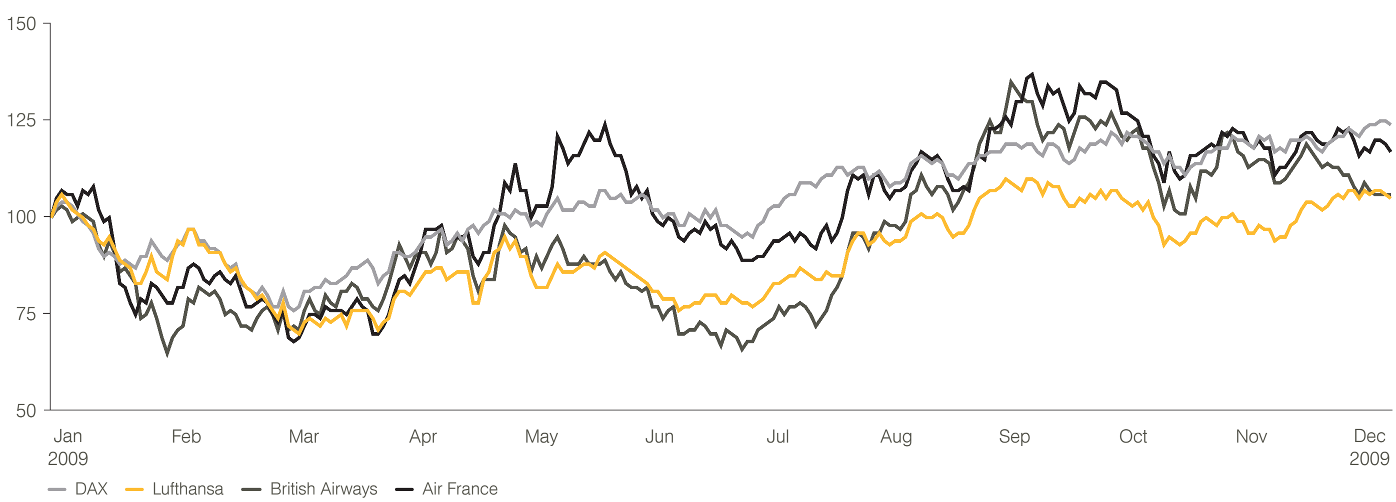
Analysts confirm buy recommendation

In spite of the persistently difficult market environment and the adverse effect of the company takeovers on Lufthansa's short-term earnings prospects and financial profile, the majority of analysts consider Lufthansa to be one of the industry's winners. This is explained with the strong positions of the business segments, accompanied by a prudent financial policy. Thanks to the new acquisitions, the equity investment in Brussels Airlines and new cooperation agreements in the cargo and passenger businesses, Lufthansa is seen as having an even stronger position in strategic growth regions to benefit more than most from a recovery. At the same time, the diversified Group structure offers security and earnings stability even if markets only recover slowly. The extensive restructuring in all business segments also lays the ground for improved profitability in the medium term. 64 per cent of analysts therefore recommend the Lufthansa share as a buy. An average target price of EUR 13.22 implies an upside potential of around 12.5 per cent over the price at year-end.

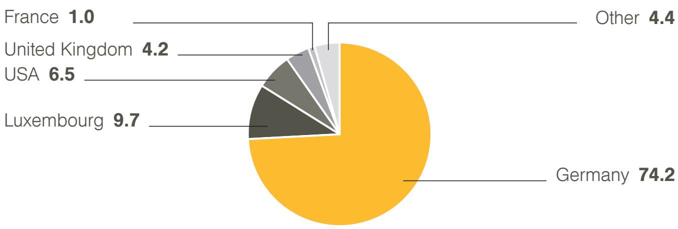
No dividend payment possible for 2009

Our dividend policy is one of continuity. It stipulates that dividend payments should reflect the Group's operating result, to the extent that the net profit for the year as shown in the consolidated and individual financial statements of Deutsche Lufthansa AG allow a dividend to be paid; see also the chapter "Financial strategy" on p. 50. For the financial year 2009 these conditions for a payout have unfortunately not been met.

Performance of the Lufthansa share, indexed as of 31.12.2008, compared with the DAX and competitors



Shareholder structure by nationality as of 31.12.2009
in %



Free float 100%

Shareholder structure remains predominantly national

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 no significant changes in the Lufthansa shareholder structure over the course of 2009. At year-end the proportion of German investors was still high at 74.2 per cent and therefore well above the required minimum. Shareholders from Luxembourg form the second largest group, holding 9.7 per cent. Shareholders from the USA hold 6.5 per cent of shares. They are followed by the UK and France with 4.2 and 1.0 per cent.

On the balance sheet date institutional investors held 65.6 per cent of Lufthansa's share capital and private shareholders 34.4 per cent. The free float again came to 100 per cent. At the end of the year the largest shareholder was BlackRock Inc., an American investor with a stake of 5.45 per cent. The shareholder structure is published quarterly at i www.lufthansa.com/investor-relations.

Investor relations work further intensified

We remain true to our goal of providing all capital market participants with transparent, timely and comprehensive information on current Company developments, the chosen strategy and structural changes. In particular in economically challenging times we consider this to be the basis for winning and retaining the confidence of investors. For this reason we continued intensively with our investor relations activities again in the 2009 financial year that was so dominated by the financial and economic crisis. Executive Board members and the investor relations team provided information on current and strategic developments at the Group at a total of 35 roadshows and 10 investor conferences. In addition to the regular face-to-face and telephone conferences on the quarterly results we held about 400 individual and group meetings with institutional investors and analysts. The annual Investor Day took place on 25 June 2009 in the recently opened training and conference centre in Seeheim. Managers used the forum to discuss strategy and flexibility in capacity management and developments at the Frankfurt hub with the participants as well as to report specifically on the MRO segment.

Throughout the year we inform the capital markets with quarterly reporting and our monthly Investor Info, which includes the latest traffic figures for the airborne companies and other Company news. Lenders and bond-holders also received three issues of our Creditor Info. We also attach great importance to communications with our private shareholders. They receive information on the Company several times a year in the form of our Shareholder Info. In addition, in 2009 we gave presentations on Lufthansa at four conferences for private shareholders and answered shareholders' questions there in person. The next Annual General Meeting takes place on 29 April 2010 in Berlin.

As informing capital markets via the internet is becoming ever more important, we concentrated especially on refining our online offering in 2009, completely reworking our website i www.lufthansa.com/investor-relations. Alongside the standard publication of our financial reports, presentations, speeches and the latest news there is also an online version of our annual report here. This can be accessed by all users, irrespective of their physical capabilities. Our website also offers instruments for individual analysis of the accounts, and financial and traffic data. The new website has been very well received by users: the number of page impressions went up to 4.7 million, considerably above last year's figure (1.0 million).

We attach great importance to meeting all relevant standards in the field of capital market communications. These include the German Corporate Governance Code and the requirements of the Deutsche Börse. Our concentrated interaction with capital market participants, also at times of crisis, and the high level of transparency in our reporting earned us a number of awards in 2009. Lufthansa was rewarded with the Capital Investor Relations Prize 2009 by the business magazine Capital and the society Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA). In the international ranking of investor relations activities compiled by Institutional Investor, a business publication, Lufthansa took third place among international transport companies and won the award for best IR professional in the sector. Our financial calendar and contact details can be found on p. 228 of this annual report and at i www.lufthansa.com/investor-relations.

Lufthansa confirmed in sustainability indices

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 1.01 per cent in the index as of the end of the year. The market capitalisation of EUR 5.4bn corresponded to 24th place and also made Lufthansa the highest-valued 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 2009 Lufthansa again demonstrated its responsible approach to the environment, its employees and society as a whole. Its place was reconfirmed in the globally acknowledged Dow Jones Sustainability Index (DJSI), in which the Company has been present since 1999. The ratings for economy and ecology improved once more, resulting in the highest total score since the Company was first included. As the leader in its sector Lufthansa sets standards in the social dimension. In environmental criteria such as noise reduction and air quality the Group also received top marks and was honoured for its economic efficiency. In addition, Lufthansa is represented in the sustainability indices FTSE4Good, ASPI (Advanced Sustainable Performance Index) and ESI (Ethibel Sustainability Index).

The year 2009 also saw heavy trading in the share. A total of 1.0 billion Lufthansa shares changed hands, corresponding to a trading volume of EUR 10.5bn. In relation to the number of shares in circulation (457.9 million) this resulted in a turnover frequency of 2.3. The overwhelming majority (98.0 per cent) took place via the electronic trading platform Xetra. The month of April was particularly busy, with turnover of EUR 1.2bn.

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

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, 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, DivDAX, Dow Jones STOXX 600, Dow Jones EURO STOXX Mid, Dow Jones STOXX Global 1800, Dow Jones Sustainability World Index, FTSE4Good, FTSE Eurofirst 300, S&P Global 1200, S&P Europe 350, MSCI Euro

Ladies and Gentlemen,

The Supervisory Board again worked well and effectively with the Executive Board during the financial year 2009. 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 significant strategic and 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.

During the reporting year the Supervisory Board held four ordinary meetings – on 10 March, 23 April, 16 September and 2 December – and one extraordinary meeting – on 7 May. The Supervisory Board member John Allan was only able to be present at the ordinary meetings on 23 April and 16 September, which is fewer than half the meetings. During his absence he nevertheless voted on all resolutions by postal vote.

In December we reviewed the efficiency of our working practices and together with the Executive Board made an updated and unqualified declaration of compliance with the German Corporate Governance Code. There were no conflicts of interest requiring disclosure in 2009.

The Supervisory Board meetings concentrated both on economic developments at Lufthansa and its Group companies and equity investments, and on the programmes to safeguard earnings that were initiated as a result of the crisis. Discussions also focussed on the consequences of the consolidation process in the European air transport industry. The Executive Board's strategy is to strengthen Lufthansa's competitive position by creating a European airline group of largely autonomous airlines. In this context the Supervisory Board was given detailed progress reports on the takeover and integration into the Lufthansa Group of Austrian Airlines, the parent company of Brussels Airlines, SN Airholding, and British Midland.

Other important agenda items were the approval of investments in gates and lounge products in the A-Plus terminal area in Frankfurt and in new seating in the short-haul fleet. We also approved the purchase of 30 Bombardier C-Series aircraft and the renewal of leases for a total of 25 aircraft of various models.

The Executive Board informed us regularly of transactions with derivative instruments, allocations to and returns from the Lufthansa pension fund and of changes in the shareholder structure. The statements made in the management reports by the Executive Board in accordance with sections 289 (4) and 315 (4) German Commercial Code require no further explanation.

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

Following a recommendation of the Steering Committee, which met twice in 2009, the Supervisory Board voted in April to expand the Executive Board to four members. By redefining responsibilities for the Executive Board accordingly, the organisational conditions have been optimised for integrating the newly acquired airlines into the Lufthansa airline group.

As part of this move the Supervisory Board, adopting a proposal by the Steering Committee, appointed the previous CEO of SWISS, Mr Christoph Franz, as Deputy Chairman of the Executive Board and the board member responsible for the newly created seat Lufthansa Passenger Airlines until 31 May 2012. Also following a proposal by the Steering Committee, Mr Stefan Lauer was reappointed in May as the Executive Board member responsible for the redefined seat Group Airlines and Corporate Human Resources until 30 April 2015; in this capacity he is to accelerate intra-company cooperation of the airlines that are not part of Lufthansa Passenger Airlines, including SWISS, Austrian Airlines, Brussels Airlines, British Midland and Germanwings. The post of Chief Financial Officer was given responsibility for the business segments Logistics, MRO, IT Services and Catering within the Group.

The Arbitration Committee required under Section 27 Para. 3 German Codetermination Act did not need to be convened during the reporting period. The Supervisory Board's Nomination Committee met twice in the autumn to prepare new elections to the Supervisory Board. The Audit Committee, which met four times in 2009, three of which in the presence of the auditors, discussed the interim reports before publication with the CFO. The Committee also took note of regular reports on risk management, compliance and the monitoring activities of the internal Corporate Audit department.

We appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were elected as auditors for the parent company and the Group at the Annual General Meeting 2009, 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). The auditors audited the annual financial statements and consolidated financial statements of Deutsche Lufthansa AG and the corresponding management reports as of 31 December 2009 in accordance with the legal requirements, and had no reservations to make. They further confirmed that the risk management system set up by the Executive Board is suitable for the early identification of developments which could endanger the Company's continued existence. An updated risk report was presented to the Audit Committee in October. During their audit the auditors did not come across any facts in contradiction with the declaration of compliance.

In early March 2010 the Audit Committee discussed the audit reports in detail. I was present at the meeting as well as the auditors and the Chief Financial Officer. The auditors sent their reports to all members of the Supervisory Board in good time before the accounts meeting. The auditors who signed the annual financial statements took part in the accounts meeting. They reported on the findings of their audit and answered questions. In the course of this meeting we examined the financial statements and the consolidated financial statements of Deutsche Lufthansa AG as well as the respective management reports in detail and had no objections to make. The financial statements and the consolidated financial statements were approved. The 2009 annual financial statements of Deutsche Lufthansa AG as prepared by the Executive Board have thereby been adopted.

Mr John Allan resigned his seat on the Supervisory Board of Deutsche Lufthansa AG as of 31 December 2009. At the suggestion of the Nomination Committee in accordance with Section 104 Stock Corporation Act (AktG) he has been replaced as of 2 March 2010 by Mr Martin Koehler, Managing Director of the Boston Consulting Group, Inc., who has been appointed to the Supervisory Board until the next Annual General Meeting is held in April 2010. The Supervisory Board thanks Mr Allan for his work and support and for the responsibility he bore during his tenure.

In December 2009 the retired federal government minister Dr Otto Graf Lambsdorff passed away shortly before his 83rd birthday. Dr Graf Lambsdorff was a shareholder representative on our Supervisory Board from 1993 to 2008. His advice was particularly valuable for us. He not only took a close interest in local and global economic developments, but also had an active influence on matters of share law and relations between those vital groups for a company's performance: the executive board, staff, supervisory board and shareholders. Some years ago, on behalf of the German federal government, he brought the difficult negotiations on the form and amount of compensation for forced labourers under National Socialism to a fair conclusion. 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 dealing with the great challenges that faced us in the 2009 crisis year.

Cologne, 10 March 2010

J. Weber

For the Supervisory Board
Jürgen Weber, Chairman

Corporate Governance

↗ Lufthansa again conforms unreservedly to the recommendations of the German Corporate Governance Code. ↗ All Lufthansa shares have the same voting rights (registered shares with transfer restrictions). ↗ By disclosing information promptly Lufthansa primarily serves the interests of its stakeholders. ↗ Binding internal regulations govern the interaction between management and supervision of the Company. ↗ High compliance standards ensure correct conduct on the part of the Company, its management and its staff.

Unreserved declaration of compliance with the German Corporate Governance Code

At the meeting held on 2 December 2009 the Executive Board and Supervisory Board issued the following statement on the German Corporate Governance Code (DCGC): "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 Government Commission on the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been complied with unreservedly and will continue to be complied with in full". These recommendations and the Code's further suggestions that have been implemented voluntarily, are available for reference 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 share law was expanded this year to include the transfer of voting rights to banks and shareholder associations via internet. Shareholders can also follow the speeches made at the Annual General Meeting online. Further information is available on our website i www.lufthansa.com/investor-relations.

Executive Board and Supervisory Board

The Executive Board and Supervisory Board have a close and trusting working relationship in the interests of Deutsche Lufthansa AG. 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, establishing new companies above a certain value threshold, issuing bonds and long-term borrowing as well as investment in non-current assets. Four times a year the Executive Board informs the Supervisory Board on the course of the Group's business and that of its associated companies. Once a year it provides information on 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 and compliance. It also discusses the quarterly interim reports with the Executive Board before they are published.

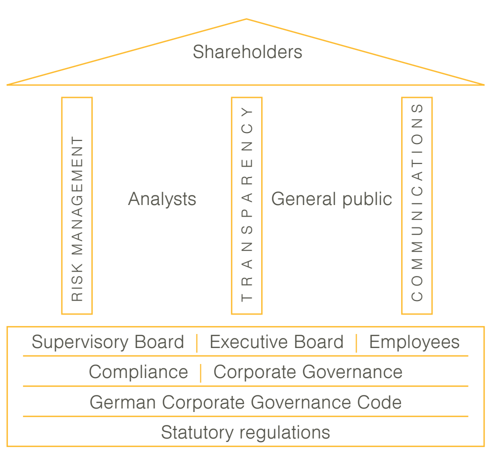
The Nomination Committee consists of three members. It proposes suitable candidates to the Supervisory Board, which can in turn put them forward for the election of new Supervisory Board members at the Annual General Meeting.

The obligatory Arbitration Committee required under Section 27 (3) of the Codetermination Act is only convened when the necessary two thirds majority for appointing or revoking the appointment of a member of the Executive Board has not been reached. The Committee then has one month to make a proposal to the Supervisory Board.

Members of the Executive Board and Supervisory Board are personally liable to the Company for damages resulting from a culpable breach of their fiduciary responsibilities. Lufthansa has taken out a D&O (directors' and officers' liability insurance) policy with an excess in line with the DCGC for both Boards.

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. 213.

Corporate governance secures sustainable success



Transparent accounting and financial communications
Lufthansa prepares the consolidated financial statements and the interim reports according to the International Financial Reporting Standards (IFRS). The recommendations of the International Financial Reporting Interpretations Committee (IFRIC) are also taken into account. The individual financial statements of Deutsche Lufthansa AG, which are required by law and are definitive for the dividend payment, are prepared according to the German Commercial Code (HGB). PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in Düsseldorf has been appointed to audit the financial statements for 2009. The auditors' fees for the 2009 financial year are summarised in "Note 51" on p. 210. 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" on p. 34 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 Board of Lufthansa Passenger Airlines – 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.

Executive Board and Supervisory Board remuneration
The remuneration of both Executive Board and Supervisory Board members has fixed and variable components. Details on remuneration can be found in the chapter "Remuneration report in accordance with Section 315 Para. 2 No. 4 HGB" on p. 45 of the management report. The amounts paid to the individual Executive Board and Supervisory Board members are published in "Note 49" from p. 206.

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 a Compliance Report.

Annual review

Q1 / 2009

Lufthansa Italia begins operations in Milan-Malpensa
On 2 February 2009 Lufthansa Italia starts non-stop connections to initially eight European cities, in order to profit rapidly from the loss of many connections in this economically powerful region. The new brand establishes a strong foothold in the market within a very short period of time.

Lufthansa Cargo implements programme to safeguard earnings
Around 2,600 ground staff at Lufthansa Cargo in Germany begin reduced working hours in March. This is part of the programme to safeguard earnings launched by Lufthansa Cargo in the face of dramatically deteriorating market conditions. Lufthansa Cargo also reduces freighter capacities by 20 per cent and retires up to four freighters.

Successful benchmark bond issue for Lufthansa
Lufthansa secures its long-term financing, issuing borrower's note loans for around EUR 600m and a five-year bond with a volume of EUR 850m. The bond is oversubscribed by a factor of five and is the first issue under the European Medium Term Note programme. Another bond for EUR 750m follows in July.

Lufthansa Technik expands Malta services
With the opening of a new hangar complex and by adding considerably to its range of services, Lufthansa Technik Malta extends its MRO offering for short and long-haul aircraft. The service in the new hangar is designed to cater for up to three short-haul aircraft in parallel. In the future, overhauls and paint jobs for up to two wide-bodied aircraft from the Airbus A330/A340 family can be carried out simultaneously.

Q2 / 2009

Christoph Franz is appointed Deputy Chairman of the Executive Board
With effect from 1 June 2009 the Supervisory Board of Deutsche Lufthansa AG appoints Christoph Franz, CEO of SWISS, to the Executive Board. Christoph Franz becomes CEO of Lufthansa Passenger Airlines and Deputy Chairman of the Executive Board of Deutsche Lufthansa AG. The new internal regulations and division of responsibilities for the Executive Board reflect the development towards a group system of largely independent airlines.

SWISS is Europe's best airline The renowned British consultancy Skytrax gave its much sought-after World Airline Award 2009 to SWISS as the Best Airline in Europe for short and long haul. The award is based on a survey among more than 15 million passengers.

AeroLogic starts successfully
In June 2009 AeroLogic, the cargo airline operated jointly by DHL Express and Lufthansa Cargo, commences flight operations. AeroLogic is to carry airfreight between Europe and Asia for customers of its two parent companies. By the end of 2009 four out of a total of eight Boeing 777F freighters have entered service.

Lufthansa takes equity stake in Brussels Airlines
Competition approval in June clears the way for the acquisition of initially 45 per cent of the parent company of Brussels Airlines, SN Airholding SA/NV, by Lufthansa. This also gives Lufthansa approval, from 2011 – after Brussels Airlines' air traffic rights have been secured – to exercise a call option for the remaining 55 per cent and complete the full takeover of Brussels Airlines.

Q3 / 2009

Lufthansa intensifies measures to safeguard earnings
All business segments take additional measures to safeguard earnings. The Climb 2011 programme at Lufthansa Passenger Airlines is intended to save EUR 1bn by the end of 2011 and deliver lasting improvements to Lufthansa's competitive position.

Merger between Lufthansa and AUA
Once all conditions precedent are met, Lufthansa, Austrian Airlines and ÖIAG complete the takeover of AUA by Lufthansa. Austrian Airlines thus becomes part of the Lufthansa Group. On 27 February 2009 Lufthansa had made a public purchase offer to the shareholders of Austrian Airlines at a price of EUR 4.49 per share. More than 88 per cent of the shares were sold by the time the offer expired in May.

Lufthansa takes over British Midland
Lufthansa acquires 50 per cent plus one share in British Midland Ltd. (bmi) from Sir Michael Bishop. At the end of September Lufthansa also agrees to purchase the remaining 20 per cent from SAS Group. This makes Lufthansa the sole shareholder of bmi, via LHBD Holding Ltd.

Rating agencies lower Lufthansa ratings
Given the weaker operating performance and the effects of acquisitions on its financial profile, the rating agencies Standard & Poor's and Moody's revise their estimates for Lufthansa downwards. Lufthansa nevertheless remains the only European airline with an investment grade rating.

Q4 / 2009

New partnerships in America
In October Continental Airlines switches from SkyTeam to Star Alliance, strengthening Lufthansa's network in America. Lufthansa and its American partner JetBlue Airline start joint flights in November, with which the two airlines link their route networks via New York and Boston.

Lufthansa has internet on board again
Lufthansa regains its leading global position in terms of in-flight connectivity with a new edition of FlyNet. Broadband internet access will again be available on board from mid 2010. In partnership with Panasonic a large proportion of the wide-bodied fleet is to be equipped with the FlyNet service within a year of it being introduced.

British Midland presents restructuring plans
British Midland presents the outline of a comprehensive restructuring plan at the end of November. Loss-making routes are abandoned, capacity reduced sharply, and productivity and efficiency increased throughout the company. This is intended to bring bmi back to profitability in the medium term.

1,000,000 mobile boarding cards
The millionth mobile boarding card is used in Leipzig after just 18 months. Lufthansa was one of the first airlines to introduce the mobile boarding card in spring 2008. It sends a 2-D barcode to a mobile phone, with which passengers can pass through security and board the plane. Around 30,000 customers now use the mobile boarding card every week.

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. The figures in the Group management report for the Passenger Airline Group business segment for the previous year (2008) have been adjusted due to measurement changes required by IFRIC 13.

Company and organisation

↗ Our five business segments hold leading positions in their markets. ↗ The core business activity is passenger transportation, which accounts for 72.8 per cent of total revenue. ↗ The core parameter for measuring performance is cash value added (CVA). ↗ Value creation as well as absolute and relative share performance form a part of the managers' remuneration. ↗ Last year we were able to attain relevant key goals set for 2009.

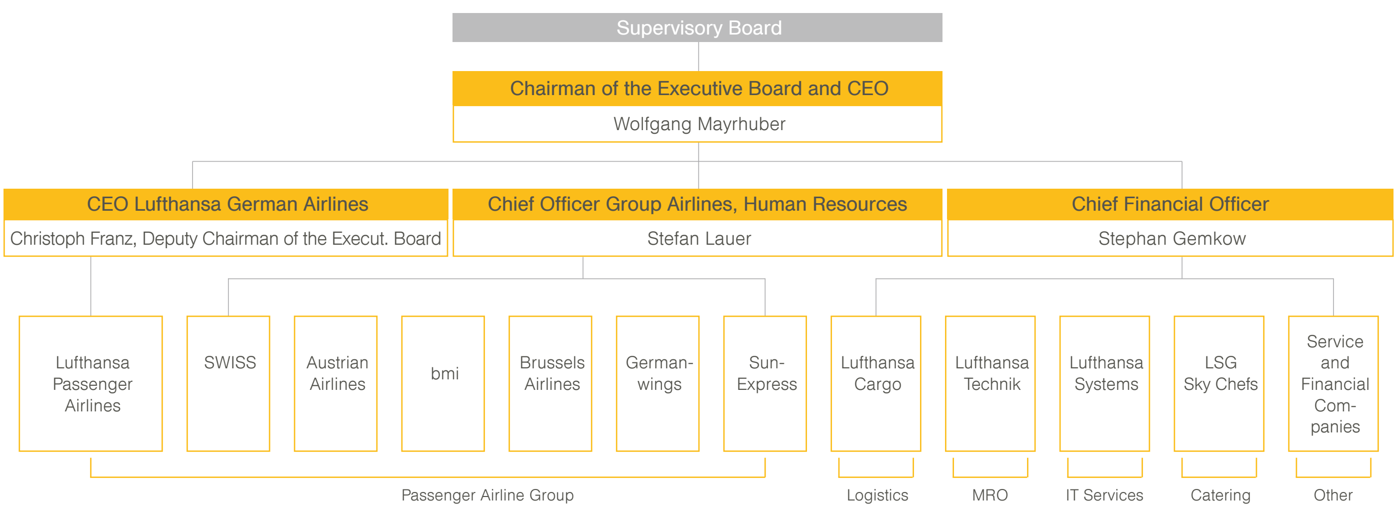
Business activities and Group structure

Five business segments with leading market positions
Deutsche Lufthansa AG is an aviation company with operations worldwide. The Group operates in five business segments, which provide mobility and services for airlines. The business segments Passenger Airline Group, Logistics, MRO, IT Services and Catering each hold leading positions in their markets. In addition, the Lufthansa Group includes over 400 subsidiaries and associated companies.

Our strategic business segments Passenger Airline Group and Logistics provide mobility for passengers and freight. The airlines in the Lufthansa Group are positioned as quality carriers in their respective segments. This year we again continued to add to the Group with new partners from the European home market in order to strengthen Lufthansa's position still further. Lufthansa Cargo is also a market leader in international airfreight. It offers a global network, shortest transport times and high quality standards in many, often highly specialised, product areas.

Via the three business segments MRO, IT Services and Catering we offer comprehensive services for our own airlines and increasingly also for external ones. Lufthansa Technik is a global leader in the maintenance, repair and overhaul of civil aircraft. Its range of services extends from one-off jobs to the full servicing of entire fleets. Lufthansa Systems is one of the leading global IT services providers for the aviation industry. It offers a broad range of services,

Group structure



from developing customised IT solutions for airlines through to operating complete IT infrastructures. LSG Sky Chefs is the global market leader in airline catering. The 130 companies in the group supply a large proportion of all international, national and regional airlines with their products and services. LSG Sky Chefs is also successfully positioning itself as a full-service supplier for in-flight management. This covers services such as product design and managing sales on board. More detailed information on the individual "Business segments" can be found on p. 74–115.

In 2009 the Lufthansa Group had an average of 112,320 employees and generated revenue of around EUR 22.3bn.

Management and supervision

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

In April 2009 the Supervisory Board appointed Christoph Franz to the Executive Board as Deputy Chairman of the Executive Board of Deutsche Lufthansa AG with effect from 1 June 2009. He is responsible for the "Lufthansa Passenger Airlines" unit and in this capacity is also the Chief Officer of the Lufthansa Passenger Airlines Board. The new allocation of responsibilities for the Executive Board adopted simultaneously by the Supervisory Board – with the four areas of responsibility Chairman of the Executive Board, Lufthansa Passenger Airlines, Finance and Aviation Services and Group Airlines and Corporate Human Resources – reflects Lufthansa's development towards a group system of largely independent airlines. Responsibility for key corporate departments is divided among the four members. Deutsche Lufthansa AG acts as the parent company and at the same time is the largest single operating company in the Group. The individual business segments are run as separate Group companies, with the exception of the Passenger Airline Group. The companies have their own profit and loss and operating responsibility. They are monitored by their respective supervisory boards, in which members of the Executive Board are also represented. More information is available in the Notes to the consolidated financial statements "Note 49" starting on p. 206.

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

Firstly, the LH-Bonus programme pays a variable remuneration component relating to the reporting period. This is oriented both towards value creation by the Company (as measured by the CVA; see the "Value-based management and targets" from p. 45), and towards 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, longer-term component: the annually renewed share programme LH-Performance. This programme combines an obligatory personal investment by the participants in Lufthansa shares with the granting of appreciation rights.

The Executive Board members have also been able to take part in LH-Performance since 2002 and non-payscale staff since 2003. Lufthansa gives a discount on shares purchased as part of LH-Performance; in return the shares may not be sold before the end of the programme after three years. Since 2007 the appreciation rights granted with the investment in shares have consisted of a performance and an outperformance option. Lufthansa makes a payout on the performance option when the price of the Lufthansa share reaches a set hurdle over the course of the programme. This is based on Lufthansa's cost of equity. The participants receive a payment from the outperformance option at the end of the programme if the Lufthansa share has performed better over the course of the programme than a basket made up of the shares of the main European competitors. The amount of the payment depends on the level of performance and outperformance, up to a defined cap. This makes the participants shareholders on the one hand, with all the related risks and rewards, and also remunerates them for a specific Company performance acknowledged by the capital markets. More information on our share programmes is available at i www.lufthansa.com/investor-relations.

Results “LH-Performance”

	End of programme	Outper-formance as of 31.12.2009 in %	Performance as of 31.12.2009 in %
LH-Performance 2009	2012	1	−3
LH-Performance 2008	2011	−9	−10
LH-Performance 2007	2010	16	−33
LH-Performance 2006	2010	29	–

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

The remuneration structure for the Executive Board strives to attribute roughly equal weight to the three components fixed annual salary, variable annual salary and remuneration with incentive and risk character, in a situation where the operating result is satisfactory and the Lufthansa share performs well or outperforms the market. The members of the Supervisory Board receive a dividend-linked payment in addition to their fixed benefits. The detailed remuneration report and amounts paid to the individual members of the Executive and Supervisory Boards are published in the Notes to the consolidated financial statements “Note 49” from p. 206.

Value-based management and targets

Sustainable increase in company value

Lufthansa uses a value-based management system to guide and manage the Group. This approach is applied in all planning, management and controlling processes. It thereby anchors the demands of our investors and lenders across the Company’s management and ensures sustainable value creation over the business cycle of the air traffic industry.

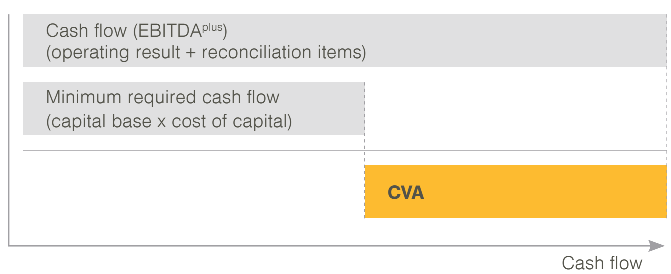
To do this, the achievement of targets is measured continuously and included in internal and external reporting. As our value-based management system is also reflected in performance-related pay, this also creates an incentive for our staff and managers to act in the spirit of these corporate goals and take decisions in an entrepreneurial manner. More details can be found in the chapter “Performance-related remuneration for managers” on p. 44.

CVA is the authoritative measure for value creation

The core management indicator for the Lufthansa Group is cash value added (CVA). This measures the value contribution generated in the reporting period by the Group as a whole and by the individual business segments. Operating indicators and value drivers are derived from the CVA and used to manage operating performance in all business segments.

The CVA is an absolute residual amount. It is calculated by subtracting from the cash flow generated in a year the cost of capital employed expressed as a required minimum cash flow. The CVA is positive and value is generated when the actual cash flow is higher than the minimum cash flow required to cover the cost of capital employed. 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, a capital recovery rate and the flat tax rate. The capital base is the total of non-current and current assets less interest-free liabilities. It is measured at historic cost. This makes value calculation and generation independent of depreciation and amortisation. The return on capital is calculated 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 2009:

Return on capital 2009

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 every year and update them as required for the following year's performance measurement. As the concept is designed to be long-term, expectations of future developments in individual parameters are also factored in. This means that the WACC itself can remain constant, even if individual parameters change over the short term.

Based on our financing strategy, the WACC calculation for the Group and for the business segments assumes a target capital structure of 50 per cent equity, valued at market rates, and 50 per cent liabilities. We differentiate between the costs of capital for the segments by adding beta factors to reflect their different business risks. The betas are also adjusted continuously: they are derived from an external peer-comparison and an internal management survey.

When the individual parameters were reviewed as scheduled in 2009 the WACC was lower than the previous year due to the sharp fall in base rates, which more than made up for higher risk premiums. As interest rates are expected to rise again, we nevertheless decided to maintain the WACC at its current figure of 7.9 per cent this year. 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 %	**2009**	2008	2007	2006	2005
Group	7.9	7.9	7.9	7.9	8.6
Passenger Airline Group	7.9	7.9	7.9	7.9	8.6
Logistics	8.2	8.2	8.2	8.2	8.9
MRO	7.6	7.6	7.6	7.6	8.3
IT Services	7.6	7.9	7.6	7.6	8.3
Catering	7.9	7.6	7.9	7.9	8.6

The declining value of assets is an additional component of the minimum required cash flow that is measured using the capital recovery rate (economic depreciation). Capital recovery is 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. This brought the minimum required cash flow for the Lufthansa Group in the reporting period to EUR 3.2bn (previous year: EUR 2.6bn).

The actual cash flow is calculated at Lufthansa as follows: we derive EBITDA^{plus} from the operating result by adjusting for non-cash items. These are primarily depreciation and amortisation and net changes in pension provisions, as well as other items such as the pre-tax results of equity investments that are not fully consolidated and book gains from asset disposals. This means that EBITDA^{plus} contains all cash-relevant items over which management has an influence. In the reporting year Lufthansa's EBITDA^{plus} came to EUR 2.0bn.

Reconciliation EBITDA^{plus}

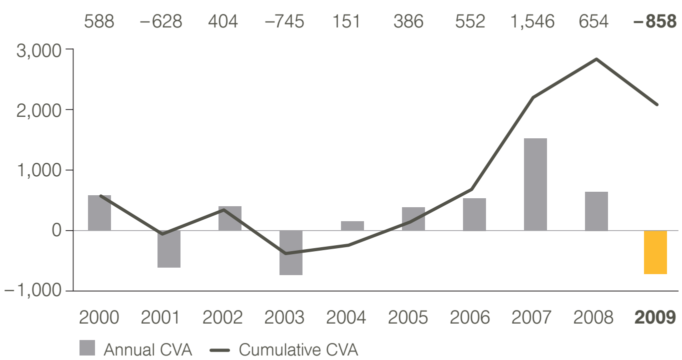
in €m	**2009**	2008
Operating result	**130**	**1,280**
Depreciation and amortisation	1,387	1,274
Result from disposal of property, plant and equipment	9	−3
Income from reversal of provisions	187	157
Impairment losses on intangible assets	−84	−15
Change in pension provisions before interests	65	168
Operating EBITDA^{plus}	**1,694**	**2,861**
Pro rata pre-tax results of non-consolidated equity investments	178	69
Interest income	117	175
Result from disposal of financial assets	23	28
Financial EBITDA^{plus}	**318**	**272**
EBITDA^{plus}	**2,012**	**3,133**

In order to obtain the CVA the minimum required cash flow is then deducted from EBITDA^{plus}. This results in negative CVA for the Group of EUR 858m in 2009. The negative figure stems primarily from the sharp fall in cash flow from operating activities as well as a higher minimum required cash flow due to the elevated capital base. The outlook for the years ahead suggests that generating positive value in the current year will also be an ambitious target. Since the management concept was introduced in 2000 the Lufthansa Group has nevertheless generated EUR 2.1bn in value to date.

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

in €m	**2009**	2008	2007	2006	2005
Group	–858	654	1 546	552	386
Passenger Airline Group	–691	346	768	317	–53
Logistics	–264	71	59	37	39
MRO	164	188	205	85	121
IT Services	3	29	–16	32	36
Catering	–68	–17	21	–50	–71

Performance of Lufthansa Group
Cash value added in €m



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

At the Lufthansa Group we have introduced a system of key performance indicators in order to exert a direct and positive influence on value creation and therefore on the CVA. It covers the main value levers which management can influence directly. When these value drivers are changed, they therefore alter the operating result, the capital base and the CVA directly. We have a number of additional financial targets in addition to value creation that are described more closely in the "Financial strategy" chapter on p. 50.

Key targets for 2009 achieved

Under the circumstances, the Executive Board of Deutsche Lufthansa AG is satisfied with the course of business in 2009. Lufthansa stayed on course over the crisis year and earned an operating profit despite the global recession. This means that we have achieved a significant goal: to use the flexibility created in recent years to stabilise earnings in periods of economic frailty and to maintain our entrepreneurial autonomy and freedom of action to take farsighted decisions. We have been helped by our strong operating and financial position, our risk and opportunities management, and the overall stabilising influence of our business segments. However, this impressive performance is predominantly due to the resolute action taken by our managers and staff. In the medium-term this level of profitability is not satisfactory of course. Our efforts therefore remain focussed on bringing profitability back to an appropriate level in order to earn our costs of capital and to create value. In spite of the challenging environment we achieved a number of the key goals that we set ourselves for 2009. Other goals suffered under the weak market conditions or the still fragile financial profile of the recently consolidated companies. The following table gives an overview of the targets achieved. The respective chapters deal with individual aspects in more detail.

Target	Target achievement 2009
Increase revenue	EUR 22.3bn in revenue (–10.3 per cent)
Earn an operating profit and achieve leading profitability compared with European competitors	EUR 130m operating profit, i.e. adjusted operating margin of 1.4 per cent
Sustainable value creation (positive CVA) over the cycle, taking into account an expected loss of value in 2009	EUR 2.1bn CVA since 2000 including EUR –858m CVA in 2009
Business segments hold their own against competitors and continue course of profitable growth	All business segments profitable except for Logistics; MRO increased revenue and result
Finance the bulk of capital expenditure with cash flow from operating activities and available liquidity	EUR 251m free cash flow
Maintain minimum liquidity (EUR 2bn, later increased to EUR 2.3bn)	Liquidity of EUR 4.7bn
Maintain a strong balance sheet by having a high proportion of unencumbered aircraft	67 per cent of the Group fleet is unencumbered, (83 per cent of the core Lufthansa Passenger Airlines and Lufthansa Cargo fleet)
Maintain a sustainable equity ratio of 30 per cent	Equity ratio: 23.5 per cent
Maintain investment grade rating	Moody's: Ba1, outlook stable S&P's: BBB–, outlook negative
Further flexible funding of pensions	Funding of EUR 380m
Continue dividend policy	No dividend payment for 2009, as the conditions not met

Group strategy

Worldwide air traffic remains a growth industry. We are set for profitable growth. The diversified structure of our Group has a stabilising effect on earnings. In 2010 we again intend to invest in modernising our fleet and making further improvements to our network quality. We strengthen our position in key markets with new partners. Our activities are focussed on a medium-term, sustainable perspective. A strong financial profile gives us the freedom of action to develop the Company.

Committed to sustainable corporate development

Despite the turbulence that the ongoing financial and economic crisis has caused in our markets too, we are convinced that worldwide air traffic acts as a motor for the economy and for continued globalisation and therefore remains a growth industry. The strategy of the Lufthansa Group is therefore aimed at profitable growth, and pursues a course of sustainable corporate development and value creation. This benefits shareholders, customers and staff equally.

In an industry that is linked to the performance of the global economy, the Group can take advantage of the different cycles of its business segments. This has a stabilising effect on the profitability of the Group as a whole and thereby supports its sustainable development.

Our values are the basis of our success

Lufthansa is strategically and financially well positioned, which enables it to secure decisive competitive advantages: in addition to experienced management and motivated staff, quality, reliability, innovation, trust and proximity to the customer form the fundamental pillars of each business segment and are therefore the joint foundation of our success. The outstanding performance of the individual business segments benefits not only these, but also the other companies in the Group. For instance, Lufthansa Technik has had a decisive influence on the core Lufthansa brand image in terms of quality, safety and reliability. In the field of innovation too, our companies continue to bring new ideas to market, enabling them to offer new products to internal and external customers. In terms of proximity to customers our business segments also propose tailored solutions, such as the multitude of local production facilities in the catering area for example, or extending the route network for our passengers. The Group benefits especially from its acknowledged competence in integrating new alliance partners with particular skills in their respective domestic markets.

Decentralised structures within the Group promote profit and loss responsibility and entrepreneurialism. They also contribute to ensuring that our values are lived and applied in all areas and regions; see also chapter “Passenger Airline Group” p. 76.

Income and costs constantly being optimised

Thanks to the combined expertise of our Group we have been able to maintain our profitability leadership among European network carriers even at difficult times. Last year the operating profit margin was well below our target, however, of 1.4 per cent. We were nevertheless able to report an operating profit, against the trend in the industry. This takes us a step closer to our target of generating added value for our Company and shareholders by maintaining stability at times of crisis and achieving above-average growth when the economy recovers. In order to meet this standard in the current environment, which remains volatile, our top priority is to optimise our income and cost positions constantly. All the business segments and new companies are therefore accelerating their efforts to increase revenue and cut costs durably. In doing so they can benefit from the increased flexibility in the cost base that has been built up in recent years. Given the dependence on the state of the economy, a large portion of the efforts in all segments is spent on achieving further flexibility in these cost structures. More information on the different measures can be found in the comments on the business segments from p. 74.

In the Passenger Airline Group, the largest business segment, Lufthansa Passenger Airlines initiated the Climb 2011 project in summer 2009 with the aim of achieving sustainable earnings improvement of EUR 1bn by the end of 2011. More information on this initiative can be found in the chapter "Passenger Airline Group" from p. 79.

All areas of the Company are managed in line with the cash-value-added concept as a sign of their commitment to value creation; see the chapter "Value-based management and targets" from p. 45.

Exploiting growth prospects for the air transport industry

We are convinced that the long-term growth prospects for the air transport industry are still intact. But only companies that can manage crises will be able to exploit these prospects. Our crisis management has been successful so far. We must nevertheless continue to strengthen the existing basis for all business segments in the Lufthansa Group and further enhance our current flexibility in order to take an appropriate share of future growth.

At Group and segment level we evaluate the opportunities and risks of the different markets and adjust the growth scenarios accordingly. Planned capacity growth for the years ahead was successively scaled back in line with the economic downturn; see segment reporting chapters, for example "Passenger Airline Group" from p. 76. Planned capital expenditure is also subjected to similarly strict reviews. In doing so we are aware of both our economic and our ecological responsibilities. We intend to preserve our prospects for the future and will therefore continue to invest in modernising our fleet and improving our network quality and our product in 2010 too. This means that we are prepared and able to respond to any improvement in market conditions at short notice and to benefit promptly via organic growth from a return to better times. Our investments will also improve our cost structure, as older aircraft incur higher MRO and fuel costs.

In this crisis year we have continued to search for suitable partners in order to improve our position in key markets. An effective way of achieving this is to develop cooperation programmes and alliances. These allow us to gain swift market access while limiting capital expenditure and the risks of market entry at the same time. In order to grow further we also took equity stakes in other companies or acquired these outright in 2009 as part of the ongoing consolidation process.

Before a commitment of any kind is made, key conditions must be met: they must support Lufthansa's strategic development lines as well as business, cultural and economic criteria for successful collaboration. Our analysis focusses on cost and income synergies, the profitability of the potential partner and the effects of a consolidation on the Group's financial position. We compare the result with the strategic opportunities offered by the equity investment and the market access it brings. We adopt a medium-term, sustainable perspective, relying on our own capabilities and those of the respective company's management to lead the companies to success and integrate them into the Group. We have already demonstrated these abilities several times in the past.

Capacity management also applies at Group level

We continue to refine the Group on a permanent basis and have prepared for managing a larger group with a more pronounced airline profile; see also "Management and supervision" from p. 44. 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 position of 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 by the potential of a transaction for increasing value.

Financial strategy

Strong financial profile ensures further development of the Group

The development of the Company is accompanied and secured by a strong financial profile. Our financial strategy is aimed at securing freedom of action for the Group at all times in terms of operating, financial and strategic performance. At difficult times, such as the current global recession, Lufthansa benefits from its solid financial structure. It enables an active development of the Company independently of market conditions.

Many financial indicators for 2009 reflect the economic crisis and the considerably weaker financial profiles of the newly acquired companies. The Company's fundamental stability is nevertheless still outstanding compared with that of its competitors. This has been confirmed by the rating agencies. Despite a downgrading by Moody's, Lufthansa was the only airline in Europe with an investment grade rating in 2009; see also p. 73. The banking and financial market crisis of the past two years made the necessity and advantages of a strong credit rating and financial prudence especially clear. At times of great uncertainty and a limited willingness to provide companies with capital and liquidity, our own strong liquidity and financial profile gave us an obvious competitive advantage. In 2009 the Group therefore laid down a comfortable liquidity cushion at an early stage.

Financial strategy is incorporated into all major corporate decisions

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. We have defined its core pillars by means of the following strategic financial parameters:

- The Group requires an appropriate supply of liquidity to hedge against volatility in customer and financial markets. To this end, the Group holds strategic minimum liquidity of EUR 2bn that is available at any time, which was raised to EUR 2.3bn in the course of the Group's expansion.
- We deal with the cyclical nature of our industry by means of a strong target 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 secure 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.

Dividend policy unchanged

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. In recent years we have distributed between 30 and 40 per cent of these earnings to our shareholders. However, this is subject to the ability to pay a dividend from the net profit for the year reported in the individual financial statements of Deutsche Lufthansa AG. This policy reflects the cyclical nature of our business. This means that in normal and good years the shareholders participate in our success by means of correspondingly high dividends, which have earned us a top place in the DAX in terms of dividend yield in several of the past years. In poor years, however, distributions should not be made to the detriment of the Company's equity and therefore the financing of medium-term growth. In the 2009 crisis year the Group recorded a loss per share of EUR 0.24.

In view of the negative result shown in the individual financial statements of Deutsche Lufthansa AG and the continued uncertainty regarding macroeconomic developments, the Executive Board and Supervisory Board will make no proposal for a dividend payment for the last financial year at the Annual General Meeting to be held on 29 April 2010.

Economic environment and course of business

↗ International air traffic was hard hit by the global economic and financial crisis in 2009. ↗ The airline industry reported a worldwide fall of 4.1 per cent in passenger transport and 13.0 per cent in freight transport. ↗ The course of business for the Lufthansa Group was also marked by persistently weak demand. ↗ A high degree of flexibility, together with wide-ranging steps to safeguard earnings and control costs enabled us to earn an operating profit even in this difficult environment.

Macroeconomic situation

Financial crisis spreads to become a global economic crisis
The global economy experienced the deepest recession since the Second World War in 2009. Global industrial production had already collapsed dramatically in the fourth quarter of 2008 and continued to slide in the first quarter of 2009: the world economy shrank by 3.3 per cent, whereby in OECD countries the contraction in real gross domestic product amounted to as much as 4.7 per cent. Global trade saw an exceptional fall of 30 per cent in the first quarter and 31 per cent in the second quarter compared with the previous year. Both industrialised and emerging economies were affected. Emerging economies, in particular countries in Central and Eastern Europe, were dragged down by falling output in industrialised countries, which resulted in a global recession.

Around the world, governments responded to the financial and economic crisis with wide-ranging measures: monetary policy was loosened dramatically, in many cases central bank rates were cut to zero or only slightly above. Massive economic stimulus programmes were launched in order to slow or even halt the nose-diving of economies. As a result of collapsing demand, commodities prices plumbed a low in early 2009. In the summer months the global economy began to stabilise and gradually showed signs of recovery thanks to extensive intervention by central banks and the increasing effects of fiscal stimuli. Commodities prices picked up again at the same time. Consumer and business confidence improved overall, making investors more inclined to take risks. This was apparent in the performance of share prices on international stock markets.

Despite this, the recovery took place at a much lower level than in 2008. While some emerging countries have already reported strong increases in production, the industrialised economies now seem to have overcome the worst.

Government support has a stabilising effect on the economy
After its abrupt collapse at the end of 2008 and the beginning of 2009, global trade also began to revive, albeit at a low level. The emerging economies in Asia contributed greatly, increasing their imports from the rest of the world. According to the latest forecasts by IHS Global Insight, global gross domestic product fell year on year by 2.0 per cent in 2009 (previous year: +1.9 per cent). The extent of the drop varied from one region to another, however.

GDP development 2009

in %	Q1 2009[1]	Q2 2009[1]	Q3 2009[1]	Q4 2009[2]	**Full year 2009**[2]
World	–3.3	–3.0	–2.0	0.4	–2.0
Europe	–5.2	–5.0	–4.1	–1.8	–4.0
Germany	–6.7	–5.8	–4.8	–1.8	–4.8
North America	–3.2	–3.8	–2.7	–0.2	–2.5
South America	–2.7	–3.6	–2.6	–0.3	–2.1
Asia / Pacific	–1.4	0.3	1.6	4.0	1.3
China	6.1	7.9	8.9	10.3	8.5
Middle East	0.4	–0.4	–0.7	0.1	–0.1
Africa	2.4	1.8	1.6	1.9	2.0

Source: Global Insight World Overview as of 15.1.2010.
[1] Partially forecast.
[2] Forecast.

In the USA the economy slowed considerably in the first half of 2009. Recovery was hindered by the fact that the US labour market remains weak and lending is still down as a result of the banking crisis. From the third quarter, gross domestic product nevertheless saw positive growth rates again, mainly buoyed by consumer spending. The US economy seems to stabilise again. This is largely the result of the massive economic stimulus package delivered by the American Recovery and Reinvestment Act, which amounted to some USD 787bn. The thaw on financial and property markets and brighter prospects for external trade were the main factors behind the recovery. Despite this, gross domestic product is likely to have fallen by 2.5 per cent in 2009 (previous year: +0.4 per cent).

The Asian economies, with the exception of Japan, were able to turn their economies around last year, following a temporary slump in exports. The main reasons for the swift recovery were, besides a sharp upturn on capital markets compared with other regions, active monetary policies and massive economic stimulus packages that acted as a catalyst for domestic demand. China in particular saw economic growth take off again from the second quarter – also thanks to the strongly expansive monetary and fiscal policy that buttressed the domestic Chinese economy. By contrast, the export-driven Japanese economy was hit hard by the economic crisis. Gross domestic product contracted by 8.6 per cent in the first quarter compared with the same period the previous year. Since the spring Japan has found its way back to a course of modest recovery. This is largely the result of declining tension on financial markets as well as resurgent demand from emerging economies, in particular China. The Japanese economy is expected to shrink by 5.4 per cent in 2009 (previous year: –1.2 per cent). Together with the other, fast-growing countries (+4.7 per cent), this adds up to total growth of 1.3 per cent for Asia/Pacific in 2009 (previous year: 3.4 per cent).

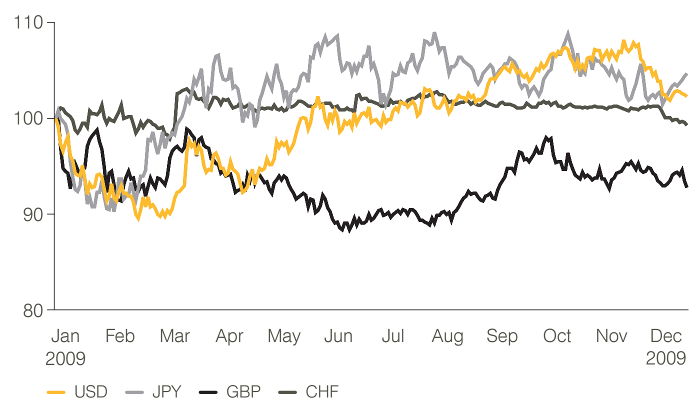
Since the middle of 2009 the economy in Europe has also stabilised, after having suffered a further sharp fall at the beginning of the year. It can be assumed that the European economy has passed the low point reached in spring 2009. The main causes of the revival were a resumption of export activity and the ongoing economic stimulus programmes. For the full year 2009 European gross domestic product is expected to shrink by 4.0 per cent (previous year: +0.8 per cent). The German economy also stabilised again from the second quarter onwards, after having experienced a massive slump in early 2009 – albeit at a lower basis. External trade was the principal driving factor. The recovery for Germany as a whole is expected to remain hesitant in 2009. Gross domestic product is predicted to have fallen by 4.8 per cent (previous year: +1.0 per cent).

The condition of the economy is a vital driver for air traffic and therefore also has a marked influence on the course of business and earnings development at the Lufthansa Group. Thanks to its broad regional structure the Group benefits from different rates of economic growth in the various regions and avoids over-dependence on any one.

Foreign-exchange rates affect operating result

The US dollar strengthened against the euro by 5.4 per cent on average over the year. This had a negative impact on costs for the Lufthansa Group, especially on fuel costs and capital expenditure on the fleet. On the other hand, the effect on income was positive. The weakness of sterling had a negative effect on income. The Japanese yen gained 15 per cent against the euro, which had a positive effect on income. Overall, different exchange rate movements had a positive effect on the Group's operating result.

Currency development 2009 EUR 1 in foreign currency indexed to 100%



Currency development EUR 1 in foreign currency

	2009	2008	2007	2006	2005
USD	1.3945	1.4743	1.3615	1.2565	1.2443
JPY	130.39	153.59	161.04	146.14	136.85
GBP	0.8907	0.7901	0.6807	0.6817	0.6836
CHF	1.5095	1.5896	1.6430	1.5730	1.5481

Source: Reuters, annual average daily price.

Short-term interest rates again tangibly lower than long-term
In 2009 short-term euro interest rates continued the steep downward trend that began in 2008. This trend slowed in the third quarter, before bottoming out in the fourth. At the end of the year 6-month Euribor was at 1 per cent, compared with almost 3 per cent at the start of the year. Long-term euro interest rates ended their downhill trend as early as the first quarter 2009 and have since been moving sideways. Volatility increased considerably in the first half of the year, however, as shown in fluctuations of up to 50 basis points within just a few days. In the second half-year this volatility subsided again. The 10-year euro swap rate was just above 3.5 per cent at year-end, having been below 3.6 per cent at the beginning of 2009. This made the yield curve in 2009 considerably steeper.

Lufthansa uses the opposing movements in the operating result, which depends on the economic cycle, and short-term interest rates (natural hedge) by applying that 85 per cent of its liabilities are at floating rates. More details can be found in the "risk report" on p. 134.

Oil price well down on previous year as a result of the economic crisis
2009 was another year of sharp swings in oil prices. Prices for a barrel (bbl) of IPE Brent ranged from around USD 40/bbl (in February) to USD 80/bbl (in October) last year. The average price was around USD 62.81/bbl, or 36 per cent lower than the previous year (USD 98.67/bbl).

Weak demand for fuels as a result of the recession also dramatically reduced the price difference between crude oil and kerosene (jet fuel crack) from its high in 2008 (27 May 2008: USD 47.10/bbl) to a low of USD 4.08/bbl on 16 March 2009. Stable global refinery activity in the first half of 2009 combined with weak demand meant that stocks of refined products rose, which helped to keep jet fuel crack at a comparatively low level. At times, the surplus of refined products was so high that ships were even used for storage purposes.

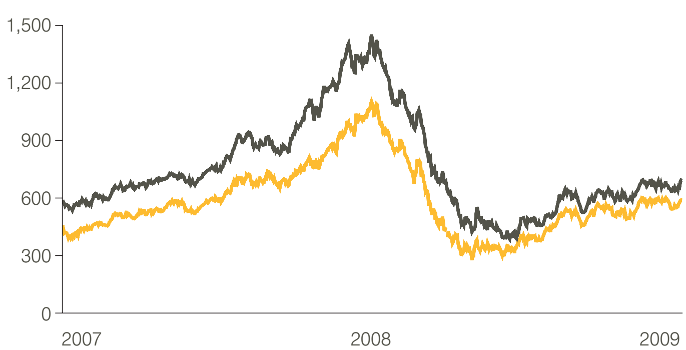
Over the remainder of 2009 the crude oil price and jet fuel crack both rose sharply. This trend was driven by positive expectations for the economy and speculation of a similar magnitude to that seen in 2008. The price of kerosene fluctuated overall between USD 386 and USD 694 per tonne. On average over the year the price for kerosene was USD 561 per tonne, making it around USD 440 per tonne or some 43 per cent cheaper than in 2008.

As fuel costs are so important for Lufthansa'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 the "Risk report" from p. 133.

Sector developments

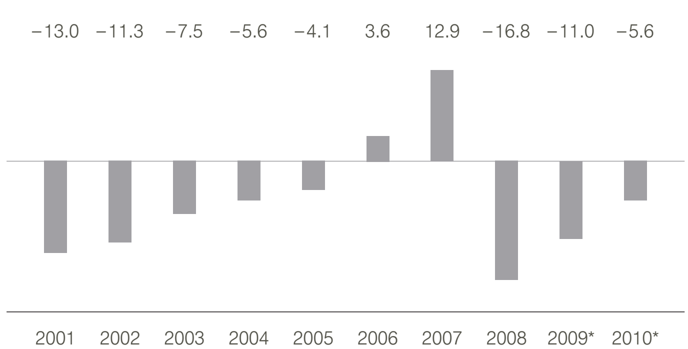
Air transport hit hard by economic crisis in 2009
International passenger traffic was badly affected by the global economic and financial crisis in 2009. According to the latest IATA reports, the airline industry reported a fall of 4.1 per cent in passenger traffic and 13.0 per cent in cargo traffic worldwide in 2009. This trend was accompanied by a sharp contraction in average yields. As well as the mature markets in Europe and North America, growth markets were also hit, especially the emerging Asian economies. Neither the classic scheduled airlines nor the no-frills carriers were able to escape this development. As the second half of 2009 began, the airlines started to recover from their low for the year and increased their passenger numbers over the previous year on the basis of lower capacity, as well as higher passenger load factors.

Price development of crude oil and kerosene in USD/t



Source: Lufthansa, based on market data.

Development of sector net result in USD billion

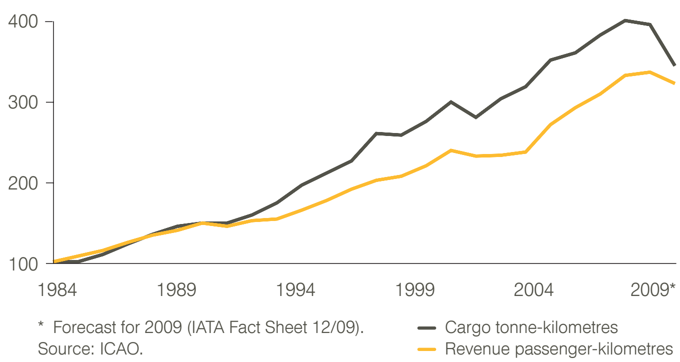


Source: IATA Industry Times 01/2010. * Forecast.

Despite this positive trend, IATA is forecasting losses for the sector of USD 11bn for the financial year 2009. Given persistently low pricing and rising oil prices, IATA expects a sustained recovery for the air transport industry over the course of 2010 at the earliest. Faced with these prospects and the enormous restructuring and capital expenditure requirements of the industry, many airlines raised new funds in 2009. Lufthansa also successfully issued two bonds and borrower's note loans. More information can be found in chapter "Cash flow" from p. 67.

Falls in passenger and cargo traffic in all regions
From the beginning of 2009 a massive collapse in passenger demand was visible in all regions, with the exception of the Middle East. According to IATA data from January 2010, Europe and North America reported slumps in demand of 5.0 and 5.6 per cent respectively and since the low at the end of the first quarter are seeing demand pick up only slowly. The Asian airlines were hardest hit by the crisis in the first half of the year, but also recovered fastest thereafter. In 2009 a total fall in demand of 5.6 per cent was reported there. By contrast, airlines from the Middle East continued to expand, despite the turbulence on world markets. Considerable amounts were invested in aircraft and airport infrastructure in the region. Airlines from the Middle East achieved an increase in demand of 11.2 per cent with a strong expansion of capacity (13.6 per cent) in 2009.

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



* Forecast for 2009 (IATA Fact Sheet 12/09).
Source: ICAO.

Besides declining volumes, the year 2009 was particularly marked by the collapse in average yields. The factors that were largely responsible for this were increasing passenger migration to cheaper tickets, intense price competition and lower fuel surcharges. In European traffic in particular this competition meant that market share was lost to no-frills carriers.

The global economic crisis has affected the logistics markets and the global airfreight market to a far greater extent than passenger air traffic. At the beginning of 2009 airfreight volume fell abruptly by more than 20 per cent compared with the previous year in line with the severe downswing in international trade. Since the middle of the year it has risen from month to month but is still below the corresponding figures for the previous year in absolute terms. According to the IATA forecast, freight traffic will have declined by a total of 13 per cent in 2009.

Sales performance 2009

in % compared with previous year	Revenue passenger-kilometres	Cargo tonne-kilometres
Europe	–5.0	–16.1
North America	–5.6	–10.6
Central and South America	0.3	–4.0
Asia / Pacific	–5.6	–9.2
Middle East	11.2	3.9
Africa	–6.8	–11.2

Source: IATA Carrier Tracker 12/09.

Economic crisis spurs on consolidation process
In addition to economic influences air traffic was also the subject of a number of structural changes in the year under review.

The economic crisis heightened the pressure to consolidate for the aviation industry in 2009. This resulted in a number of transactions. British Airways and Iberia reached agreement on a merger in November after 16 months of negotiations. The goal is to combine the two companies to form the third largest carrier in Europe. According to company information, British Airways' shareholders are to hold 55 per cent of the new entity and Iberia's 45 per cent. The tour operator TUI Travel acquired 9.9 per cent of Air Berlin in October for around EUR 33.5m. In Asia the takeover of Shanghai Airlines by China Eastern was approved in December. In addition, the Columbian airline Avianca and TACA from El Salvador joined forces in a joint holding company in October.

Lufthansa also took an active part in the consolidation process in 2009, expanding its airline group and market share as well as strengthening its competitive position.

After clearance from the European Commission under competition regulations, we acquired 45 per cent of the parent company of Brussels Airlines, SN Airholding SA/NV, in June of the reporting year.

In September we completed the takeover of Austrian Airlines after the public offer to the remaining shareholders had been accepted and all conditions precedent met. A resolution was passed at an extraordinary shareholders' meeting of Austrian Airlines AG held on 16 December 2009 to squeeze out the remaining minority shareholders.

In June we reached agreement with the founder of bmi, Sir Michael Bishop, on the purchase of his stake of 50 per cent plus one share in the British airline. In November 2009 Deutsche Lufthansa AG's British subsidiary, the holding company LHBD Holding Limited, purchased an additional 20 per cent of the shares in bmi from SAS Group. This means that via its subsidiary Lufthansa owns 100 per cent of bmi.

The new company Lufthansa Italia also began flight operations in February 2009. Lufthansa Italia flies to European and domestic Italian destinations from Milan-Malpensa. This move further strengthens Lufthansa's presence in Europe.

The economic crisis also exacerbated insolvencies and encouraged restructuring in the air transport industry. Despite having received several emergency government loans in recent years the heavily indebted Japan Airlines (JAL) filed for insolvency in January 2010 and has since been under the supervision of a government restructuring company.

In October 2009 the American carrier Continental Airlines switched from SkyTeam to Star Alliance. This improved travel opportunities for the passengers and the competitive position of Star Alliance considerably. Thereafter, Continental signed bilateral commercial treaties with all twenty-four Star Alliance members and code-sharing agreements with the four Star Alliance members United, Air Canada, bmi and Lufthansa.

Regulatory and other factors

Varying international security standards

The security measures required for international air travel differ from country to country, resulting in a constant increase in the information to be provided about passengers and crews. This trend results in constant changes to airlines' operating procedures and causes significant additional expense. Additional new requirements in security control (for example, regarding passengers and liquids) as a result of the latest changes could also drive up costs. Lufthansa and other partners are therefore lobbying for a harmonisation of frameworks and procedures worldwide.

Restricting emissions trading to Europe distorts competition

The aviation industry takes the subject of climate protection very seriously. In cooperation with IATA, Lufthansa has developed a comprehensive four-pillar strategy to achieve further cuts in emissions from air traffic (see chapter "Sustainability" p. 120). The industry's efforts are aimed at the speedy implementation of measures that are effective without endangering the economic basis for air travel. The strategy focusses on technological advances, including researching and using alternative fuels, expansion of airport infrastructure in line with demand, rapid implementation of the Single European Sky, and the implementation of operating improvements (for example, weight reduction, optimised ground processes). A worldwide competition-neutral emissions trading scheme is to form the fourth pillar. According to plans by the European Commission, air traffic is also to be included in the European emissions trading scheme from 2012. Lufthansa does not consider these plans to be fit for purpose, however, as an emissions trading scheme limited to Europe would lead to a distortion of competition at the international level without being accompanied by an effective reduction in CO_2 emissions from global air traffic. The consistent implementation of the four-pillar strategy, which involves all stakeholders (airlines, aircraft manufacturers, airports, air traffic control authorities and governments) would furthermore lead to a greater reduction in the effects of air transport on the climate. Climate change is a global problem that can only be tackled with global solutions. Lufthansa therefore supports the introduction of a global, competition-neutral emissions reduction scheme and continues to lobby for the sensible implementation of this strategy. This applies to the entire aviation sector, which was the only industry to commit to climate protection at the Copenhagen Summit by means of a global concept to reduce CO_2 emissions.

Single European Sky leads to greater efficiency
The integration of the different national air traffic control authorities is a matter of great importance for the air traffic industry. Organising airspace management at an international level would also make a major contribution to environmental protection and cost-effectiveness; see also "Sustainability" on p. 122. In 2004 the EU adopted the Single European Sky (SES) initiative for this very purpose, but its implementation has been very slow to date. 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 particular the air traffic control authorities are to be given binding performance targets and what are known as Functional Airspace Blocks are to be set up at the heart of Europe by 2012. Germany, together with Belgium, France, Luxembourg, the Netherlands and Switzerland, is to form the Functional Airspace Block Europe Central, FABEC. This should successively make the management of European airspace much more efficient. For Lufthansa it means more airspace capacity, fewer delays, more stable flight plans, lower air traffic control fees and considerable savings in fuel and emissions.

Potential night flight regulation hangs over Frankfurt hub
The expansion of Frankfurt Airport approved at the end of 2007 was an important step towards securing air traffic growth in Germany. The official approval of the plan, however, contains operational regulations 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 made available to carriers based at Frankfurt Airport, with priority for pure cargo flights.

The appeals by Deutsche Lufthansa AG and Lufthansa Cargo AG, essentially against the restriction on night flights, were dismissed by the administrative court in Kassel in its ruling given on 21 August 2009. The court upheld the expansion plans. It is of the opinion that even the number of flight movements permitted by the official approval documents does 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 will attempt 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.

New rules on consumer protection
Numerous rules are to improve protection for consumers. They stipulate for instance that ticket prices must show all costs clearly or that price discrimination between customers in Europe is not permitted. The internet also improves price transparency and therefore increases the influence of the consumer. 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 is being investigated in the German courts in response to litigation by consumer protection agencies. The terms and conditions in common use today state that tickets may only be used in full and in the order booked. Otherwise the tickets lose their validity and the price is recalculated for the route actually taken. Lufthansa lost at first instance but won on appeal to the upper court. The court considered that the rule does not constitute undue discrimination against customers. The consumer protection agency acting as plaintiff has appealed against the ruling to the Federal Court of Justice. As the disputed rules are also anchored in the IATA terms and conditions, a final judgement will affect the whole industry.

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.

It remains to be seen how national courts will apply the ruling and to what extent they will give airlines the opportunity to exonerate themselves. If Lufthansa had to pay this compensation to all passengers affected by technical cancellations or delayed arrivals for reasons deemed to be the responsibility of the airline, it would add tens of millions of euros in additional costs every year.

The situation is exacerbated by the fact that the ECJ ruling and increased public pressure have 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 currently 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

The current plans to regulate over-the-counter or off-exchange trading in derivatives in the USA and Europe in response to the financial crisis are of great significance for Lufthansa and for companies in a wide range of industries. Depending on the way the planned reforms deal with the introduction of a central counterparty for derivatives trading, companies may also be forced to provide greater collateral in the form of deposits of cash or securities, instead of trading the derivatives directly with banks on a bilateral basis as was hitherto the norm. This could adversely affect the liquidity of those companies that hedge their commodities or exchange rate risks. Calls are therefore being made to create exemptions for over-the-counter derivatives trading for companies outside the finance sector. In the USA there are already signs that this particular situation can be solved in the interests of those affected. Groups that only use over-the-counter derivatives to hedge against price fluctuations, in the price of oil for instance, are to be exempt from the clearing obligation. Following a market survey the European Commission is also planning to present a first draft directive on OTC derivatives trading by the middle of 2010. In Germany the previous thoughts on the matter are also under review. In early 2010 more than 160 companies, including Lufthansa, Air France-KLM and Daimler, sent an open letter to the European Commission warning against the inappropriate regulation of the derivatives market.

Overview of the course of business

Business performance of the Lufthansa Group affected by the consequences of the economic crisis

For the Lufthansa Group the financial year 2009 was clearly defined by the consequences of the global economic crisis. Various exogenous factors such as fluctuations in the oil price, structural shifts in booking patterns and tough competition, increasingly from no-frills airlines, in European traffic in particular, had an adverse impact on the course of business. Weak demand persisted over the entire year, which meant that the business segments in the Group had to constantly review their capacities and cost structures and adjust them to the market.

The Passenger Airlines Group segment was able to absorb some of the fall in demand thanks to its diversification, broad range of customer segments, the fact that it is not dependent on individual traffic regions, and also its timely capacity adjustment. Logistics reported sharp falls in demand back in late 2008, which persisted into 2009. A slight recovery took place in the fourth quarter, however, thanks to the countermeasures taken, the economic revival in some countries and resurgent operations. The Catering and IT Services segment were hit by weak demand and companies' disinclination to invest. MRO was able to report further growth despite the increasingly challenging environment and even improve its result. All business segments took action to optimise costs and increase efficiency, depending on the extent to which they were affected by the recession.

Current forecasts assume that the economic slump has now passed its worst. Many of the challenges remain nevertheless. The Group will therefore continue to monitor market developments closely, make use of its flexibility and respond to any changes with further steps. This should bring about a return to reasonable profitability and value creation in the medium term.

Significant events

Lufthansa took actively part in the consolidation process

After competition clearance was given by the European Commission, Lufthansa completed the purchase of 45 per cent of SN Airholding SA/NV, the parent company of Brussels Airlines, for EUR 65m in June 2009. From 2011, after Brussels Airlines' air traffic rights have been secured, Lufthansa will be able to exercise its option to purchase the remaining 55 per cent and thereby complete the full takeover of Brussels Airlines. The company has been consolidated using the equity method since 30 June 2009.

After shareholders had accepted the public takeover bid for Austrian Airlines at a price of EUR 4.49 per share, all the conditions precedent had been met, and the merger and the restructuring aid of EUR 500m had been approved, Lufthansa, Austrian Airlines and Österreichische Industrieholding AG (ÖIAG) completed the takeover of Austrian Airlines by Lufthansa. This gives Lufthansa 49.8 per cent of the voting shares in Austrian Airlines; the remaining 50.2 per cent are held indirectly by ÖLP Österreichische Luftverkehrs-Privatstiftung, but Lufthansa is the beneficial owner. This means that since September 2009 Austrian Airlines has been part of the Lufthansa Group and has been fully consolidated since then. At an extraordinary shareholders' meeting of Austrian Airlines held in December 2009 a vote was taken to squeeze out the remaining minority shareholders. The procedure was executed in February 2010.

After reaching an out-of-court settlement on the agreed put option for bmi with Sir Michael Bishop, the previous majority shareholder of British Midland Ltd. in June, the British Lufthansa subsidiary LHBD Holding Limited (Lufthansa stake: 35 per cent) acquired 50 per cent plus one share of bmi for a purchase price of GBP 48m. In early October LHBD reached an agreement with SAS Group on the purchase of its 20 per cent stake for a purchase price of around GBP 19m, which was completed on 1 November. The agreement provides for SAS to share in any profit earned in the event of a subsequent sale, providing certain conditions are met. British Midland has been fully consolidated since 1 July 2009, as Lufthansa exercises economic control via the company LHBD.

The rating agencies adjusted their estimates for Lufthansa at the end of August 2009 in the face of the weaker operating environment and the effects of the acquisitions on the Group's financial profile. Standard & Poor's downgraded its rating by one notch to BBB– (outlook: negative). Moody's also downgraded Lufthansa by one tick to Ba1 (outlook: stable). Lufthansa continues to have one investment grade rating, and is one of just four airlines worldwide that can make this claim.

Group of consolidated companies extended due to acquisitions

There have been significant changes in the group of consolidated companies compared with the previous year. British Midland Airways and its holding company British Midland Ltd. were included in the consolidated financial statements of Deutsche Lufthansa AG for the first time as of 1 July 2009, and Austrian Airlines AG and its subsidiaries as of 3 September 2009. The table from p. 153 shows the other companies which have joined or left the group of consolidated companies compared with year-end 2008. The changes to the group of consolidated companies had significant effects on the consolidated balance sheet and income statement. These are presented in the relevant comments and in the tables on p. 155.

Overall assessment and effects of the economic crisis

In the opinion of the Executive Board, the Lufthansa Group tackled the challenges of 2009 successfully and achieved an impressive result in comparison with the rest of the sector. This is thanks both to the flexibility of the business segments, which implemented wide-ranging steps to safeguard earnings and rein in costs swiftly, and to the commitment of the Lufthansa team and its experience in the area of crisis management.

Nevertheless, the effects of the global economic crisis on the Group were substantial. We did manage to earn an operating profit even under these difficult circumstances, which once again sets Lufthansa apart from its competitors. However, it fell far short of the level required to earn a return on capital and create value. Cash value added in 2009 was clearly negative at EUR –858m. The adverse market trends and recently consolidated companies have also left their mark on our financial profile. The capital structure remains stable, but the equity ratio sank to 23.5 per cent and net indebtedness rose to nearly EUR 2.2bn. The downgrade of one of the ratings in September 2009 reflects this deterioration in our financial profile. Despite this, the rating agencies remain convinced of the strength of the Lufthansa Group's strategic orientation.

Standards applied

The consolidated financial statements for 2009 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 Para. 1 of the German Commercial Code (HGB) have also been applied. All mandatory standards and interpretations for the 2009 financial year were respected.

Changes in reporting requirements have primarily arisen from IFRS 8 Operating Segments and IFRIC 13 Customer Loyalty Programmes, which have been binding since 1 January 2009. To facilitate comparison, the figures presented in this report have been calculated as if the amended standards had already been applied last year. Further information can be found in the Notes to the consolidated financial statements from p. 150.

Earnings position

↗ The global financial and economic crisis weighed on the result for the Lufthansa Group. ↗ Operating income fell by 7.2 per cent to EUR 25.0bn as a result of lower traffic revenue. ↗ Operating expenses were cut by 3.6 per cent. ↗ Despite the crisis Lufthansa can report an operating profit of EUR 130m. ↗ The Group reported a net loss for the period of EUR –112m.

Revenue and income

Revenue and income

	2009 in €m	2008 in €m	Change in %	Adjusted for changes in the group of consolidated companies in %
Traffic revenue	17,604	19,970	–11.8	–17.5
Other revenue	4,679	4,872	–4.0	–4.5
Total revenue	**22,283**	**24,842**	**–10.3**	**–15.0**
Changes in inventories and work performed by the entity and capitalised	225	178	26.4	26.4
Other operating income	2,531	1,969	28.5	26.4
Total operating income	**25,039**	**26,989**	**–7.2**	**–11.7**

Operating income for the Lufthansa Group fell by EUR 2.0bn to EUR 25.0bn (–7.2 per cent) in the expired year as a result of the weaker course of business. Without the initial consolidation of the new companies Austrian Airlines and British Midland, operating income would have dropped by 11.7 per cent. This decline stems primarily from the fall in traffic revenue. Other revenue fell slightly, while other operating income went up sharply.

Traffic revenue down by 11.8 per cent

Traffic revenue for the Group fell sharply by 11.8 per cent to EUR 17.6bn (adjusted for consolidation changes: –17.5 per cent). The loss in revenue stemmed from pricing changes (–14.5 per cent) and lower volumes (–3.8 per cent). Exchange rate effects and changes in the group of consolidated companies increased traffic revenue by 0.8 per cent and 5.7 per cent respectively.

The Passenger Airline Group business segment accounts for the largest share at 87.7 per cent. It reported a total of around EUR 15.4bn, a fall of 8.3 per cent on the previous year. Pricing and volumes accounted for 12.9 per cent and 2.5 per cent of lost revenue respectively, while exchange rate effects and the expansion of the group of consolidated companies had a positive impact on traffic revenue of 0.8 per cent and 6.4 per cent respectively.

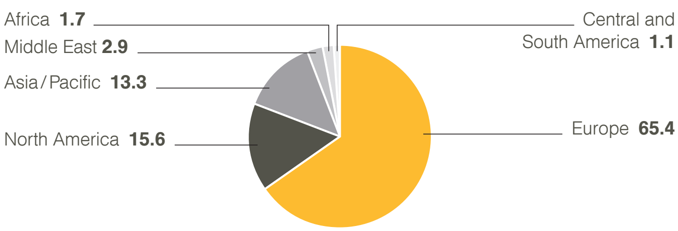
Traffic figures of the Lufthansa Group's airlines*

		2009	2008	Change in %
Passengers carried	thousands	76,543	70,543	8.5
Available seat-kilometres	millions	206,269	195,431	5.5
Revenue seat-kilometres	millions	160,647	154,155	4.2
Passenger seat	%	77.9	78.9	–1.0 pts
Freight/mail	thousand tonnes	1,712	1,915	–10.6
Available cargo tonne-kilometres	millions	14,426	15,141	–4.7
Revenue cargo tonne-kilometres	millions	8,704	9,510	–8.5
Cargo load factor	%	60.3	62.8	–2.5 pts
Total available tonne-kilometres	millions	35,264	34,960	0.9
Total revenue tonne-kilometres	millions	24,786	24,972	–0.7
Overall load factor	%	70.3	71.4	–1.1 pts
Flights	number	893,235	830,832	7.5

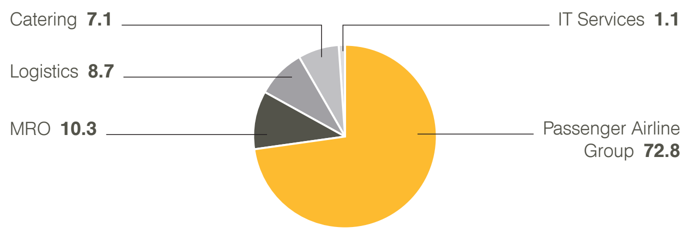
* Lufthansa Group without Germanwings.

The Logistics segment reported an even sharper fall in traffic revenue of 33.4 per cent to EUR 1.8bn. Lower volumes accounted for 10.4 per cent of the shortfall and lower prices for 23.6 per cent. Currency effects, by contrast, lifted traffic revenue by 0.6 per cent. Overall, the Group's traffic revenue now makes up 79.0 per cent of its total revenue (previous year: 80.4 per cent).

Traffic revenue Group in %



External revenue share of the business segments in %



Other revenue only marginally lower

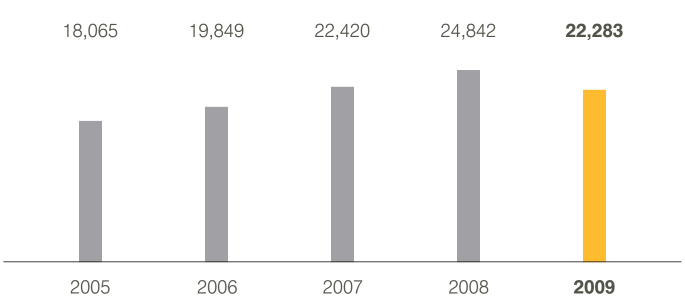
Other revenue is primarily generated in the MRO, Catering and IT Services segments, and to a lesser extent in the Passenger Airline Group and Logistics as well. It came to EUR 4.7bn, or 4.0 per cent below the figure for last year.

While the MRO segment was able to increase other revenue to EUR 2.3bn (+3.7 per cent), Catering reported a drop of 9.9 per cent to EUR 1.6bn, largely due to lower volumes. In the IT Services segment revenue also sank by 12.5 per cent to EUR 244m due to lower prices and volumes.

Revenue increasingly derived from Passenger Airline Group

The Group's external revenue declined in total by 10.3 per cent to EUR 22.3bn. The Passenger Airline Group's share of total revenue went up to 72.8 per cent (+1.6 percentage points), exclusively due to changes in the group of consolidated companies. While the Logistics segment lost revenue share, falling by 2.9 percentage points to 8.7 per cent, the MRO segment increased its share by 1.4 percentage points to 10.3 per cent. The contributions of the remaining business segments, IT Services and Catering, remained unchanged at 1.1 per cent and 7.1 per cent respectively.

Development of revenue in €m



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. 200. The regional distribution of traffic revenue by traffic region for the segments Passenger Airline Group and Logistics is described in the chapters on the respective business segments from p. 80 and p. 91 onwards.

Other operating income affected by non-recurring factors

Other operating income went up by 28.5 per cent to EUR 2.5bn. Currency gains on the translation of receivables and liabilities in foreign currencies and realised exchange rate hedges increased by EUR 150m. Income from write-backs of provisions rose to EUR 187m (previous year: EUR 157m). Book gains totalling EUR 51m (previous year EUR 36m) were recorded on the disposal of aircraft and reserve engines (EUR 19m), and in particular from the profit on the sale of the remaining Condor shares in the first quarter of 2009 (EUR 18m).

Negative goodwill of EUR 86m from the first-time consolidation of AUA was recognised immediately in profit and loss in accordance with IFRS. Other income of EUR 132m came from compensation received for damages. A total of EUR 101m stemmed from insurance compensation received for damages in the Catering segment in Scandinavia, an indemnity for the cancellation of the internet system FlyNet in 2007 and income from the sales of claims for damages in connection with the insolvency of Lehman Brothers.

In addition, the change in the group of consolidated companies led to an increase of EUR 45m in other operating income.

Other items did not vary significantly compared with the previous year. The Notes to the consolidated financial statements "Note 6" on p. 164, contains a detailed list of other operating income.

Expenses

Operating expenses, including the effects of expanding the group of consolidated companies, fell by 3.6 per cent. Adjusted for these effects the decline would have amounted to 8.6 per cent. The effects of consolidation are visible in all items of operating expenses, particularly in the cost of materials and services and staff costs.

Lower fuel expenses drive down the cost of materials and services

The cost of materials and services fell by 7.7 per cent to EUR 12.7bn in the financial year 2009 (adjusted for consolidation changes: –13.4 per cent). This was decisively due to lower fuel expenses. The enormous fall of 32.2 per cent to EUR 3.6bn accounts for 35.8 per cent of the decline (including fuel hedging) and lower volumes account for 6.1 per cent. The higher US dollar exchange rate and the change in the group of consolidated companies had the opposite effect, increasing expenses by 5.7 per cent and 4.0 per cent respectively.

Price hedging in 2009 added an extra EUR 141m to fuel costs in the reporting year. Taking this effect into account, Lufthansa benefited from 93.2 per cent of the fall in fuel prices in 2009. Other raw materials, consumables and supplies only dropped slightly by 0.5 per cent to EUR 2.4bn. Adjusted for changes in the group of consolidated companies they sank by 1.8 per cent. Fees and charges rose due to the consolidation changes by 7.5 per cent to EUR 3.8bn and now constitute the largest item within the cost of materials and services. Adjusted for the consolidation effects, fees and charges would have fallen by 2.3 per cent, in particular due to lower handling charges (–7.9 per cent).

Within other purchased services (–17.4 per cent to EUR 2.9bn), the main increase came from external MRO services, which were up 16.6 per cent due to volumes and exchange rates (adjusted for consolidation changes). The increase, also adjusted for consolidation changes, in charter expenses (+12.2 per cent) results partly from costs in connection with the planned retirement of the 50-seater fleet by the end of 2010. The changes in the group of consolidated companies drove up other purchased services by a total of 8.3 per cent.

Staff costs up by 5.3 per cent due to consolidation changes

Staff costs rose by 5.3 per cent to EUR 6.0bn. The Group had an average of 112,320 employees over the course of the year, 3.9 per cent more than the previous year. Adjusted for consolidation changes, staff costs went up by 0.2 per cent for a reduction in staff numbers of 2.6 per cent. This is largely the result of wage settlements agreed the previous year and increased contributions to the pension insurance scheme.

Depreciation and amortisation up by 14.4 per cent

Depreciation, amortisation and impairment came to EUR 1.5bn in the financial year (+14.4 per cent). Depreciation of aircraft, mainly new purchases from 2008 and 2009, and consolidation changes accounted for EUR 90m of the increase. Impairment losses totalling EUR 80m were incurred on six Airbus A300-600s, 24 Canadair Regional Jet 200s and three ATR 42-500s. Some of these aircraft have already been retired, others are to be successively decommissioned or sold by the end of 2010 within the scope of the current corporate plans.

Expenses

	2009 in €m	2008 in €m	Change in %	Percentage of operating expenses in %	Adjusted for changes in the group of consolidated companies in %
Cost of materials and services	12,700	13,753	–7.7	51.3	–13.4
of which fuel	3,645	5,377	–32.2	14.7	–36.2
of which fees and charges	3,762	3,499	7.5	15.2	–2.3
of which operating lease	338	280	20.7	1.4	5.7
Staff costs	5,996	5,692	5.3	24.2	0.2
Depreciation	1,475	1,289	14.4	6.0	8.1
Other operating expenses	4,597	4,946	–7.1	18.6	–9.8
of which sales commissions paid to agencies	447	614	–27.2	1.8	–31.9
of which indirect staff costs and external staff	777	820	–5.2	3.1	–7.8
of which rental and maintenance expenses	717	717	0.0	2.9	–4.0
Total operating expenses	**24,768**	**25,680**	**–3.6**	**100.0**	**–8.6**

Other operating expenses down by 7.1 per cent

Other operating expenses fell by 7.1 per cent; adjusted for consolidation changes the decline came to 9.8 per cent. The decline was mainly due to lower agency commissions (EUR –167m) and indirect staff costs (EUR –43m), as well as to lower exchange rate losses on foreign currency receivables and liabilities and realised exchange rate hedges (EUR –144m). Losses on current financial investments were also lower at EUR 27m (previous year: EUR 105m). Extending the group of consolidated companies increased other operating expenses by 2.7 per cent.

Earnings development

The operating performance indicators reflected both the business segments' lost revenue and the measures taken to deal with it. They were well down on the previous year, but still showed an operating profit, even in the crisis year 2009. The profit from operating activities came to EUR 271m (–79.3 per cent). Adjusted for non-recurring factors the operating result fell to EUR 130m (previous year: EUR 1.3bn). The adjusted operating margin declined by 4.4 percentage points to 1.4 per cent.

Operating result positive at EUR 130m

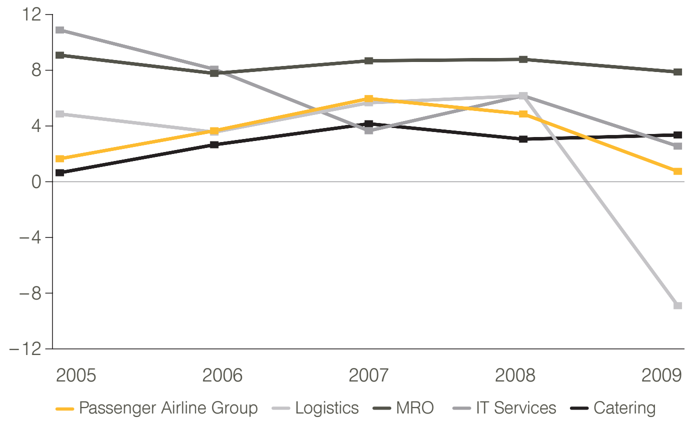
As in prior years, the result from operating activities was adjusted for net book gains, reversals of provisions, impairment losses, results of financial investments and the period-end valuation of financial liabilities. This enables a better comparison of financial performance with other financial years. Adjustments are shown in the table on p. 63. In 2009 net income of EUR 141m (previous year: EUR 29m) was eliminated in this way.

This adjustment resulted in an operating profit of EUR 130m. The adjusted operating margin, calculated by adding write-backs of provisions, was 1.4 per cent (previous year: 5.8 per cent).

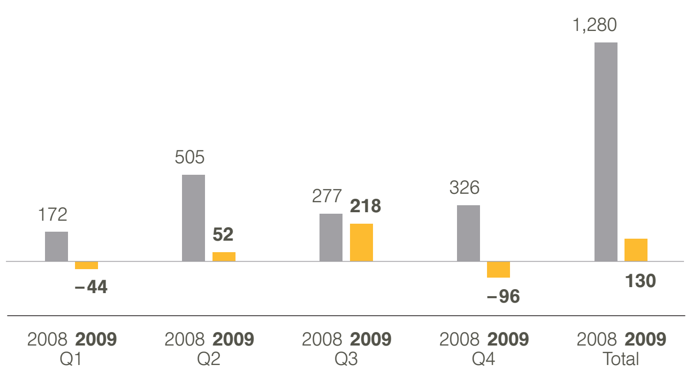
The contribution of the individual business segments to the operating result varied enormously. The sharp fall in earnings in the business segments Passenger Airline Group and Logistics was one important aspect. Although the Passenger Airline Group only just missed break-even at EUR –8m, after a strong previous year (EUR 789m), Logistics followed the previous year's profit of EUR 164m with an operating loss of EUR 171m. By contrast the MRO and Catering segments were able to increase their operating results to EUR 316m (+5.7 per cent) and EUR 72m (+2.9 per cent) respectively. IT Services generated an operating profit of EUR 16m (–60.0 per cent year on 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 134m.

The seasonal variation in earnings at Lufthansa was considerable. The individual business segments in the Group also have their own variations and ranges of fluctuation. Overall, this had a stabilising effect on the Group's operating result. Despite the extremely difficult market environment, Lufthansa was therefore able to report a positive consolidated operating result for the financial year 2009, in contrast to many of its competitors.

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



Development of operating result by quarter in €m



Financial result slightly improved again

The financial result improved by EUR 79m to EUR –500m. The result from equity investments went up, largely due to the negative equity result from bmi in the previous year, by EUR 38m to EUR 58m. Net interest fell to EUR –325m (previous year: EUR –172m). This was principally due to higher interest on pension provisions and interest expenses on financial liabilities incurred in 2009. Expenses resulting from other financial items fell by EUR 194m to EUR 233m. This includes a write-down on the Fraport shares of EUR 140m that was to be recognised in the first quarter 2009 and negative changes in the value of hedging instruments considered as trading transactions under IAS 39 (EUR –75m). In the previous year miscellaneous financial items included a write-down of EUR 113m on the JetBlue shares and costs of EUR 193m for risks from existing obligations to acquire shares.

Earnings before taxes and interest (EBIT) came to EUR 96m. This included profit from operating activities, the result from equity investments and miscellaneous financial items. This was 89.4 per cent above the figure for the previous year.

Adding depreciation and amortisation results in EBITDA of EUR 1.7bn (25.7 per cent lower than the previous year).

Reconciliation of results

in €m	2009 Income statement	2009 Reconciliation with operating result	2008 Income statement	2008 Reconciliation with operating result
Total revenue	**22,283**	**–**	**24,842**	**–**
Changes in inventories	225	–	178	–
Other operating income	2,531	–	1,969	
of which book gains and current financial investments	–	–83	–	–39
of which income from reversal of provisions	–	–187	–	–157
of which write-ups on capital assets	–	–14	–	–6
of which period-end valuation of non-current financial liabilities	–	0*	–	–15
Total operating income	**25,039**	**–284**	**26,989**	**–217**
Cost of materials and services	–12,700	–	–13,753	–
Staff costs	–5,996	–	–5,692	–
of which past service cost	–	–6	–	–10
Depreciation, amortisaton and impairment	–1,475	–	–1,289	
of which impairment losses	–	88	–	15
Other operating expenses	–4,597	–	–4,946	
of which impairment losses on assets held for sale – non-operating	–	4	–	–
of which expenses incurred from book losses and current financial investments	–	51	–	116
of which period-end valuation of non-current financial liabilities	–	6	–	67
Total operating expenses	**–24,768**	**143**	**–25,680**	**188**
Profit/loss from operating activities	**271**	**–**	**1,309**	**–**
Total from reconciliation with operating result	–	–141	–	–29
Operating result	**–**	**130**	**–**	**1,280**
Result from equity investments	58	–	20	–
Other financial items	–233	–	–427	–
EBIT	**96**	**–**	**902**	**–**
Write-downs (included in profit from operating activities)	1,479	–	1,289	–
Write-downs on financial investments (incl. at equity)	168	–	156	–
EBITDA	**1,743**	**–**	**2,347**	**–**

* Rounded below EUR 1m.

Net loss for the period

The total of profit from operating activities and financial result gave a net loss before income taxes of EUR –229m, which was EUR 959m below the previous year's figure. Income taxes improved the result by EUR 129m, principally because of the negative result before income taxes and the tax effects of negative option values in connection with the investment in bmi recognised in previous years. In the previous year income taxes accounted for expenses of EUR 178m. Net loss after income taxes came to EUR –100m (previous year: EUR 552m). Deducting net profit attributable to minority interests of EUR 12m (previous year: EUR 10m) resulted in a net loss for the period attributable to shareholders of Deutsche Lufthansa AG of EUR –112m (previous year: net profit of EUR 542m).

Profit breakdown of the Lufthansa Group

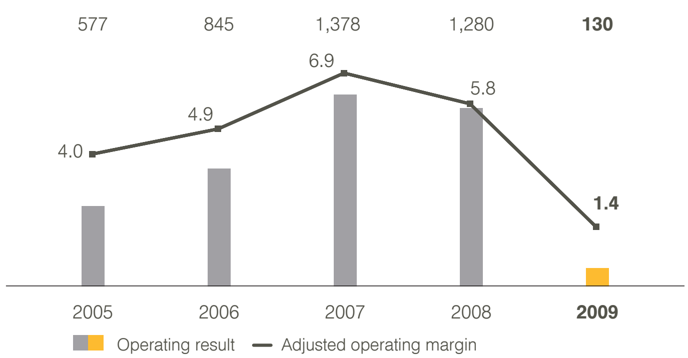
	2009 in €m	2008 in €m	Change in %
Operating income	25,039	26,989	–7.2
Operating expenses	–24,768	–25,680	–3.6
Profit from operating activities	**271**	**1,309**	**–79.3**
Financial result	–500	–579	13.6
Profit/loss before income taxes	**–229**	**730**	
Income taxes	129	–178	
Profit/loss attributable to minority interests	–12	–10	–20.0
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG	**–112**	**542**	

Earnings per share amount to EUR –0.24 (previous year: EUR 1.18). Diluted earnings, also of EUR –0.24 reflect the potential conversion of the remaining EUR 50m from the convertible bond issued in 2002.

Long-term overview of earnings

Lufthansa managed to remain on course in 2009. This course is set for sustainable, profitable growth. Along the way, the Lufthansa crane has to deal with a volatile environment with cyclical fluctuations and exposure to external factors. At times of economic difficulty – such as the crisis year 2009 – the priority is to stabilise earnings. We have been able to do this, generating an operating profit despite sharp falls in revenue and the burden of the newly consolidated companies. This also places us ahead of the competition in this environment. In phases of economic expansion we can build from this base and gain a considerable share of the upswing. We then intend to resume the successful pattern of recent years, in which we increased our operating profit continually.

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



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. 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 loss for the 2009 financial year of EUR 148m. Retained earnings of an appropriate sum were transferred to achieve a net result of zero, so that no distributable profit from which to pay a dividend was reported.

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

	2009 in €m	2008 in €m	Change in %
Total revenue	**12,199**	**14,444**	**–15.5**
Other operating income	1,854	1,440	28.8
Operating income before reversal of special items	14,053	15,884	–11.5
Operating expenses before addition to special items	14,457	16,105	–10.2
Profit/loss from operating activities before net changes in special items	**–404**	**–221**	**–82.8**
Financial result	298	618	–51.8
Profit/loss from ordinary activities	**–106**	**397**	**126.7**
Other taxes	–42	–38	–10.5
Profit/loss before income taxes	**–148**	**359**	**141.2**
Income taxes	0	–83	100.0
Net profit/loss for the year	**–148**	**276**	**153.6**
Transfers from retained earnings	148	44	236.4
Net result	**0**	**320**	**–100.0**

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

	2009 in €m	2008 in €m	Change in %
Assets			
Intangible assets	138	34	305.9
Aircraft	3,828	3,551	7.8
Property, plant and other equipment	110	108	1.9
Financial investments	11,128	10,709	3.9
Non-current assets	**15,204**	**14,402**	**5.6**
Inventories	24	23	4.3
Receivables and other assets	2,007	2,079	–3.5
Liquid funds and securities	1,922	644	198.4
Current assets	**3,953**	**2,746**	**44.0**
Balance sheet total	**19,157**	**17,148**	**11.7**
Shareholders' equity and liabilities			
Issued capital	1,172	1,172	0.0
Capital reserve	857	857	0.0
Retained earnings	1,318	1,466	–10.1
Net result	0	320	–100.0
Shareholders' equity	**3,347**	**3,815**	**–12.3**
Pension provisions	4,853	4,560	6.4
Non-current liabilities			
Time to maturity > 5 years	1,786	1,107	61.4
Time to maturity 1 to 5 years	2,901	1,497	93.7
Non-current capital	**12,887**	**10,979**	**17.4**
Provisions for flight documents and Miles & More	1,967	2,118	–7.1
Other provisions and deferred income	2,111	2,420	–12.8
Other liabilities	2,192	1,631	34.4
Current capital	**6,270**	**6,169**	**1.6**
Balance sheet total	**19,157**	**17,148**	**11.7**

Assets and financial position

↗ In the crisis year 2009 Lufthansa's capital expenditure rose by 11.7 per cent. ↗ Despite this, free cash flow of EUR 251m was generated. ↗ The balance sheet structure and figures have changed considerably, above all due to the acquisitions. ↗ The fleet is at the heart of our value creation process. ↗ The Lufthansa Group raised EUR 2.6bn in debt in 2009 by various means.

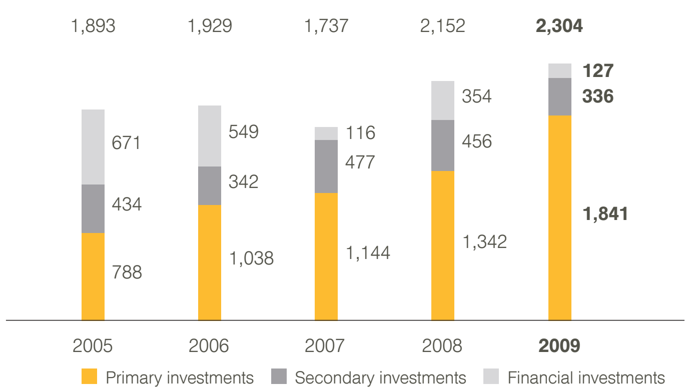
Capital expenditure

Investments ensure that the Group is ready for the future
Despite extensive crisis management being in place, Lufthansa has been careful to preserve and actively shape its prospects for the future. Planned capital expenditure has been reviewed to see that it is necessary and – wherever possible and appropriate – reduced to a minimum. The extensive fleet modernisation programme was nevertheless continued in 2009 and will further improve the cost base thanks to fuel-efficient aircraft. This took total capital expenditure for the Lufthansa Group up to EUR 2.4bn, 11.7 per cent more than the year before. This includes primary investment, i. e. down payments and final payments for aircraft and aircraft overhauls, equipment and reserve engines, of EUR 1.8bn (previous year: EUR 1.3bn).

Capital expenditure for other items of property, plant and equipment and for intangible assets, known collectively as secondary investment, was reduced by 26.3 per cent to EUR 336m. Property, plant and equipment, such as the new training centre in Seeheim, new catering capacities in Frankfurt, flight simulators, fixtures and fittings, accounted for EUR 261m (previous year: EUR 372m). EUR 75m (previous year: EUR 84m) was invested in intangible assets such as licences and goodwill.

A total of EUR 127m (previous year: EUR 354m) was spent on financial investments. In addition to capital contributions for equity investments and other lending, these primarily included EUR 65m for the purchase of 45 per cent of the shares in SN Airholding, as well as EUR 13m to buy additional JetBlue shares as part of a capital increase.

Primary, secondary and financial investments in €m*



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

The Passenger Airline Group accounted for the largest share of capital expenditure at EUR 1.9bn (EUR +505m). Expenditure was primarily on new aircraft and down payments for aircraft. Capital expenditure in 2009 related to five Airbus A340s, five Airbus A330s, 14 Airbus A321s, ten Airbus A320s, five Airbus A319s, nine Canadair Regional Jet 900s, 14 Embraer 195s, one Embraer 190, one Bombardier Q-Series and five Cessna Citations.

Compared to this, the Logistics segment again had hardly any capital expenditure at EUR 25m (previous year: EUR 22m). This was mainly destined for capital contributions to equity investments and other lending.

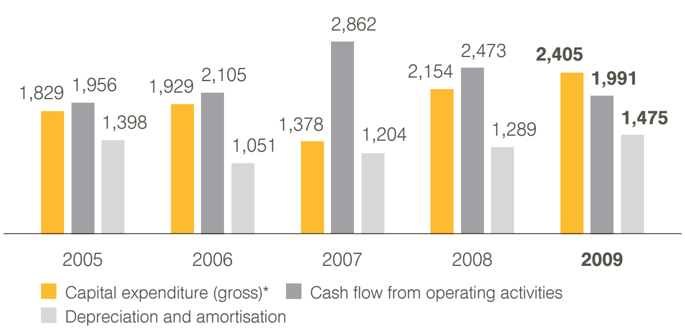
Investment in the MRO segment remained stable compared with the previous year at EUR 121m. This covered, among other things, the purchase of engines, the construction of the new engine overhaul centre in Hamburg, and capital contributions to equity investments. Capital expenditure in the business segment IT Services was lowered to EUR 52m (previous year: EUR 58m) and served principally to safeguard existing business. The Catering segment cut its investment by 50 per cent in 2009 to EUR 58m. The funds were mainly used for building new or extending existing production facilities.

Cash flow

EUR 2.0bn generated in cash flow from operating activities

The Lufthansa Group's cash flow from operating activities came to EUR 2.0bn in the reporting year, or 19.5 per cent below the previous year's figure. This decline was largely due to lower profit from operating activities and a negative change (EUR –77m) in working capital compared with the previous year. In contrast, an increase of EUR 270m in depreciation and amortisation and a change in income tax payments (EUR +171m) had a positive effect on cash flow from operating activities.

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

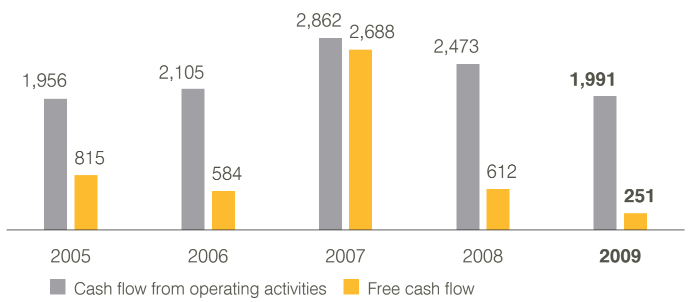


* Capital expenditure shown without pro rata profit/loss from the equity valuation.

Free cash flow positive at EUR 251m

Gross capital expenditure for the Lufthansa Group came to EUR 2.6bn. This includes the primary, secondary and financial investments mentioned above as well as repairable spare parts for aircraft. Asset disposals, including the sale of non-consolidated shareholdings, gave rise to income of EUR 542m. The sale of two borrower's note loans accounted for EUR 274m and the sale of the remaining Condor shares and the repayment of related lending for EUR 77m.

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



Interest and dividend income rose by 10.3 per cent to EUR 288m. Overall, net cash of EUR 1.7bn was used for investment activities (previous year: EUR 1.9bn).

Despite higher capital expenditure and lower cash flow from operating activities, the Group managed to generate a free cash flow in 2009. It came to EUR 251m (previous year: EUR 612m) and was made up of cash flow from operating activities less net capital expenditure. The internal financing ratio, i.e. the proportion of capital expenditure financed by cash flow, came to 82.8 per cent (previous year: 114.8 per cent).

Active on capital markets for financing

A total of EUR 380m was used for further funding of pension obligations in Germany and abroad. In the reporting year we initially waited for capital markets to settle down and contributed only one of two planned tranches to the Lufthansa Pension Trust. We are nevertheless staying with our policy of funding our pension obligations flexibly over the medium term. The purchase of securities for EUR 3.1bn and the sale of securities for EUR 1.3bn resulted in a net cash outflow of EUR 1.8bn (previous year: EUR 643m).

Scheduled repayment of financial liabilities led to cash outflows of EUR 755m. EUR 2.6bn in new funding was raised in the financial year 2009 by means of two bonds, various borrower's note loans and aircraft financings; see details on p. 73. Distributions to shareholders of Deutsche Lufthansa AG and minority interests in other Group companies came to EUR 333m, current interest expense to EUR 281m. This resulted in a net cash inflow from financing activities of EUR 1.3bn (previous year: net cash outflow of EUR 689m).

Liquidity up year on year by 35.4 per cent

Cash and cash equivalents fell by EUR 308m to EUR 1.1bn (previous year: EUR 1.4bn). This includes a reduction of EUR 7m due to exchange rate movements. In total, cash and cash equivalents (including securities in the liquidity reserve) came to EUR 4.4bn, or 35.4 per cent more than the previous year.

Assets

Balance sheet structure and figures affected by changes in group of consolidated companies

The balance sheet structure as of the 2009 financial year-end is marked by the changes in the group of consolidated companies (particularly regarding AUA and bmi). The main effects this has had on the individual balance sheet items are therefore noted in brackets in each case.

The consolidated balance sheet total at the end of the financial year 2009 was EUR 26.4bn, or EUR 4.0bn higher than the figure at year-end 2008 (of which EUR 2.9bn stemmed from changes in the group of consolidated companies). Non-current assets rose by EUR 2.7bn (EUR 2.0bn) and current assets by EUR 1.3bn (EUR 0.9bn).

Within non-current assets the items aircraft and reserve engines went up by EUR 1.7bn (of which EUR 1.2bn due to consolidation changes), to EUR 10.4bn. Changes in the consolidation group accounted for EUR 610m of the EUR 757m increase in intangible assets. Financial investments declined by EUR 80m to EUR 1.7bn. An increase of EUR 110m in equity investments was offset by falls in non-current securities of EUR 160m from the sale of two borrower's note loans and EUR 84m in derivative financial instruments (the latter principally from exchange rate hedges). Otherwise, property, plant and equipment rose by EUR 226m to EUR 2.2bn, primarily due to changes in the group of consolidated companies. Current securities went up by EUR 1.5bn, particularly due to the investment of funds raised. Cash and cash equivalents fell by EUR 308m. Other current assets showed no significant changes. Without the consolidation changes, however, trade receivables would have fallen by EUR 253m year on year, especially due to the reduced level of business.

Abbreviated cash flow statement of the Lufthansa Group

	2009 in €m	2008 in €m	Change in %
Profit/loss before income taxes	−229	730	
Depreciation and amortisation/reversals	1,708	1,438	18.8
Net proceeds on disposal of non-current assets	−27	−25	8.0
Net interest/result from equity investments	267	152	75.7
Income tax payments	48	−123	
Change in working capital	224	301	−25.6
Cash flow from operating activities	**1,991**	**2,473**	**−19.5**
Investments and additions to repairable spare parts	−2,570	−2,256	13.9
Proceeds on the sale of shares/disposal of assets	542	134	304.5
Interest income and dividends paid	288	261	10.3
Net cash used in investing activities	**−1,740**	**−1,861**	**−6.5**
Free cash flow	**251**	**612**	**−59.0**
Purchase/disposal of securities/fund investments	−1,823	−643	183.5
Capital increase	6	–	
Non-current borrowing and repayment of non-current borrowing	1,879	117	
Dividends paid	−333	−580	−42.6
Interest paid	−281	−226	−24.3
Net cash from used in investing activities	**1,271**	**−689**	
Changes due to currency translation differences	−7	85	
Cash and cash equivalents 1.1.	**1,444**	**2,079**	**−30.5**
Cash and cash equivalents 31.12.	**1,136**	**1,444**	**−21.3**

With regard to shareholders' equity and liabilities, the change in the measurement of miles awarded under bonus programmes but not yet used, in accordance with IFRIC 13, meant that the corresponding obligations rose to EUR 1.5bn as of 1 January 2009 as compared with EUR 1.0bn at 31 December 2008. At the same time, deferred tax liabilities declined by EUR 103m and equity by EUR 325m to EUR 6.6bn. This adjustment caused the equity ratio to fall from 30.9 per cent to 29.4 per cent as of 1 January 2009. At the end of financial year 2009, shareholders' equity (including minority interests) dropped by EUR 392m compared with the adjusted figure as of 1 January 2009. The decline results primarily from the negative after-tax result of EUR – 112m and the dividend payments to shareholders of Deutsche Lufthansa AG and minority interests of EUR 333m. At the end of the reporting period the equity ratio came to 23.5 per cent and was therefore below the medium-term target of 30.0 per cent.

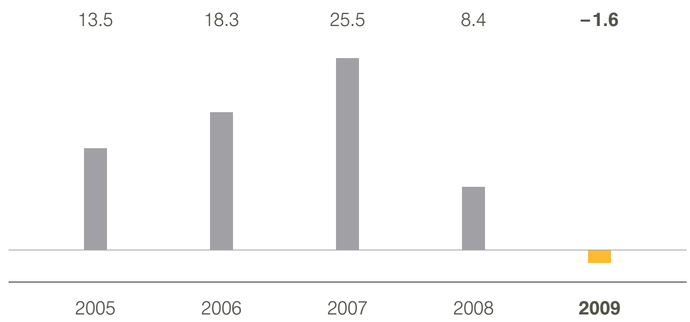
Development of earnings, equity and equity ratio

		2009	2008	2007	2006	2005
Result*	€m	– 100	552	1,760	897	612
Equity*	€m	6,202	6,594	6,900	4,903	4,522
Equity ratio*	%	23.5	29.4	30.9	25.2	23.5

* Incl. minority interests.

Non-current liabilities and provisions rose by EUR 3.7bn to EUR 11.4bn in the reporting period (of which EUR 1.7bn due to consolidation changes). Current debt went up by EUR 717m (EUR 1.3bn) to EUR 8.8bn. The increase in non-current obligations is principally due to a rise of EUR 2.9bn (EUR 868m) in financial liabilities. The newly issued bonds and borrower's note loans were largely responsible for the increase. Pension provisions also went up in the financial year 2009 by EUR 310m (adjusted for con-

Return on equity in %

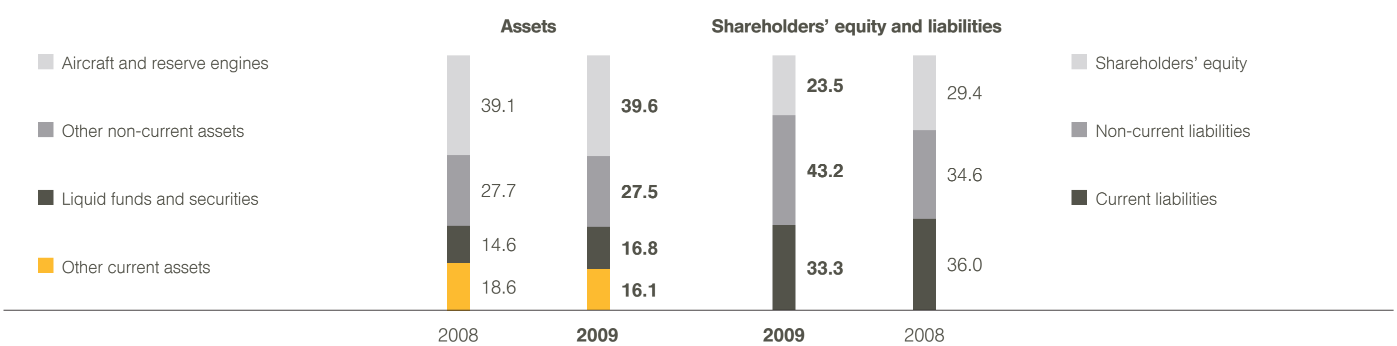


solidation: EUR + 392m) and non-current provisions were up by EUR 329m (EUR + 319m). The negative market values of derivative financial instruments (largely from exchange rate hedging) climbed by EUR 107m.

Debt in the area of current financial liabilities and provisions rose by EUR 273m, other provisions by EUR 275m. Trade payables and other financial liabilities, liabilities from unused flight documents as well as advance payments and other non-financial liabilities went up by a total of EUR 509m. The increase in these items is primarily the result of changes in the group of consolidated companies. Adjusted for the consolidation changes, trade payables would have fallen by EUR 169m as business was weaker than in the previous year.

The drop in current derivative financial instruments of EUR 386m stems primarily from the use of the negative market value of EUR 312m recognised the previous year for a put option granted in connection with the purchase of an equity investment.

Balance sheet structure in %



The non-current proportion of the balance sheet total, consisting of shareholders' equity and long-term liabilities, is now 66.7 per cent (previous year: 64.0 per cent). Non-current financing now covers 99.5 per cent of non-current assets (previous year: 95.8 per cent).

The consolidation of the new companies and the poor economic environment have taken their toll on Lufthansa's financial profile. The Group's net indebtedness went up to EUR 2.2bn at the end of the reporting year 2009, compared with the net liquidity of EUR 125m shown at the end of 2008. Net indebtedness is the balance of gross financial debt and available financial assets plus non-current securities that can be liquidated at short notice.

Calculating net indebtedness

	2009 in €m	2008 in €m	Change in %
Liabilities to banks	1,909	628	204.0
Bonds	2,264	610	271.1
Other non-current borrowing	2,629	2,343	12.2
	6,802	**3,581**	**89.9**
Other bank borrowing	58	58	0
Group indebtedness	**6,860**	**3,639**	**88.5**
Cash and cash equivalents	1,136	1,444	−21.3
Securities	3,303	1,834	80.1
Non-current securities (liquidity reserve)	226	486	−53.5
Net indebtedness	**2,195**	**−125**	
Pension provisions	2,710	2,400	12.9
Net indebtedness and pensions	**4,905**	**2,275**	**115.6**
Gearing in %	**79.1**	**34.5**	**+44.6 pts**

Gearing rose to 79.1 per cent (previous year: 34.5 per cent) and was therefore outside 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 is shown from p. 222.

Fleet

Group fleet modernised and expanded in line with demand
The Group's fleet is a core operating resource and the largest asset in the consolidated balance sheet. It stands at the centre of the value creation process. The fleet includes aircraft from different manufacturers, principally Boeing and Airbus. The Canadian manufacturer Bombardier and Embraer from Brazil are also represented with larger numbers of aircraft that are deployed mainly in the Lufthansa regional companies.

Fleet orders

	Deliveries
Long-haul fleet	
15 Airbus A380	2010 to 2015
20 Boeing 747-8i	2011 to 2015
7 Airbus A330	2010 to 2011 (SWISS)
Short-haul fleet	
41 Airbus A320 family	2010 to 2015
4 Airbus A320 family	2010 (Germanwings)
2 Airbus A320 family	2011 to 2012 (SWISS)
3 Airbus A320 family	2012 (bmi)
Regional fleet	
30 Bombardier C-Series	2014 to 2016 (SWISS)
15 Embraer EMB190 family	2010 to 2011
6 Bombardier CRJ900	2010
3 Bombardier DH8-Q400	2010 (Austrian Airlines)

Expanding the fleet and continuously modernising the existing contingent are vital activities for our future competitiveness. We can adjust the proportion of capital expenditure devoted to growth or replacement at all times, which gives us an appropriate means of responding to fluctuations in demand. This flexibility stems from our ordering and fleet policies: deliveries of new orders are staggered. Besides this, most of the existing aircraft are financially unencumbered. A decision was therefore taken as part of Climb 2011 to expedite withdrawal from the 50-seater segment and adjust the delivery timetable for all our order commitments. We have nevertheless maintained the orders themselves. This ongoing investment improves the efficiency and the environmental friendliness of the fleet – especially regarding fuel consumption and noise emissions. The number and size of the new aircraft is determined strictly by expected traffic volumes. In 2009, for example, the only capital expenditure was for replacing planes and modernising the fleet, while the order programme through to 2016 also reflects the growth potential as in line with the expected medium-term development in demand for our industry. The particular structure of our fleet enables us to select models with the most appropriate seating capacities and ranges for serving short, medium and long-haul routes. It also allows us to deploy aircraft flexibly across the Group's different airlines. The Group as a whole therefore has the flexibility to dimension capacity to meet requirements and to respond to demand in individual markets. The flagship and backbone of the long-haul fleet for connections with high passenger numbers will be the Airbus A380. It offers significant unit cost benefits and the first aircraft of this type is due to be deployed from the middle of the year. At the same time, the existing long-haul fleet is being modernised thanks to the purchase of the Boeing 747-8is, creating capacity for medium-term growth in intercontinental traffic. The renewal of the Airbus A330 fleet at SWISS that was begun in the reporting year 2009 will support its continued profitable growth.

The development and modernisation of the intercontinental fleet is accompanied by capital expenditure on the short-haul routes. This modern fleet enables Lufthansa to maintain its status as a quality carrier throughout the entire journey and also brings economic benefits at the same time. Since 2007 we have been successively replacing the existing European fleet with new Airbus planes from the A320 family. By the end of 2009, 19 out of a total of 60 aircraft ordered were already in service. SWISS also continued to modernise its fleet. Following approval by the Supervisory Board in March 2009 for the purchase of 30 C-Series short-haul aircraft from Bombardier, the new planes will be replacing the Avro RJ100s here from 2014 onwards. In addition, the first 15 out of a total of 30 Embraer aircraft to be delivered to the Lufthansa Group by the end of 2011 are now in service with regional partners. Austrian Airlines and bmi are each to take delivery of three aircraft by 2012 in order to modernise their short-haul fleets. Germanwings is continuing to expand its Airbus A319 fleet in 2010.

Group fleet – Number of commercial aircraft and fleet orders
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 31.12.2009

Manufacturer/type	LH	LX	OS	bmi	4U	CLH	EN	EW	LCAG	**Group fleet**	of which finance lease	of which operating lease	Change compared with 31.12.08[5]	Additions 2010 to 2016	Additional options
Airbus A300	6									6			−7		
Airbus A310	3[4]									3			−1		
Airbus A319	26	7	7	11	26					77	2	23	+21	14	
Airbus A320	38	23	8	10						79	8	10	+21	14	38[3]
Airbus A321	42	6	6	9						63	4	8	+24	22	
Airbus A330	15	11	1[4]	3						30		8	+5	7	9
Airbus A340	52	13	2[2]							67	2	2	+3		
Airbus A380										0			–	15	5
Boeing 737	63		11	17						91		17	+28		
Boeing 747	30									30			–	20	
Boeing 767			6							6		2	+6		
Boeing 777			4							4			+4		
Boeing MD11F									19	19			–		
Bombardier CRJ	18[1]		10			52		10		90		10	+16	6	
Bombardier C-Series										0			–	30	30
Bombardier Q-Series			20							20	1		+20	3	2
ATR	5[1]						14	5		24	5	11	−1		
Avro RJ		20				18				38		19	–		
BAe 146								8		8		8	−12		
Embraer	15[1]	4[4]	3[4]	17						39	3	7	+35	15	20
Fokker F70			9							9	1		+9		
Fokker F100			15							15			+15		
Cessna Citation	4[2]									4			+2		
Total aircraft	**317**	**84**	**102**	**67**	**26**	**70**	**14**	**23**	**19**	**722**	**26**	**125**	**188**	**146**	**104**

[1] Let to Lufthansa regional airlines.
[2] Let to SWISS.
[3] A320 family.
[4] Leased to company outside the Group.
[5] Includes the consolidation of AUA and bmi.

Financing

Central financial management optimises cash flows
Lufthansa's financial strategy is aimed at securing freedom of action for the Group at all times in terms of operating, financial and strategic performance; see "Financial strategy" on p. 50. It enables the Company to perform independently of the market environment. Optimising short and medium-term cash flows is therefore a vital foundation for efficient financial management. The Lufthansa Group has a centralised financial management function for this purpose, where all cash flows are collected. Surplus liquidity is invested and new funding is raised externally if 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 companies in the Lufthansa Group with information on the actual financial status and expected cash flows. At the end of every month the cash flow planning for all Group companies is entered for the next 24 months. This gives an up-to-date picture at all times of how the Group's liquidity will develop. The inter-Group financial equalisation mechanism and a cash management system reduce the Group's borrowing requirement and optimise the investment of the Group's liquid funds.

Aircraft financing is the main priority
The necessary external funding for the Lufthansa Group is principally raised by Deutsche Lufthansa AG and passed on, in some cases to subsidiaries, in the form of internal loans. Only in exceptional cases and for particular reasons or advantages do subsidiaries raise external funds directly, and then in coordination with Group financial management.

The funding instruments chosen in each case are essentially derived from the cornerstones of financial strategy. When arranging the funding mix we pay particular attention to optimising financing terms, maintaining a balanced maturity structure, availability and diversification.

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. As we will be taking delivery of many new aircraft in the years ahead, aircraft-based funding will continue to play a major role in financing the Lufthansa Group.

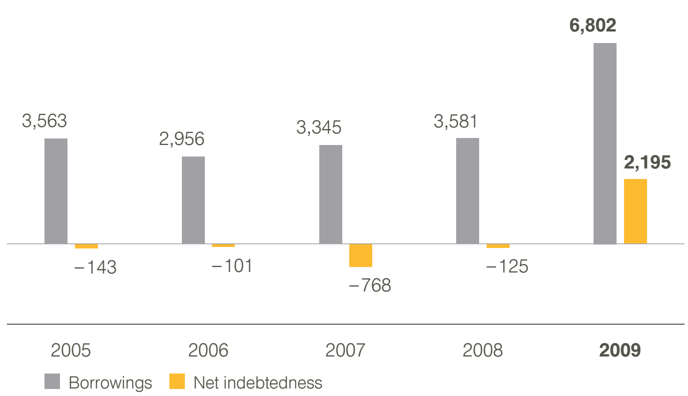
Furthermore, we carry out successful capital market transactions regularly in order to diversify our portfolio of investors, lenders and financing instruments. In March 2009 we launched a debt issuance programme with the aim of achieving greater flexibility in the timing of bond issues and using favourable market windows.

A number of banks have also granted us bilateral credit lines with a maturity of one year. At the end of the financial year 2009 credit lines amounting to some EUR 1.7bn were available.

We also maintain permanent contact to lenders through our creditor relations activities, which strengthens our investor base.

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" on p. 196 under "Price risks". The Group's financial leverage at the end of the financial year was 8.3 per cent (previous year: –0.6 per cent). The current financing structure is shown in the Notes to the consolidated financial statements "Note 39" on p. 191. Deutsche Lufthansa AG's main financial liabilities do not include covenants.

Development of borrowings and net indebtedness in €m



Broad use of financing alternatives despite crisis year
Having experienced a severe banking crisis and a temporary standstill on the corporate bond market in 2008, one of our primary objectives for 2009 was to ensure a liquidity reserve to finance ongoing primary capital expenditure and financial investments. In the past financial year the Lufthansa Group raised a total of EUR 2.6bn in debt; see from p. 67 for more information.

A total of EUR 604m was raised in February by means of a broad issue of borrowers note loans. The EUR 379m tranche had a maturity of 3 years and the EUR 225m tranche a maturity of 5 years. In March Lufthansa issued a classic corporate bond under the newly launched debt issuance programme. The bond was for EUR 850m and has a maturity of five years. We took advantage of the positive groundswell for corporate bonds in the first half of 2009 to issue another bond for EUR 750m, with a maturity of seven years. Detailed information on all current Lufthansa bonds can be found on our website at i www.lufthansa.com/investor-relations.

Over the course of the year we also took out five Japanese operating leases for four A321-200s and one CRJ 900, borrowing a total of EUR 168m. We obtained very favourable terms on these aircraft financing deals despite the challenging financial market environment.

The transfer and funding of pension obligations that was begun in 2004 continued throughout 2009 as well. A total of EUR 380m was funded for all domestic and foreign pension liabilities. The assets already transferred to the fund had been fully hedged in the previous year in view of the financial crisis and in 2009 we unwound these hedges successively. This gradually enabled assets to participate in the performance of the markets in 2009.

There were no significant off-balance sheet financing activities last year. However, various Lufthansa Group companies did enter into rental and/or operating lease contracts. These mainly relate to leases for aircraft and property; see in the Notes to the consolidated financial statements “Note 21” on p. 174.

Development of ratings

Rating / outlook	**2009**	2008	2007	2006	2005
Standard & Poor’s	BBB– / negative	BBB / negative	BBB / stable	BBB / stable	BBB / negative
Moody’s	Ba1 / stable	Baa3 / stable	Baa3 / positive	Baa3 / stable	Baa3 / stable

Rating downgrade due to poor market environment and consolidation

Lufthansa is currently the only European airline with an investment grade rating. Standard & Poor’s gives Lufthansa a BBB– investment grade rating, outlook negative. In its analysis Standard & Poor’s refers to Lufthansa’s strong market position at the hubs in Frankfurt, Munich and Zurich, as well as its good position in long-haul traffic and the premium segment. Other positive factors mentioned are the diversification from the strong positioning of Lufthansa Technik as well as the good liquidity and stable cash flow generation. On the downside, the analysis pointed out the risks and cyclical nature of the airline industry, the adverse effects of the current market environment on demand from private and business travellers, and the recent acquisitions.

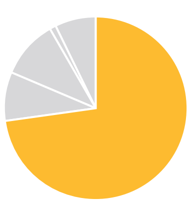
Since September 2009 the rating agency Moody’s has considered Lufthansa to be Ba1, outlook stable. This rating, which remains excellent for the industry, is justified by our leading position as an international passenger and cargo airline. The positive comments underlined the fact that Lufthansa has built a relatively stable position in a volatile competitive environment by means of its well established route network, strong position at its hubs, broad product range and the acquisition of SWISS. The cost structure, constant cash flow generation and stable liquidity are seen as financial strengths. The currently weak economic situation and poor demand had an adverse affect on the rating. Moody’s commented that the acquisition of Austrian Airlines had initially tarnished the financial profile, but that the performance of the airline was expected to improve thanks to Lufthansa’s influence.

The downgrade in both ratings by one notch in September 2009 reflects the deterioration in cash flow expected for 2009 and 2010 as a result of the weak market environment, accompanied by higher net indebtedness due to greater capital expenditure and the consolidation of Austrian Airlines and bmi. The split rating that has existed since then has not had any significant impact on financing opportunities and terms. We are nevertheless keen to strengthen the current investment grade rating and to bring Moody’s assessment back into this category in the medium term. To this end, the entire Group is focussed on securing cash flows. Compared with the original budget we have, in addition, cut capital expenditure for the period 2009 to 2012 by around EUR 2.2bn.

Passenger Airline Group business segment

Structural market weakness defined customer demand for passenger transport in 2009. Traffic revenue suffered particularly from the price erosion. In summer 2009 Lufthansa Passenger Airlines initiated the cost-cutting programme Climb 2011. Lufthansa is strengthening its position in growth markets with new partners.

Share of Group revenue 72.8%



Leading European quality carrier

Key figures Passenger Airline Group

		2009	2008[3]	Change in %	of which Lufthansa Passenger Airlines[2] 2009	Change in %
Revenue	€m	16,798	18,365	–8.5	12,331	–15.5
of which with companies of the Lufthansa Group	€m	573	663	–13.6		
Operating result	€m	–8	789	–	–107	–121.3
Adjusted operating margin	%	0.8	4.9,	–4.1 pts	0.0	–4.2 pts
Segment result	€m	78	857	–90.9		
EBITDA[4]	€m	1,430	2,015	–29.0	1,063	–0.7
CVA	€m	–691	346			
Segment capital expenditure	€m	1,898	1,390	36.5		
Employees as of 31.12.	number	58,083	46,350	25.3	37,233	–1.9
Average number of employees	number	52,317	46,462	12.6	37,609	–1.1
Passengers carried[1]	thousands	76,543	70,543	8.5	55,544	–2.6
Available seat-kilometres[1]	millions	206,269	195,431	5.5	158,272	–1.3
Revenue passenger-kilometres[1]	millions	160,647	154,155	4.2	122,969	–2.4
Passenger load factor[1]	%	77.9	78.9	–1.0 pts	77.7	–0.9 pts

[1] Lufthansa Passenger Airlines, SWISS, British Midland (from July 2009) and Austrian Airlines (from September 2009), not including Germanwings.
[2] Including regional partners.
[3] Last year's figures have been adjusted due to a new segment structure (IFRS 8) and measurement changes in line with IFRIC 13.
[4] Before profit/loss transfer from other companies.

Revenue of EUR 16.8bn

Operating result of EUR – 8m

Business and strategy

Leading European quality carrier
Passenger Transportation is the core business of the Lufthansa Group. The Passenger Airline Group segment consists of Lufthansa Passenger Airlines, SWISS, Austrian Airlines, British Midland (bmi), Germanwings and the equity investments in Brussels Airlines, JetBlue and SunExpress. Our declared aim in 2009 was to maintain and extend our position as the leading European quality carrier even in times of crisis. This is achieved by offering a global product range that covers the main traffic flows from, via and to Europe.

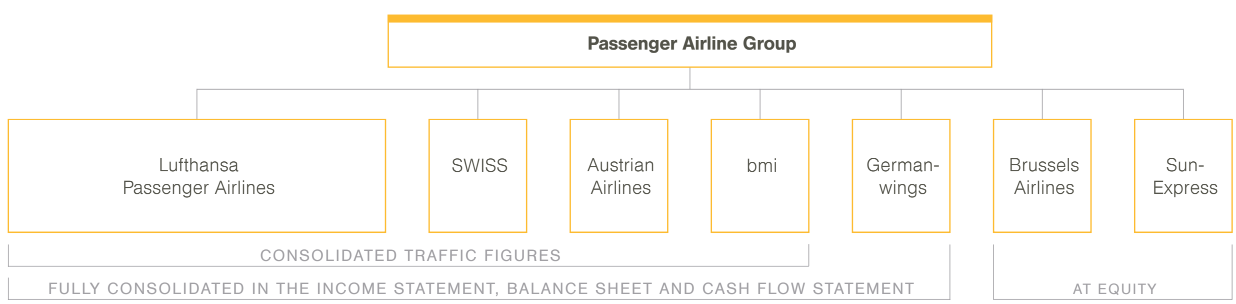
Developing and expanding the market position
Our strategic goals are derived from our vision that Germany is a central location for Lufthansa, Europe is our home market and the world provides the growth potential. Lufthansa can only grow globally, however, if we secure and build on our market position in the home market. This is because it is our pole position in Europe that makes us attractive and therefore relevant as a partner for growth markets outside Europe. Lufthansa therefore continues to grow profitably, using all available growth options to do so.

Organic growth under the banner of cost efficiency is achieved by expanding the short and long-haul networks and by reinforcing the major hubs in Frankfurt and Munich. This involves a multi-hub strategy by which the hubs offer a comprehensive route network in their respective catchment areas. Feeder flights from neighbouring European countries also increase the load factors and profitability of intercontinental flights. This is accompanied by a focus on continuously and sustainably cutting unit costs, in particular by raising the productivity of the fleet as planned. In this area, Lufthansa Passenger Airlines in particular benefit from their largely unencumbered fleet, which gives them considerable flexibility in the management of capacities and costs. This was used extensively last year to adjust seating capacities at short notice. The decision by Lufthansa Passenger Airlines to withdraw from the 50-seater fleet ahead of schedule and the corresponding increase in the average capacity in the aircraft fleet will contribute to reducing unit costs and improving comfort for customers at the same time. This project is one of many individual measures in the Climb 2011 programme. The aim of this initiative is to improve earnings sustainably at Lufthansa Passenger Airlines by EUR 1bn by the end of 2011. In spite of the heightened focus on cost efficiency, the positioning as a quality carrier remains a fundamental part of Lufthansa Passenger Airlines' strategy. The entire product range is being refined by innovations on board and on the ground. More information on Climb 2011 and on product innovations can be found from p. 78.

Lufthansa also plays an active role in the consolidation of the European air transport industry to the extent that it makes strategic and economic sense. To this end, in 2009 Lufthansa strengthened its local market position and further concentrated European and global traffic flows at its hubs in Frankfurt, Munich, Zurich, Vienna, Brussels and partly London by acquiring Austrian Airlines and bmi as well as taking an equity stake in Brussels Airlines.

The companies are being integrated into the Lufthansa Group in accordance with our multi-hub/multi-brand philosophy. As with the successful integration of SWISS, the companies retain their identities and brands and are managed as largely autonomous companies within the group. This preserves the airlines' strengths in their respective markets and their entrepreneurial drive. Numerous useful synergies can also be realised, however; for instance in sales, in ground handling, in product development, by coordinating networks efficiently and by integrating many processes, such as in purchasing or hedging. More information on the individual airlines in the Group can be found from p. 84.

Reporting Passenger Airline Group



In order to grow worldwide, Lufthansa also collaborates with its Star Alliance partners and makes use of bilateral cooperation agreements. Lufthansa now offers flights to 1,077 destinations in 175 countries via the Star Alliance network. The switch by Continental Airlines to Star Alliance in 2009 holds particular potential for the Lufthansa network in view of the American carrier's hubs in New York and Houston. In transatlantic traffic customers also benefit from the code-sharing agreement with JetBlue in place since October 2009. Star Alliance was also strengthened in 2009 by the addition of Brussels Airlines. Aegean Airlines, Air India and TAM Brazilian Airlines are further candidates for membership.

Markets and competition

Markets are slowly beginning to recover

As a result of the global economic crisis, airlines are battling around the world against dwindling load factors and average yields. Many companies are reviewing their network offerings as part of their restructuring; there have been numerous closures and insolvencies throughout the sector. These developments will quicken the consolidation process in the aviation industry. As an established carrier with a strong network and sound finances Lufthansa will benefit from this trend in long-haul traffic, winning an increased share in the market.

The main competitors include Air France-KLM and British Airways from Europe, US carriers such as American Airlines, Delta Airlines and Northwest Airlines, and also the fast-growing companies from the Middle East and Asia. In European traffic Lufthansa is facing increasing competition from no-frills carriers such as easyJet and Air Berlin, which have taken market share from network and regional carriers during the crisis.

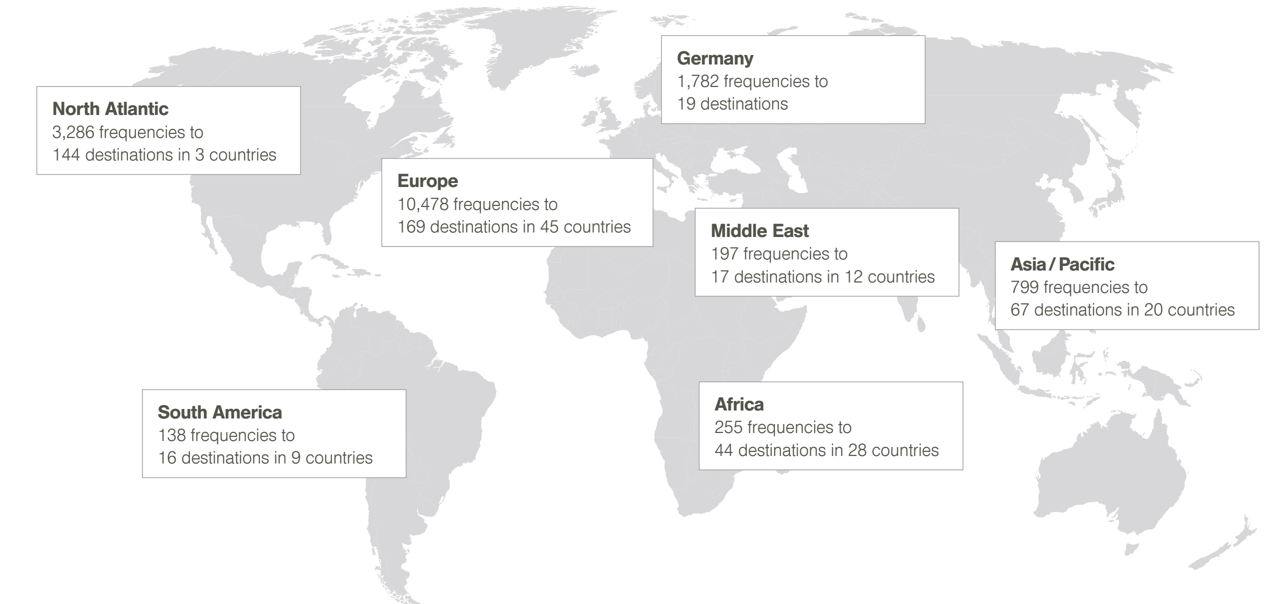
In Lufthansa's markets the trough of the crisis seems to have been reached in mid 2009; in September passenger numbers were back at the previous year's level for the first time. The tentative recovery was visible primarily in the Asia/Pacific area and the Middle East. Revenue is nevertheless still well down on the previous year.

Sales and customers

Customer satisfaction up again

In 2009 Lufthansa Passenger Airlines' marketing strategy was made up of four pillars: to gain market share by consistent sales channel management, to secure revenue with business customers, to focus on customer segments resistant to the crisis (family travel) and to develop sales platforms for marketing the group airlines and partners.

Destinations of Lufthansa and group airlines*



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

This was the basis for initiating focussed marketing activities, via the website i www.lufthansa.com for instance, which catalysed passenger numbers. Lufthansa Passenger Airlines were thus able to extend their market share in the major European markets. In the corporate client segment a wide range of marketing activities also bolstered revenue.

By targeting sales activities on customer segments unaffected by the crisis, revenue developments in private travel were maintained at the previous year's level, which made up for the falls in demand. A series of innovative pricing and marketing initiatives were also carried out, such as the sale of a "sunshine guarantee".

Satisfaction among customers of Lufthansa Passenger Airlines rose sharply in 2009; the index figure was 4 percentage points up on the previous year. Further optimisation of internal processes meant that even fewer pieces of luggage were left behind in 2009 than in the previous year. This is confirmed both by the improvement in baggage handling and the IATA endorsement of baggage processes at Frankfurt Airport. The check-in and the handling of Lufthansa passengers' baggage both received top marks.

The share of business customers fell slightly in 2009, but at 40 per cent it was still well above that of the competitors. The balanced mix of sectors in Lufthansa Passenger Airlines' business customer base helped them to report a much more stable performance in the 2009 crisis year than many of their competitors. When the economy picks up again this portfolio will give them a correspondingly larger share of resurgent demand.

New products introduced for Lufthansa customers

Lufthansa considers itself to be a quality carrier and pursues a full-line distribution strategy. We have therefore invested in expanding the product range despite the plans for sustainable cost cuts. Differentiation between classes and offers aimed at different target groups are more important than ever for market positioning.

With the return of FlyNet from mid 2010 Lufthansa is again offering customers internet in the air. Thanks to FlyNet, passengers will soon be able to access the internet via their WLAN capable devices, and also send text messages and transfer data. In line with customers' current wishes, voice telephony will be disabled.

The Lufthansa First Class is to be even more exclusive and target-group focussed than before. The opening of new lounges and the redevelopment of First Class on board underline this trajectory.

Lufthansa First Class will show its new colours for the first time in the 2010 summer flight timetable when the Airbus A380 is introduced. The enhancement of the cabin product involves all components, such as the seating concept, the design of cabin and the choice of entertainment. In Munich a second Senator Lounge was opened for Senator customers in September 2009. Further lounges were established at New York JFK, Chicago, Washington D.C. and Paris Charles de Gaulle. Lufthansa opened the first Welcome Lounge in Frankfurt in early 2009. It gives First and Business Class guests and frequent flyers disembarking from overnight flights the opportunity of preparing in the lounge for the day ahead. This enables passengers to sleep until shortly before landing and then to shower and have breakfast on arrival. Lufthansa therefore now has over 13 lounges at Frankfurt Airport in total; at Munich Airport there are seven.

The Economy Class is also the focus of continuous refinement – such as the installation of new seating in the Airbus A340-300 fleet that is to be completed for the entire Airbus sub-fleet by April 2010. The introduction of seat screens for every passenger and the individual entertainment programme this enables will be completed for the entire Airbus long-haul fleet by March 2010.

The customer loyalty programme Miles & More again recorded an increase in membership. It extended its lead as Europe's leading frequent flyer programme with more than 18 million participants. The integration of the Brussels Airlines frequent flyer programme also made an important contribution, bringing almost 210,000 customers (including more than 130,000 new customers) to Miles & More. Innovative communications and customer-loyalty strategies in the field of social marketing are increasingly being implemented on the basis of the internet portal i www.miles-and-more.com that was relaunched in 2008.

Course of business

Structural market weakness defined customer demand in 2009. Alterations to travel rules by business customers and aggressive marketing competition on price, with a focus on defending or acquiring market share, resulted in a structural shift in booking and transport classes. Revenue in the superior booking classes experienced the greatest falls. Revenue in the lower Economy booking classes went up considerably, however, thanks to a varied range of marketing initiatives.

Climb 2011 safeguards competitiveness

Lufthansa began introducing cost-cutting measures and imposing a hiring freeze as far back as 2008. All other companies in the airline group are also pursuing cost management programmes, which can run to extensive restructuring depending on the effects of the crisis. Prompted by the global economic recession and the expected long-term changes in market conditions, Lufthansa Passenger Airlines initiated the cost-cutting programme Climb 2011 in summer 2009. The seven focus topics it contains will contribute to a sustainable increase in earnings totalling EUR 1bn by the end of 2011:

Capacity: Flexible capacity management is to be continued. In addition the withdrawal from the 50-seater segment was brought forward and should be completed by the end of 2010. In 2010 there will be a total of 47 fewer aircraft flying than was planned before the crisis in 2008.

Fleet structure: Break-even is to be achieved by the end of 2011 by means of alterations to the fleet structure in decentralised traffic. Changes in the approach to market, adjustments to capacity management and a reduction of 40 per cent in unit costs by means of strict cost management are the crucial levers.

Staff productivity: The objective is to cut unit staff costs at Lufthansa Passenger Airlines by a total of 10 per cent.

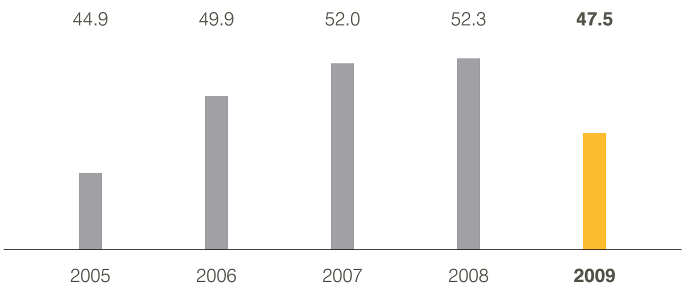
Administration: The fixed cost base is to be improved further by shedding 20 per cent of staff capacity in administration, equivalent to some 400 employees, by the end of 2011. In the first phase up to the end of 2009 around 200 contracts, or nearly 10 per cent of capacity, have already been terminated in compliance with social and labour law.

Suppliers: Joint projects to optimise processes and cut costs have been initiated with suppliers. This includes both external and internal suppliers (for example LSG Sky Chefs and Lufthansa Technik).

Capital expenditure: Aircraft deliveries from 2010 are to be critically reviewed and adjusted to the weaker development of the market.

Revenue: Seating capacity in European traffic is to be increased to the standard level among competitors from mid 2010. New, lighter, ergonomically much improved seats are one of the means of achieving this.

Premium share of intercontinental traffic revenue Lufthansa Passenger Airlines in %



Diversified network strategy for sales markets

Lufthansa continued its diversified network strategy in the different sales markets in 2009. In addition to specific adjustments, the number of connections was increased in Europe principally via Lufthansa Italia. With a total of 417 frequencies per week, the Lufthansa Group is the largest provider at Milan-Malpensa airport. Developing partnerships with the American airlines JetBlue and Continental Airlines enabled broader penetration of the North American market. Since Continental Airlines joined the Star Alliance, parallel code-sharing connections and a harmonised frequent flyer and lounge programme have been introduced successively.
The equity investment in JetBlue also gives Lufthansa customers code-share access to a broader domestic American route network. In Africa the focus is on the oil and energy sector. Lufthansa passengers therefore now have more opportunities of flying to Lagos in Nigeria and Accra in Ghana. Libreville in Gabon was also included in the portfolio for the first time in 2009.

Lufthansa also continues to extend its hubs. Building work started on the new A-Plus pier in Frankfurt in September. Up to seven wide-bodied aircraft, including four Airbus A380s, or eleven short-haul aircraft, can be serviced here at the same time. The new pier A-Plus will be used exclusively by Lufthansa and its Star Alliance partners and will make Lufthansa's hub in Frankfurt both more competitive and more attractive.

The system partnership with Fraport has progressed very well in recent years. Examples include a sharp increase in performance, a considerable improvement in customer satisfaction, the faster handling of passenger baggage, and the good working relationship in the customer care service FraCareS. The development of local costs in Frankfurt could still be improved, however. Over the winter 2009/2010 the parties involved reached a compromise on the matter of fee increases, which will at least ensure planning certainty for the next six years. The agreement provides for the fees paid to Fraport to rise in stages by 12.5 per cent by the end of 2011 and then to increase by 2.9 per cent per annum in the period 2012 to 2015. It also includes a component that takes account of future developments in passenger numbers in Frankfurt.

Operations at the Lufthansa hub in Munich are also very stable. The fleet was made more homogeneous through the successive replacement of the Boeing 737 fleet with more modern aircraft from the Airbus A320 family, a process completed by December 2009.

Operating performance

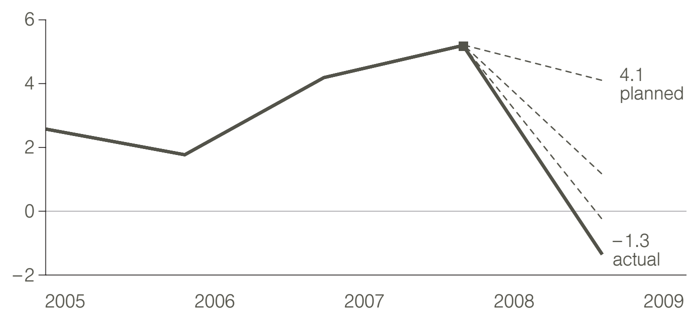
New companies bring increase in passenger numbers

Weak demand over the entire year and the concomitant fall in passenger numbers had an impact on the traffic figures for all airlines in the Passenger Airline Group. From the third quarter onwards the first-time consolidation of bmi (since July 2009) and Austrian Airlines (since September 2009) affected traffic figures for the segment. Including these airlines a total of 76.5 million passengers were carried in the reporting period, (+8.5 per cent). Adjusted for the changes in the group of consolidated companies the number of passengers fell by 1.7 per cent.

At Lufthansa Passenger Airlines passenger numbers dropped by 2.6 per cent to 55.5 million. SWISS by contrast was able to increase its passenger figures to 13.8 million (+2.4 per cent). As new companies were added, the segment's capacity rose by 5.5 per cent, while sales went up by 4.2 per cent. The passenger load factor fell by 1.0 percentage point as a result. Adjusted for the effects of consolidation, both capacity (–1.4 per cent) and sales volumes (–2.4 per cent) declined. The adjusted passenger load factor came to 78.1 per cent (–0.8 percentage points).

Lufthansa Passenger Airlines were able to compensate for weak sales (–2.4 per cent) by tough capacity management and by reducing available capacity by 1.3 per cent. Capacity reduction actually included a number of measures with the opposite effect, resulting from various activities over the course of the reporting period (for example reconfiguration of wide-bodied aircraft, replacing smaller aircraft with larger ones as part of the fleet renewal programme, and deliberate increases in growth regions). It was accompanied by a reduction of almost 35,000 flights (–5.2 per cent).

Flexible capacity planning at Lufthansa Passenger Airlines
Change in available seat-kilometres (ASK) in %



The pronounced passenger migration that began in late 2008 from the premium segment (First and Business Class) to Economy Class became even more severe over the course of 2009. In European traffic particularly, this must now be seen as a structural shift in demand patterns that had a sustained adverse effect on traffic and average yields for the segment. Average yields were 12.0 per cent down on the year, despite a minor lift from the exchange rate (+0.8 per cent), and traffic revenue was down by 8.3 per cent.

Capacity adjustments in all regions

The table on p. 81 shows revenue and passenger numbers as well as sales by traffic region. In Europe capacity rose due to the consolidation of bmi and Austrian Airlines (+13.5 per cent). There was no change in the passenger load factor compared with the previous year. Adjusted for consolidation effects, capacity was cut by 0.2 per cent; the passenger load factor was 69.1 per cent (–0.3 percentage points). The companies' traffic revenue dropped by 6.2 per cent and average yields by 17.4 per cent.

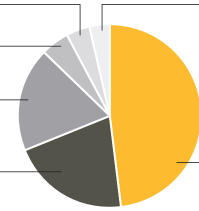
In North America the companies in the segment cut their capacities by a total of 2.9 per cent, while the load factor rose slightly (+0.3 percentage points). In South America the previous year's passenger load factor could not be matched, despite capacity having been lowered by 4.7 per cent (–2.2 percentage points). Overall, capacity and sales fell by 3.1 per cent in the Americas traffic region, so that the passenger load factor remained stable at a high level of 84.6 per cent. Traffic revenue nevertheless fell by 14.6 per cent due to the fall in average yields (–11.8 per cent).

In Asia/Pacific both capacity (+0.7 per cent) and sales (+0.2 per cent) were up slightly on the previous year. The passenger load factor of 82.6 per cent (–0.4 percentage points) was relatively stable at a high level. Here too, average yields suffered from the weak market. They fell year on year by 13.0 per cent. Traffic revenue missed last year's figure by 12.7 per cent.

In the Americas traffic region there was no great distortion due to changes in the group of consolidated companies. Traffic revenue in the Americas traffic region dropped by 14.6 per cent and average yields by 11.8 per cent.

Lufthansa Passenger Airlines in particular deliberately expanded their presence in Africa. The segment's capacity went up by 14.4 per cent as a result and due to the consolidation effects of Austrian Airlines and bmi. Growth was also largely sold, with sales rising by 10.9 per cent, but the passenger load factor fell by 2.5 percentage points to 77.4 per cent. In the Middle East region the effects of the acquisitions were clearly visible, with capacity climbing by 43.5 per cent. Sales here rose by 32.5 per cent; by comparison the fall in the passenger load factor was moderate (–5.7 per cent). Traffic revenue rose by 11.3 per cent, but average yields fell by 6.8 per cent.

Traffic revenue by traffic region for the Passenger Airline Group in %



This was largely due to lower prices (–12.9 per cent) and reduced volumes (–2.5 per cent). Exchange rates (+0.8 per cent) had a positive effect on traffic revenue.

Revenue and earnings development

Revenue down by 8.5 per cent

Traffic revenue in the Passenger Airline Group business segment sank by 8.3 per cent to EUR 15.4bn. Lufthansa Passenger Airlines contributed EUR 11.4bn, SWISS EUR 2.4bn and Germanwings EUR 570m. Without the new companies Austrian Airlines and bmi, the fall would have amounted to 14.7 per cent.

Other operating income went up by EUR 565m to EUR 1.3bn. This increase is due to the first-time consolidation of Austrian Airlines and bmi and in particular to sharply higher foreign exchange gains (EUR +302m), which corresponded with exchange rate losses higher by EUR 37m recognised in other operating expenses. Other income is related to compensation from Boeing for the cancellation of the internet system FlyNet and EUR 86m from the reversal of the badwill recognised on initial consolidation of Austrian Airlines.

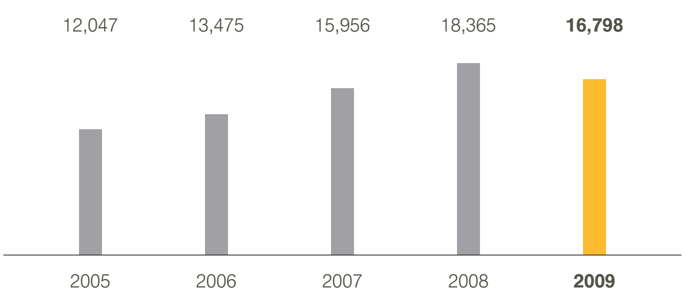
Total operating income shrank by 5.3 per cent to EUR 18.1bn. Without the first-time consolidation of Austrian Airlines and bmi the decline would have amounted to 12.2 per cent.

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 %	
	2009	Change in %	**2009**	Change in %	**2009**	Change in %	**2009**	Change in %	**2009**	Change in pts
Europe	7,129	–6.2	59,961	10.4	68,372	13.5	47,446	13.5	69.4	0
North America	3,084	–15.1	7,017	–2.3	58,863	–2.9	49,994	–2.5	84.9	0.3
South America	529	–11.4	801	–10.1	9,044	–4.7	7,466	–7.2	82.5	–2.2
Asia/Pacific	2,716	–12.7	5,047	–1.1	48,187	0.7	39,788	0.2	82.6	–0.4
Middle East	601	20.4	1,820	29.7	10,224	43.5	6,996	32.5	68.4	–5.7
Africa	727	4.6	1,868	15.2	11,509	14.4	8,907	10.9	77.4	–2.5
Total scheduled services	**14,786**	**–8.4**	**76,514**	**8.5**	**206,199**	**5.5**	**160,597**	**4.2**	**77.9**	**–1.0**
Charter	74	2.8	29	19.1	70	8.8	51	29.2	72.3	11.4
Total	**14,860**	**–8.3**	**76,543**	**8.5**	**206,269**	**5.5**	**160,647**	**4.2**	**77.9**	**–1.0**

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

Revenue Passenger Airline Group in €m



Expenses adjusted for consolidation changes only slightly lower

Operating expenses fell only slightly by 1.1 per cent to EUR 18.1bn. Adjusted for the effects of the first-time consolidation of the new companies AUA and bmi they were reduced by 8.5 per cent. The fall is largely due to the much lower cost of materials and services of EUR 10.9bn (–5.3 per cent; adjusted for consolidation: –12.4 per cent). This was principally due to the fall of EUR 1.4bn or 29.7 per cent in fuel expenses, which came to EUR 3.4bn (adjusted for consolidation: –34.1 per cent). The amount of fuel consumed fell by 3.3 per cent. Lower prices accounted for 36.8 per cent of the fall in expenses, while the weaker euro increased fuel costs by 6.0 per cent. Fees and charges went up, largely due to the larger group of consolidated companies, by 9.8 per cent to EUR 3.6bn (adjusted: –0.7 per cent). Other services went up by 15.5 per cent to EUR 3.7bn (adjusted: +7.9 per cent). This stems from the first-time consolidation of Austrian Airlines and bmi (totalling +7.6 per cent) and above all from greater expenses for external MRO services (+12.4 per cent). Adjusted charter expenses also went up by 39.5 per cent, partly due to costs in connection with the planned withdrawal from the 50-seater fleet. Operating lease expenses rose by 2.5 per cent due to the consolidation changes.

The average number of employees went up in 2009 by 12.6 per cent to 52,317, while staff costs only rose by 10.1 per cent to EUR 3.3bn. Without the new companies AUA and bmi, staff costs would have risen by 0.8 per cent and the average number of employees would have been 1.1 per cent lower. The effects of wage settlements agreed in the previous year and increased contributions to the pension insurance scheme were only partly offset by lower expenses for variable remuneration components. The hiring freeze imposed in summer 2008 still applies. Lufthansa Passenger Airlines, Austrian Airlines and bmi are also striving to make further job cuts.

Depreciation and amortisation rose year on year by 11.1 per cent to EUR 1.0bn. The increase of 3.7 per cent after adjusting for consolidation resulted from the addition of new aircraft.

Other operating expenses remained stable year on year at EUR 2.8bn. Adjusted for the effects of first-time consolidation they fell by 6.6 per cent. This is mainly the result of the consolidation-related drop in agency commissions of EUR 164m (–33.4 per cent) and of the EUR 37m decline in expenses for advertising and sales promotion. The foreign exchange losses, up by EUR 37m, were made up for by much higher foreign exchange gains recognised in other operating income. Both effects stem from the translation of receivables and liabilities in foreign currencies and from realised exchange rate hedges.

Expenses Passenger Airline Group

	2009 in €m	2008 in €m	Change in %	Adjusted for changes in the group of consolidated companies in %
Cost of materials and services	10,904	11,510	–5.3	–12.4
of which fuel	3,381	4,806	–29.7	–34.1
of which fees	3,552	3,234	9.8	–0.7
of which operating lease	338	281	20.3	2.5
of which MRO services	1,790	1,495	19.7	12.4
Staff costs	3,330	3,025	10.1	0.8
Depreciation and amortisation	1,032	929	11.1	3.7
Other operating expenses	2,805	2,812	–0.2	–6.6
of which agency commissions	356	491	–27.5	–33.4
of which external staff	499	479	4.2	–0.2
of which rental and maintenance expenses	209	179	16.8	0.6
Total operating expenses	**18,071**	**18,276**	**–1.1**	**–8.5**

Operating result considerably reduced

The operating result tumbled considerably by EUR 797m compared with the strong previous year to EUR –8m, thereby just missing the operating profit strived for. Lufthansa Passenger Airlines contributed an operating loss of EUR 107m. The first-time consolidation of Austrian Airlines and bmi shaved a total of EUR 23m off the result including badwill recognised in income. Positive earnings contributions came from SWISS (EUR 93m) and Germanwings (EUR 24m). The segment’s adjusted operating margin sank to 0.8 per cent (previous year: 4.9 per cent).

Other segment income went up, especially due to higher book gains (EUR +37m) and higher write-backs of provisions (EUR +17m) by EUR 58m to EUR 183m. Miscellaneous segment expenses came to EUR 88m. They include impairment losses totalling EUR 80m on six Airbus A300-600s, 24 Canadair Regional Jet 200s and three ATR 42-500s. Some of these aircraft have already been retired, others are to be successively decommissioned or sold by the end of 2010 due to the current corporate plans.

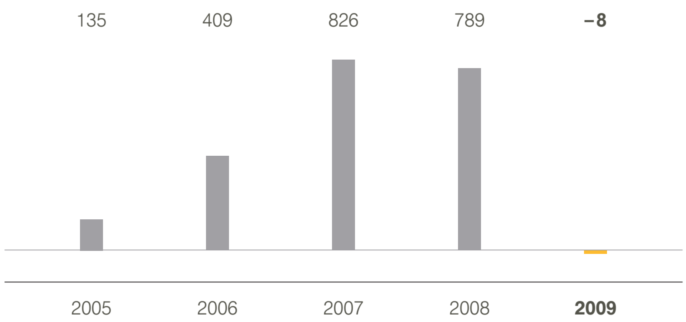
The result of the equity valuation (including bmi up to 30 June 2009) was negative at EUR 9m (previous year: EUR –50m). The improvement compared with the previous year is overwhelmingly due to the negative equity result for bmi the previous year.

The segment result declined overall by 90.9 per cent to EUR 78m.

Segment capital expenditure up by 36.5 per cent
Segment capital expenditure rose by EUR 508m to EUR 1.9bn EUR. This mainly related to expenditure on aircraft by the Passenger Airline Group, specifically on five Airbus A340s, five Airbus A330s, 14 Airbus A321s, ten Airbus A320s, five Airbus A319s, nine Canadair Regional Jet 900s, 14 Embraer 195s, one Embraer 190, one Dash 8-400 and two Cessna Citations.

Long-term overview of earnings indicates a decline
The long-term overview of earnings brings the change in results into sharp focus. Profitability improved steadily from 2005 until 2007 and a strong positive result was also reported in 2008, but in the reporting year the effects of the global recession and the consolidation changes took their toll. In the income statement for the Passenger Airline Group this was particularly visible in lower revenue, primarily due to pricing. Lower operating expenses were only able to make up for part of this decline. The adjusted operating margin sank accordingly to 0.8 per cent (previous year: 4.9 per cent).

Operating result Passenger Airline Group in €m



Outlook

The passenger airlines in the Lufthansa Group held their ground well in a challenging market in 2009, nearly breaking even in terms of the operating result. Economic growth is expected to pick up again in the 2010 financial year, whereby different regions and sectors will benefit to varying degrees. Lufthansa Passenger Airlines will also share in resurgent demand thanks to their broad regional positioning and their balanced customer structure. The business segment will benefit too from the increased profile in the growth regions Africa and Eastern Europe through the new partners Brussels Airlines and Austrian Airlines. The greater cooperation in transatlantic traffic with the Star Alliance partners Continental Airlines, United Airlines and Air Canada that is the objective of the joint venture A++ will also contribute to strengthening the Lufthansa network.

It nevertheless remains uncertain when the economic recovery will lead to an upturn in demand in the air traffic sector. The companies in the Lufthansa airline group are currently still assuming that a sustainable recovery will only take root in the second half of the year. In long-haul traffic a tangible improvement should be felt later in the year, as long as the massive capacity growth spurred on by some airlines (in the Gulf region for instance) without corresponding market growth does not lead to distortions. In European traffic by contrast, lasting structural effects in demand patterns are to be expected, so that prices in particular are not likely to regain the level seen in previous years for the foreseeable future. To get to grips with these changes the Lufthansa Passenger Airlines segment is pursuing the Climb 2011 programme with even greater vigour. SWISS and Germanwings are also addressing important issues to deal with their challenges. Austrian Airlines and British Midland in particular, both strongly hit by the crisis, are making considerable efforts to restructure, which are intended to bring them back to profitability in the medium term. Negative earnings contributions are nevertheless expected from these companies for the full year 2010.

In terms of costs the development of the oil price will have a profound influence on the segment. The way in which the oil price and demand pick up over time holds considerable risks and opportunities for the airlines' profitability. Further risks lie in the direction taken by the ongoing collective bargaining dispute. Given the range by which these factors fluctuate it is not possible at this early stage to be more precise about the expected operating result, much less put a figure on it.

SWISS

SWISS

		2009	Change in %
Revenue	€m	2,770	−14.3
Operating result	€m	93	−68.0
EBITDA	€m	278	−32.5
Passengers carried	thousands	13,784	2.4
Employees as of 31.12.	number	7,192	−2.1

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

Swiss International Air Lines (SWISS) serves 76 destinations in 40 countries from its hub in Zurich and from airports in Basel, Geneva and Lugano (winter timetable 2009/2010). As the national airline of Switzerland, SWISS embodies the brand values of personal service, superlative quality, reliability and Swiss hospitality. As part of the Lufthansa Group and a member of the Star Alliance, the company positions itself as a quality airline and premium brand with a modern product in all three classes. It has a high proportion of business travellers, but is also well represented in the private travel segment.

SWISS is committed to a careful use of resources and demonstrates its involvement at various levels. It has reduced the specific fuel consumption by one sixth over the last four years.

SWISS designated best airline in Europe

In a difficult economic environment SWISS continued to pursue its extensive investment programme in 2009 as planned, with the aim of strengthening its market position and competitiveness for the long term. The company received the much sought-after Skytrax World Airline Award 2009 as the Best Airline in Europe for short and long-haul. The results of further customer surveys are also a clear indication of passengers' satisfaction with the new cabin product in all three classes of the Airbus A330-300. SWISS First passengers also gave top marks to the new "suite above the clouds". SWISS already offers this on four Airbus A330-300s on routes to New York (JFK), Dubai/Muscat, Mumbai and Delhi. The A340 long-haul fleet is to be equipped with the new Business Class. SWISS customers keen on electronic travel now have the opportunity of completing all the check-in formalities for their SWISS flight via the mobile portal using their internet-enabled mobile telephone.

Changes in management and Board of Directors

On 23 April 2009 the SWISS Board of Directors appointed Harry Hohmeister to succeed Christoph Franz as SWISS CEO from 1 July 2009. Harry Hohmeister has been a member of the SWISS management board since early 2005 and has made a major contribution to the company's positive development. Christoph Franz and Stefan Lauer have held seats on the SWISS administrative board since 19 October 2009. The two Lufthansa board members succeeded Wolfgang Mayrhuber and Klaus Schlede.

Weak economic environment depresses performance

Traffic at SWISS was dominated by the ongoing difficult economic conditions. Pressure on average yields was high in 2009 and the cargo business also performed poorly due to the recession. When it comes, the upturn will only be able to compensate for part of the ongoing price erosion and the shift from premium demand to demand for the economy segment. Nevertheless, the company has so far been able to absorb the brunt of the crisis by means of extensive cost and capacity measures. Swiss WorldCargo operated with reduced working hours from June to October in Switzerland, for example. This was accompanied by numerous other personnel measures, such as a salary waiver by top management and by not filling vacancies or doing so at a later date. It was also made easier for ground staff to take unpaid leave. All this helped to reduce the cost base and still save jobs.

Overall, SWISS carried some 14 million passengers in 2009, setting a new record. Capacities were adjusted over the course of the year flexibly, precisely and in line with demand. Overall, they were reduced year on year by 1.9 per cent. Two wide-bodied jets have been temporarily grounded. Flights were generally nearly as well booked as the previous year with a load factor of 80.1 per cent – a high figure for the industry.

As demand had improved slightly, SWISS again added more connections to New York and Boston in early December. From the start of the winter timetable it will offer daily flights to Bangkok. Lyon and Oslo were included in the summer flight timetable, adding to SWISS's extensive European programme with 48 destinations. From June 2010 the airline will also be flying to San Francisco for the first time. Frequencies to India, South America and Canada are being increased in parallel.

Profitable course set to continue

Under the difficult economic conditions of 2009 SWISS achieved revenue of EUR 2.8bn (–14.3 per cent) and an operating profit of EUR 93m (previous year: EUR 291m). It reported positive results for all four quarters. SWISS intends to improve earnings again in 2010. This is not solely to be achieved by further cost savings but also by higher revenue.

Austrian Airlines

Austrian Airlines[1)]

		2009[2)]	Change in %
Revenue	€m	665	–
Operating result	€m	–31	–
EBITDA	€m	31	–
Passengers carried	thousands	3,341	–
Employees as of 31.12.	number	8,201	–

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

New partner with a strategic role in Eastern Europe

After all conditions precedent had been met, Lufthansa took over Austrian Airlines AG with effect from 3 September 2009. From this point on, it was fully consolidated in Lufthansa's consolidated financial statements. Austrian Airlines and its three brands Austrian Airlines, Lauda Air and Tyrolean Airways make up for a significant part of the Austrian air transport market and constitute a dynamic, high-quality group. In its domestic market Austrian Airlines is the market leader and has the highest revenue. It has also positioned itself successfully as a specialised network carrier for the growth regions Central and Eastern Europe and for the Middle East. The aim is to strengthen Vienna as a hub for flights to Central and Eastern Europe.

For its sales Austrian Airlines relies on the expansion of its distribution via the website i www.aua.com and close partnerships with travel agencies. There are extensive framework agreements with corporate clients around the world together with Lufthansa and other Star Alliance partners. These contracts and the Miles & More customer programme enable Austrian Airlines to enjoy a high level of passenger loyalty. In 2009 the company earned top marks for punctuality and reliability, which are particularly important quality criteria for its product.

Restructuring and synergies

The financial and economic crisis also had a severe impact on the course of business at Austrian Airlines. Travel volumes fell, above all in the business travel segment. Restructuring measures were introduced to cut costs per seat even further and were extended over the second half of the year. They focussed on capacity adjustments of around 10 per cent, route adaptations, personnel measures, the optimisation of organisational structures and negotiations with system partners.

The programme initiated for the implementation of these changes, Austrian Next Generation, defines three main objectives for Austrian Airlines' future strategy:

- A new market and fleet strategy includes the expansion of Vienna airport to a hub, while retaining the network carrier model. The use of the fleet is to be optimised. Austrian Airlines will be retiring from some of its charter business on the other hand.
- Important cost savings are to be achieved, principally by cutting staff numbers to around 6,000 by the end of 2010 and by savings in management. A further package of savings in human resources worth EUR 150m is principally to be realised by reducing unit costs. The productivity of network and crew are to be increased and supplier relations reviewed.
- Synergies are to be created with the Lufthansa Group, for instance by integrating sales units abroad, which has already begun, and by collaborating at the stations and in ground handling. Collaboration in maintenance is to be restructured and the level of vertical integration reduced. Other synergies are to be generated by pooling purchasing and procurement and using Lufthansa's IT system solutions.

Weak market affects revenue and result

Austrian Airlines transported nearly 10 million passengers in 2009, a fall of 10.2 per cent compared with the previous year. Available seat-kilometres were cut by 11.2 per cent and sales slumped across the board by 12.3 per cent. Overall, this led to a passenger load factor of 74.0 per cent, or just 0.9 percentage points down on the previous year.

Revenue dropped by 20.3 per cent as a result of the weaker traffic to around EUR 2.0bn. Austrian Airlines reported EBIT of EUR –294m. From September 2009 a revenue share of EUR 665m is included in Lufthansa's consolidated financial statements, as is an operating loss of EUR 31m.

Better prospects despite difficult environment

From a current perspective Austrian Airlines is expecting the environment to remain difficult, with lasting structural shifts and further consolidation of the airline industry. The foundations have been laid for a successful future as part of the Lufthansa airline group. The path towards becoming a sustainable and successful company has been clearly defined in the Austrian Next Generation programme and is being pursued consistently. Austrian Airlines therefore aims to increase revenue in 2010 and is expecting an operating loss, but a much lower one than in the previous year.

British Midland

British Midland[1)]

		2009[2)]	Change in %
Revenue	€m	541	–
Operating result	€m	–78	–
EBITDA	€m	–44	–
Passengers carried	thousands	3,829	–
Employees as of 31.12.	number	4,346	–

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

After reaching a settlement with Sir Michael Bishop, the previous majority shareholder, on the agreed put option, Lufthansa acquired 50 per cent plus one share of British Midland Ltd. (bmi) in July 2009. Following the purchase of SAS Group's 20 per cent stake, Lufthansa has been the sole shareholder of British Midland since November 2009 via its British holding company LHBD Holding Ltd. The company has been fully consolidated since July 2009. A review is currently taking place with the company's new management on whether integration with the Lufthansa Group makes sense over the long term.

Its core market is Great Britain

With currently 10 per cent of the take-off and landing rights (slots), bmi is the second largest airline at London Heathrow airport. Given the importance of the airport as an international hub, the slots are of considerable strategic value. The core markets for all three bmi airlines are in Great Britain.

The route network of bmi mainline comprises destinations from London Heathrow to the domestic British market, Europe, the CIS, the Middle East and North Africa. Additional sales structures have been developed selectively in important markets for bmi such as the CIS and the Middle East. Flight tickets are sold over its own internet platform and via global distribution systems to reach important business customers, such as those in the energy and banking sectors.

bmi regional provides short-haul flights within the UK and to nearby European destinations with its Embraer fleet. Its high-quality product and excellent punctuality are aimed particularly at business travellers. In addition, bmi regional increasingly charters out its aircraft with crew, which is known as a "wet lease". The company started a charter service with two aircraft between the UK and Toulouse on behalf of Airbus.

bmibaby operates as a no-frills airline using 14 aircraft from the Boeing 737 family, flying from four stations in Birmingham, Cardiff, East Midlands and Manchester to domestic and European destinations. Although the company is of minor significance in comparison with some of its British competitors, it is well represented in its markets. Tickets for individual travellers are sold almost exclusively via internet.

Course of business dominated by restructuring

The financial year 2009 was extremely difficult for bmi. The global recession had a very adverse effect on its business, particularly on passenger numbers and average yields at all three airlines. In November bmi presented a comprehensive turnaround plan for all its business segments in order to absorb the collapse in revenue and achieve sustainable earnings improvements, whereby loss-making routes are to be abandoned, capacity reduced by 20 per cent and productivity and efficiency increased throughout the company. These steps will result in the reduction of around 800 jobs.

The bmi mainline fleet is to be reduced from 39 to 30 aircraft. Long-haul services have already been adjusted and services from Manchester were successively wound down from January to April 2009. As part of the restructuring in network planning the focus in future will be on lucrative routes in niche markets linking London Heathrow airport to destinations in Germany, and possibly Austria and Switzerland.

The year 2009 bmi regional was again able to demonstrate its outstanding punctuality. It was again acknowledged as the most punctual airline in Britain. Capacities and routes were cut at bmi regional as a result of the recession.

In response to the slump in demand bmibaby also made substantial capacity cuts in the winter months. A plan to restructure was announced in November. As part of this the size of the fleet is to be reduced from 17 to 14 aircraft. Following easyJet's withdrawal from East Midlands airport, bmibaby is to extend its capacity there in future and strengthen its market position.

Outlook still diffident

Since being fully consolidated in Lufthansa's financial statements bmi has generated revenue of EUR 541m and an operating result of EUR –78m. The company anticipates a further operating loss in 2010.

Germanwings

Germanwings

		2009	Change in %
Revenue	€m	580	−7.6
Operating result	€m	24	300.0
EBITDA	€m	63	61.4
Passengers carried	thousands	7,166	−6.0
Employees as of 31.12.	number	1,111	6.2

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

Successfully established in the no-frills segment
In recent years Germanwings has established a successful presence in the segment of no-frills airlines in Europe. With its current fleet of 26 Airbus A319s Germanwings offers flights from its five locations, Cologne/Bonn, Stuttgart, Berlin-Schönefeld, Hamburg and Dortmund, to 65 destinations on the European continent. In order to ensure its long-term competitiveness, the company restructured its network in late 2008 and reduced the fleet by five Airbus A319s. Although the air transport sector has been severely shaken by the global recession, Germanwings was able to grasp available opportunities, benefiting among other things from the shift in business travellers' booking patterns. In the spring of 2009 the company therefore integrated two new Airbus A319s into its fleet and leased additional capacity for the summer. From the autumn, the site in Cologne/Bonn in particular was expanded and new destinations included in the flight plan.

The competitive environment on the German market nevertheless grew even harsher for Germanwings in 2009. Air Berlin took over the city connections from TUIFly from 1 November 2009, for instance. This added to the competition for Germanwings, above all at its main sites in Cologne/Bonn and Stuttgart.

The main focus of sales activities is on online channels, which account for 92 per cent of all sales. The most important is its own website i www.germanwings.com. In addition, cost-neutral market penetration is increasingly being achieved via online and offline B2B channels with the aim of gaining better access to high-revenue customer groups (companies, event organisers etc).

Germanwings' outstanding punctuality and high product quality mean that surveys regularly reveal a high level of customer satisfaction. Since commencing operations Germanwings has been able to refine its product and set trends. Seat reservations are now an firm feature of special service requests and the baggage charge introduced in Germany in 2008 has now been copied by established airlines too. All-in pricing was introduced from October 2009, by which fuel surcharges as well as other charges are included in the ticket price. The range of transfer connections on offer at larger airports is becoming ever more popular with customers and is successful in smoothing the seasonality in the Germanwings route portfolio.

Earnings improve with planned reduction in revenue
Although the air transport industry as a whole was hard hit by the global economic and financial crisis in 2009, Germanwings was one of the companies to benefit from it. Its quality image means that Germanwings has the right offer for business customers who no longer fly Business Class.

Revenue fell in 2009 compared with the previous year to EUR 580m. This decline was planned in the sense that it was largely in line with a reduction in available seat-kilometres, which was due in turn to an early restructuring of the network and a reduction of the fleet by five Airbus A319s. Passenger numbers contracted to 7.2 million for the full year (previous year: 7.6 million). The passenger load factor almost stayed at last year's level, reaching nearly 80 per cent. Overall, Germanwings generated a positive operating result of EUR 23.9m for the financial year 2009. This was a clear improvement on the previous year, which was adversely affected by non-recurring factors.

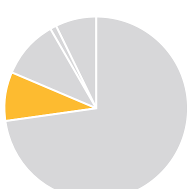
Well positioned for 2010
Germanwings expects pressure on demand for and income from air traffic to remain high in 2010. The market offers little chance of imposing price increases if demand softens. Overcapacities must still be expected as a large number of past aircraft orders are due for delivery in 2010. Rising oil prices and price increases announced by suppliers will also increase pressure on costs. Opportunities arise primarily from the fact that Germanwings constantly refines and successfully implements product innovations, which contributes to stabilising average yields. These steps are part of an extensive programme to safeguard earnings that is focussed not on conventional cost-cutting but on improving processes and structures.

Germanwings is again anticipating an increase in revenue and an operating profit for 2010. The forecast fuel and exchange rate assumptions could nevertheless have a negative effect in the short term.

Logistics business segment

The airfreight market experienced a massive slump in 2009, with revenue falling by around one third. The programme to safeguard earnings introduced in 2008 was adapted continuously and helped to make up for part of the lost income. After a positive fourth quarter the operating loss came to EUR 171m. Its position in Asian markets recovered towards the end of the year. The high level of customer satisfaction was confirmed despite the difficult environment.

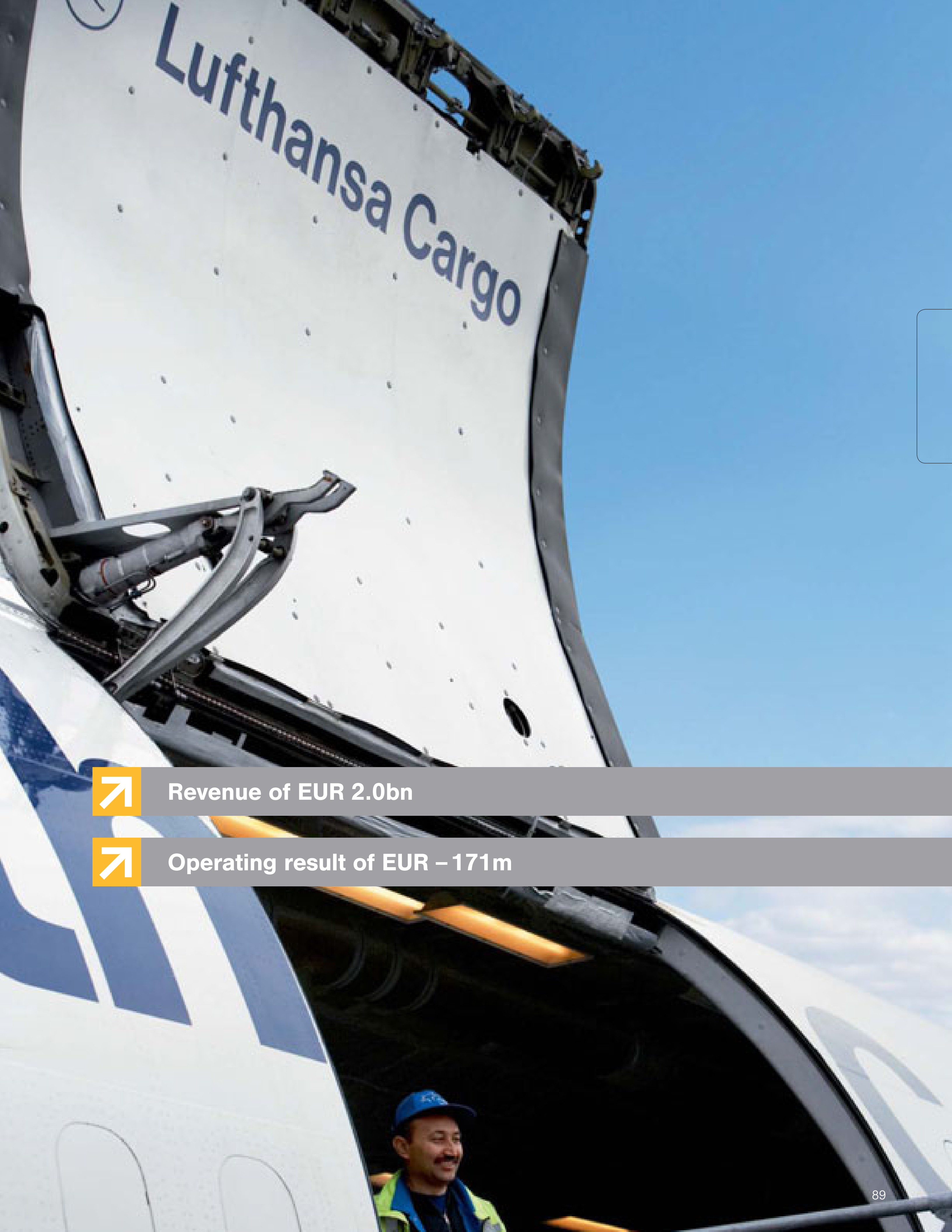
Share of Group revenue 8.7%



One of the largest cargo airlines

Key figures Logistics

		2009	2008	Change in %
Revenue	€m	1,951	2,907	–32.9
of which with companies of the Lufthansa Group	€m	23	25	–8.0
Operating result	€m	–171	164	–
Adjusted operating margin	%	–8.0	6.2	–14.2 pts
Segment result	€m	–152	201	–
EBITDA	€m	–28	323	–
CVA	€m	–264	71	
Segment capital expenditure	€m	25	22	13.6
Employees as of 31.12.	number	4,488	4,655	–3.6
Average number of employees	number	4,568	4,619	–1.1
Freight and mail	thousand tonnes	1,519	1,696	–10.5
Available cargo tonne-kilometres	millions	11,681	12,584	–7.2
Revenue cargo tonne-kilometres	millions	7,425	8,283	–10.4
Cargo load factor	%	63.6	65.8	–2.2 pts



Revenue of EUR 2.0bn

Operating result of EUR –171m

Business and strategy

Industry leader with a global network

Lufthansa Cargo is the Lufthansa Group's provider for the logistics business as well as one of the largest cargo airlines in the world. Lufthansa Cargo's product portfolio covers all three airfreight segments: the standard segment with the product td.Pro, the express segment with td.Flash, and the special segment for transporting temperature-sensitive products, live animals, airmail and especially valuable goods. The fundamental strengths of Lufthansa Cargo include its global network, the frequency of its flight connections and the different production platforms from which capacities are offered. Its strategy is aimed at industry leadership in terms of profitability, quality and growth. This is to be achieved sustainably by an integrated offering from the Lufthansa Cargo Group, consisting of improved systems, supply chain solutions, outstanding service and flexible growth and costs.

Comprehensive route network from different providers under one roof

Lufthansa Cargo and various other providers of airfreight capacities are united under the strategic framework of the Lufthansa Cargo Group. The group offers its customers a unique and comprehensive range of networks, destinations, products and capacities from its hubs in Frankfurt, Munich and Leipzig/Halle. They not only include capacities on its own MD-11 freighters, but also those of the joint venture AeroLogic GmbH, those of its Chinese joint venture Jade Cargo International and those available in around 400 passenger aircraft operated by Lufthansa Passenger Airlines. Additional freight capacities are also available on board the passenger planes flown by SWISS, AUA, bmi and Brussels Airlines. Furthermore, airfreight can also be forwarded via the Lufthansa Cargo Charter Agency as well as via a worldwide roadfeeder service. Road transport is also used, predominantly for European traffic. In total, Lufthansa Cargo's route network covers some 400 destinations in 90 countries.

The most important hub for Lufthansa Cargo is Frankfurt Airport. Handling for most of the freight transported takes place here. The airport Leipzig/Halle has evolved into a further important handling point. It is one of the most modern, high-performance cargo hubs in Germany. The airport's significance rose further in June 2009 when AeroLogic GmbH commenced operations there. At the weekends the fuel-saving Boeing 777 freighter aircraft operated by the joint venture fly for Lufthansa Cargo directly between their home airport Leipzig/Halle and growth markets in Asia. The growing AeroLogic fleet is to include eight aircraft of this type by the end of 2010. In total, the Lufthansa Cargo Group will then draw on capacities equivalent to 33 freighter aircraft.

Locations Lufthansa Cargo

- Lufthansa Cargo destinations
- Jade Cargo International destinations
- AeroLogic destinations

Well positioned in the Chinese growth market

Strengthening market access to the growth regions in China is a vital strategic priority at Lufthansa Cargo. The company has had a successful presence in China for a long time via its equity investment in the Shanghai Pudong International Airport Cargo Terminal. The company is also well positioned in the fastgrowing Chinese economic zones: both in the Pearl River Delta thanks to its equity stake in the International Cargo Center Shenzhen and its stake in the cargo airline Jade Cargo International, and in the Yellow River Delta as a result of its equity investment in the handling company Tianjin Aircargo Terminal Ltd.

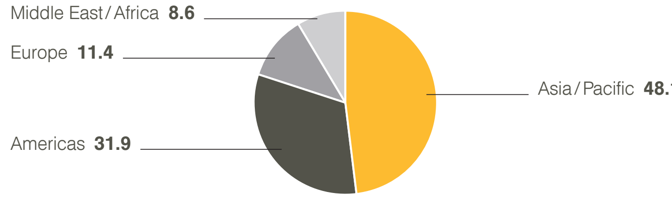
Markets and competition

Crisis provokes collapse in demand and tougher competition

Measured by the amount of freight transported (in tonne-kilometres), Lufthansa Cargo is the third largest cargo airline worldwide behind Korean Air Cargo and Cathay Pacific Cargo. The crisis year 2009 led to a worldwide collapse in demand. The steep decline in freight volumes added to the competitive pressure by creating large overcapacities that caused freight rates to fall significantly too. Lufthansa Cargo was especially hard hit by the fall in exports from the German market due to the recession. By contrast, the Asian markets were reporting rising export volumes by the end of the year. In the fourth quarter Lufthansa Cargo was able to take initial steps to raise depleted freight rates nearly everywhere in the world.

The most important traffic regions for Lufthansa Cargo are still North and South America and Asia/Pacific. Looking at total revenue for Lufthansa Cargo by the regional distribution of customers, Germany and the rest of Europe still represent the most important markets with a share of around 50 per cent.

Logistics traffic revenue by traffic region in %



Sales and customers

Platforms for customer cooperation extended

Lufthansa Cargo has further intensified its collaboration with strategically important key accounts as part of the Global Partnership Programme and has thereby created a sustainable platform for stability and growth. The aim of the programme is to participate jointly in the global growth of the airfreight market. Furthermore, Lufthansa Cargo is striving for increased cooperation and integration in capacity planning as well as in operating processes and systems. Overall, it generates around 50 per cent of worldwide revenue with its global partners.

As well as the segment for major customers, the mid-market segment is also becoming increasingly important. Lufthansa Cargo identified this trend at an early stage and now works with more than 100 top customers from this group in the Business Partnership Programme.

Sales to major accounts are managed and accompanied by a global account management team. Sales are mostly direct, but in some regions are carried out via general agents. Lufthansa Cargo also sets great store by electronic booking channels, which are being extended successively. In 2009 almost 40 per cent of all bookings were made via these channels. By 2011 this proportion is due to reach 50 per cent. Further progress was made in 2009 on the global implementation of the IATA e-freight initiative for paperless freight transport. The paperless eAirWayBill is to be introduced by the end of 2010. All trade, transport and customs documents are to be replaced by electronic data formats by 2015.

Previous year's high customer satisfaction levels confirmed

This intensive collaboration with different customer groups pays off. Another survey was carried out, for example, among 1,700 Lufthansa Cargo customers in October and November of the reporting year. It confirmed the previous year's high level of customer satisfaction, despite the persistently difficult economic conditions. Lufthansa Cargo's performance was also acknowledged by the industry. Its outstanding achievements earned it first place in the Air Cargo Industry Customer Care category at the World Cargo Awards organised by the trade magazine Air Cargo Week. Lufthansa Cargo received a further accolade at the Asian Freight & Supply Chain Awards (AFSCA), again being voted Best Air Cargo Carrier Europe.

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 %	
	2009	Change in %	**2009**	Change in %	**2009**	Change in %	**2009**	Change in %	**2009**	Change in pts
Europe	200	−34.0	556	−12.3	894	−11.9	415	−8.8	46.4	1.6
Americas	560	−34.0	420	−12.9	4,722	−9.0	2,996	−11.8	63.4	−2.0
Asia/Pacific	843	−29.3	418	−10.2	4,969	−6.9	3,369	−11.5	67.8	−3.5
Middle East/Africa	150	−28.6	125	9.7	1,096	5.5	645	3.7	58.9	−1.0
Total	**1,753**	**−31.3**	**1,519**	**−10.5**	**11,681**	**−7.2**	**7,425**	**−10.4**	**63.6**	**−2.2**

Course of business

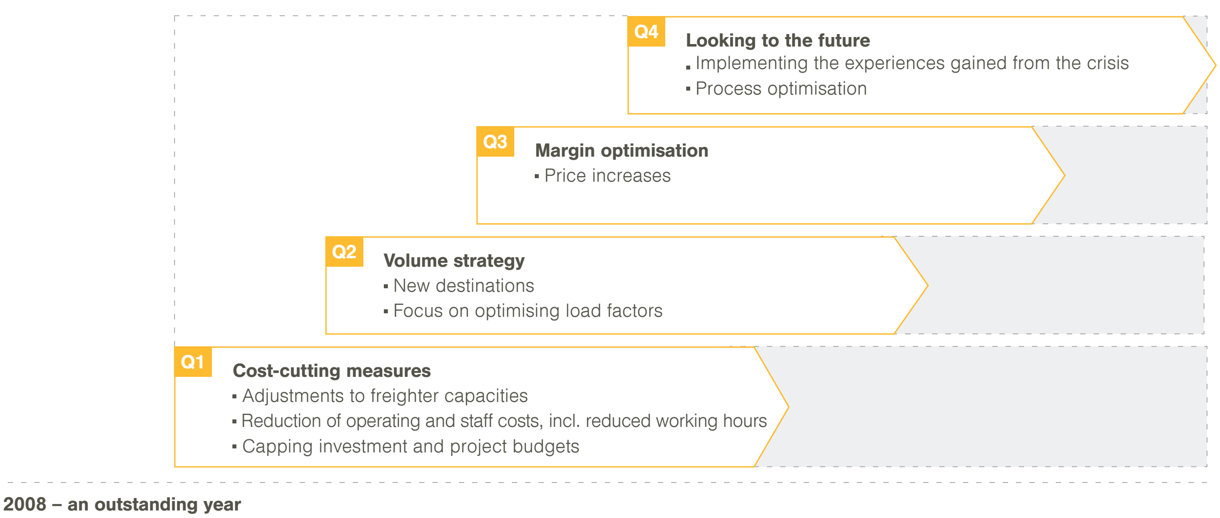
Extensive cost-cutting programme takes effect
The worldwide economic and financial slump underway since 2008 hit the global logistics sector considerably in 2009 too. Lufthansa Cargo suffered a sharp fall in revenue and a significant operating loss. A programme to safeguard earnings was launched to cope with the effects of the crisis in early 2009 and was tightened several times over the reporting period. Freighters were retired and fleet use was reduced at times. At the start of the year external charter capacities, one MD-11 and one Boeing 747-400, were released and replaced by Boeing 747-400 freighters from Jade Cargo International. Reduced working hours were introduced as of 1 March 2009 for around 2,600 ground staff at Lufthansa Cargo in Germany. In the second quarter the cut in working hours was increased from 20 to 25 per cent. Staff costs at sites abroad were reduced similarly, based on the policies available locally in each case. A works agreement covering equivalent part-time measures was signed for cockpit staff. Managers and Executive Board members have shown their solidarity by foregoing between 5 and 10 per cent of salary. Operating budgets were slashed by 25 per cent across the board and project budgets were reduced substantially.

The first stage of this programme was aimed above all at cutting costs and capacities directly, but in the second quarter the focus was widened to cover exploiting market opportunities to raise income as well. This enabled freight volumes to be recouped in the third quarter, thereby improving load factors, albeit at well reduced rates. The upturn in load factors and scarcer transport capacities enabled Lufthansa Cargo to halt the erosion of freight rates in the fourth quarter and increase prices worldwide. The positive operating result achieved by this in the fourth quarter could not prevent Lufthansa Cargo from closing the financial year 2009 with a significant operating loss.

Numerous new freighter destinations introduced
In order to retain exposure to major developments in growth regions despite the crisis, Lufthansa Cargo punctually established a new presence or reinforced existing positions in key markets such as Mexico, Columbia and Brazil. In 2009 it included Guadalajara, Bogota und Curitiba as new freighter destinations as well as Seattle, Quito, Hyderabad and Malta. Since April 2009 it has also offered nine new destinations in Africa, in cooperation with the Kenyan cargo airline Astral Aviation. The programme of cooperation in place with the Croatia Airlines since 2007 was intensified. This means that clients can be offered additional capacity to Eastern Europe in future. The combined airfreight/seafreight transport to Australia offered by Lufthansa Cargo since early 2009 in close cooperation with Jade Cargo International has also been well received by the market.

After the Russian government had met Lufthansa Cargo's operational and commercial conditions for a move, the technical stopover base for the MD-11 fleet was relocated in June from Astana in Kazakhstan to Krasnoyarsk in Russia. The new stopover site in Siberia cuts the flight time to the far East by an average of twelve minutes each way and therefore makes a valuable additional contribution to saving costs.

Lufthansa Cargo – crisis management 2009: a chronology



Cost-effectiveness improved by synergies within the Group

Operating synergies within the Lufthansa Cargo Group are being continuously optimised to improve the Group's cost-effectiveness. The first joint warehouse handling tender by Lufthansa Cargo, Swiss WorldCargo and Brussels Airlines therefore achieved a higher total tonnage, resulting in a reduction in unit costs for the freight areas of the Lufthansa Group involved.

In spring 2009 Lufthansa Cargo organised the first Cargo Climate Care environmental conference, which offered scientists, researchers, politicians, customers and partners a platform for discussing airfreight topics relating to the environment. Altogether, Lufthansa Cargo is doing more to promote the topic of sustainable logistics. Lufthansa Cargo is aware of its responsibility to protect the environment and takes this into account for projects and capital expenditure in this field. At the same time it is pursuing a wide range of measures in many different areas. Their principal aim is to reduce CO_2 emissions from airfreight transport by 2020 by 25 per cent compared with 2005. With this goal in mind, the trials which began in the first quarter with lightweight containers, made of composite materials that weigh 12 to 19 per cent less than conventional containers, were continued over the course of the year. The tests had positive results: in addition to reducing weight, the new containers proved to be more resistant to damage. The trial will be completed in the first quarter of 2010 and as well as improving environmental performance is also intended to deliver lower transport costs. In operational terms Lufthansa Cargo implemented further measures aimed at reducing kerosene consumption. In recent years the systematic implementation of measures like these has not only saved energy but also tens of millions of euros in costs.

Operating performance

Capacity adjusted to lower demand

Lufthansa Cargo responded to the sharp slump in demand by slashing capacity. Over the course of the year up to four MD-11 freighters were retired, bringing the remaining fleet down to 15 freighter aircraft. Lufthansa Cargo also reduced the amount of chartered capacity considerably. In total, capacity was cut by 7.2 per cent.

Cargo load factors were improved sustainably compared with last year as of August 2009 by means of a volume-based strategy in the second half of the year. In November and December they reached more than 70 per cent.

For the full year Lufthansa Cargo reported a fall in the cargo load factor of 2.2 percentage points to 63.6 per cent for a decline of 10.4 per cent in sales. Poor demand and increasing competition had a drastic effect on average yields (–23.4 per cent). Traffic revenue fell year on year by 31.3 per cent.

Capacity adjustments in all traffic regions

In the Europe traffic region capacity was cut by 11.9 per cent, which enabled the cargo load factor to rise by 1.6 percentage points. Traffic revenue saw a disproportionately steep decline of 34.0 per cent.

Capacity on routes to and from America was reduced sharply by 9.0 per cent. Systematic capacity management achieved a cargo load factor of 63.4 per cent (–2.0 percentage points). Despite the positive effect of the US dollar exchange rate, traffic revenue contracted by 34.0 per cent.

Although the Asia/Pacific traffic region was disproportionately affected by weak demand at first, Lufthansa Cargo was able to participate in the market upturn coming out of Asia in the second half of the year thanks to flexible adjustments in capacity. In the fourth quarter this brought about a return to greater capacities and revenue tonne-kilometres, as well as a rising cargo load factor. For the full year capacity was cut by 6.9 per cent, sales fell by 11.5 per cent and the load factor dropped by 3.5 percentage points to 67.8 per cent. Traffic revenue here fell less sharply than in Europe and America at 29.3 per cent.

Capacity in the Middle East/Africa traffic region was expanded on the previous year by 5.5 per cent. Dwindling export volumes from Europe were bolstered by stopovers in the Middle East. The load factor fell slightly by 1.0 percentage point compared with the previous year. Traffic revenue dropped by 28.6 per cent.

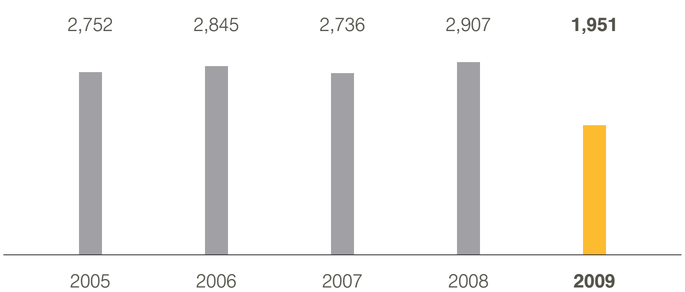
In spite of the difficult situation in terms of demand, AeroLogic, the new joint venture set up with DHL, started operations successfully in mid 2009. Its Boeing 777 freighters support Lufthansa Cargo's Asian business. Additional aircraft to be delivered in 2010 will be deployed on North Atlantic routes, further strengthening the market position.

Revenue and earnings development

Revenue down by 32.9 per cent

Revenue dropped over the reporting period by 32.9 per cent to EUR 2.0bn. The main component of revenue and the main reason for the collapse is traffic revenue. It came to EUR 1.8bn for 2009, a shortfall of 33.4 per cent compared with the previous year. Although exchange rates had a positive impact of 0.6 per cent, pricing trimmed traffic revenue by –23.6 per cent altogether.

Revenue Logistics in €m



Freight charter income fell by EUR 197.0m to EUR 155.1m. The cooperation with DHL that made up the bulk of this item was terminated at the middle of the year when AeroLogic GmbH began operations.

Other operating income went up by 9.9 per cent to EUR 111m due to higher income from staff secondment, compensation for damages and exchange rate gains on the translation of foreign currencies.

Total operating income declined by 31.4 per cent to EUR 2.1bn.

Operating expenses reduced by 21.5 per cent through lower cost of materials and services

Operating expenses sank by 21.5 per cent to EUR 2.2bn in the reporting period. The main driver was the sharp fall in the cost of materials and services. This in turn was mainly due to lower fuel costs, fees and charges. The lower fuel prices compared with the previous year and reduced fuel volumes due to lower capacity meant that fuel expenses fell sharply by 53.8 per cent to EUR 265m. Fees and charges went down in line with reduced capacity to EUR 238m (–18.2 per cent).

Charter expenses fell as a result of lower fuel costs in the charter rates and lower costs of road transport by 11.2 per cent to EUR 820m.

MRO expenses fell by 18.6 per cent to EUR 114m due to a lower number of maintenance events for structural and capacity reasons, especially for engine overhauls.

Operating expenses Logistics

	2009 in €m	2008 in €m	Change in %
Cost of materials and services	1,511	2,010	–24.8
of which fuel	265	573	–53.8
of which fees	238	291	–18.2
of which charter expenses	820	923	–11.2
of which MRO services	114	140	–18.6
Staff costs	311	332	–6.3
Depreciation and amortisation	123	123	0.0
Other operating expenses	288	379	–24.0
Total operating expenses	**2,233**	**2,844**	**–21.5**

Staff costs sank by 6.3 per cent to EUR 311m. The steps taken to safeguard earnings and the effects of the reduced working hours that are still in place more than made up for the increase in staff costs due to the wage settlement for ground staff. In total an average of 4,568 staff were employed at Lufthansa Cargo, a fall of 1.1 per cent on the previous year (4,488 or –3.6 per cent as of the reporting date). The reduction in staff numbers was carried out entirely without redundancies.

Depreciation and amortisation was stable year on year at EUR 123m.

In addition to lower exchange rate losses from foreign currency translation, cost management brought about a substantial reduction in agency commissions, consultancy expenses, other travel and staff costs, and rental and maintenance expenses. Other operating expenses were as a result cut sharply to EUR 288m (–24.0 per cent).

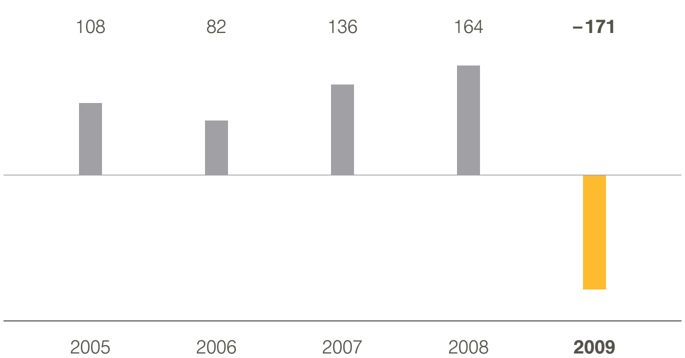
Operating loss of EUR 171m
Lufthansa Cargo could not escape the extremely difficult environment brought about by the crisis and reported an operating loss of EUR 171m for the financial year 2009. The adjusted operating margin was –8.0 per cent (previous year: 6.2 per cent). Swift action and the great commitment and flexibility shown by staff and management nevertheless helped to mitigate the effects of the crisis. The positive result as early as the fourth quarter demonstrated clearly the effectiveness of the steps taken in terms of both income and expenses.

The segment result fell to EUR –152m (previous year: EUR 201m). This includes the result of the equity valuation of EUR 5m (–70.6 per cent). The operating launch of the joint venture AeroLogic and a lower earnings contribution from Shanghai Pudong International Airport Cargo Terminal Co. Ltd. both depressed the result.

Segment capital expenditure slightly increased
Investment was up slightly on the previous year at EUR 25m (+13.6 per cent). Lufthansa Cargo invested particularly in operating and office equipment (for example containers, refrigerated containers, loading aids and safety equipment).

Long-term overview of earnings
In recent years the Logistics business segment has been consistently profitable and was able to improve its earnings continuously in the period 2006 to 2008. Dramatic market developments and the resulting economic environment put an end to this positive trend. The steps taken as part of the programme to safeguard earnings nevertheless averted an even steeper fall in profitability.

Operating result Logistics in €m



Outlook

Return to profitable growth announced
Lufthansa Cargo is cautiously optimistic about the current financial year. The company expects revenue to improve year on year as a result of a slight improvement in freight volumes and for freight rates to recover across the industry. The majority of volume growth is expected from Asia, particularly from China.

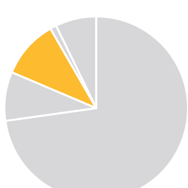
With the Lean Lufthansa Cargo 2010 ff programme, Lufthansa Cargo intends to use 2010 – and the years thereafter – to return to profitable growth without changing strategy after the collapse in volumes and revenue in 2009 and to make the group leaner in many respects. The programme is intended to increase revenue by 20 per cent and cut unit costs by 10 per cent. Lufthansa Cargo will also continue to keep costs down: materials budgets are being cut by 20 per cent in administrative areas in 2010 and in operating areas by 10 per cent. All in all, Lean Lufthansa Cargo 2010 ff is intended to secure the results of the successful 2009 programme to safeguard earnings for the long term and deliver substantial productivity gains.

A significant improvement in the operating result at the latest is expected for the 2010 financial year in consequence. By 2011 further increases in revenue should again be accompanied by an operating profit.

MRO business segment

↗ Worldwide demand for MRO services is falling despite a growing global fleet; price pressure is now even higher. ↗ In this difficult environment Lufthansa Technik was nevertheless able to increase revenue by 6.6 per cent. ↗ The operating result went up by 5.7 per cent. ↗ Long-term contracts underpin the strategy of stabilising performance sustainably by increasing customer loyalty.

Share of Group revenue 10.3%



↗ Worldwide leading provider of maintenance, repair and overhaul services

Key figures MRO

		2009	2008	Change in %
Revenue	€m	3,963	3,717	6.6
of which with companies of the Lufthansa Group	€m	1,666	1,501	11.0
Operating result	€m	316	299	5.7
Adjusted operating margin	%	8.3	8.8	−0.5 pts
Segment result	€m	331	329	0.6
EBITDA	€m	436	425	2.6
CVA	€m	164	188	−12.8
Segment capital expenditure	€m	121	122	−0.8
Employees as of 31.12.	number	19,796	19,804	0.0
Average number of employees	number	19,758	19,199	2.9

Revenue of EUR 4.0bn

Operating result of EUR 316m

Business and strategy

Leading provider on the MRO market

Lufthansa Technik is the world's leading and independent provider of maintenance, repair and overhaul services (MRO) for civil aircraft. As a full-line supplier the MRO Group offers different levels of products and combinations of products, from individual component repairs through to the fully integrated supply of whole fleets with reserve engines. One of the most successful service packages on the world market and a key differentiating factor against the competition is the range of Total Support services, which offer customers the widest possible choice of services, right up to full fleet management. More than 137 customers now place their trust in these Total Component Support solutions. The economies of scale achievable by supplying material worldwide from Lufthansa Technik's large pool of stock enable customers to purchase supplies cheaply and spare their own working capital effectively. The long-term contracts underline Lufthansa Technik's strategy of offering flexible and customised products to airlines and thereby establishing long-term customer loyalty.

Lufthansa Technik's service range is delivered by a total of six divisions: maintenance, components, engines, aircraft overhaul, landing gear, and completion and maintenance for VIP aircraft. The MRO group includes 31 technical maintenance operators worldwide. The company also holds direct and indirect stakes in 55 companies.

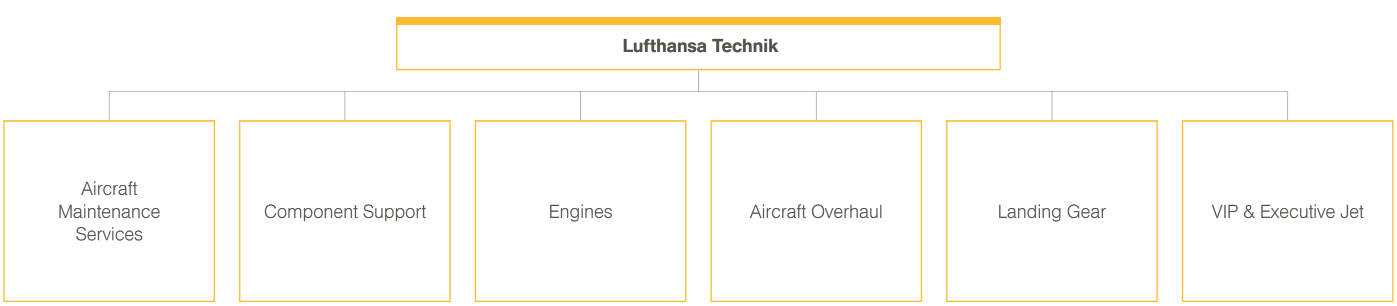
Hamburg is the primary location for maintenance operations, with aircraft overhauls, completion of VIP aircraft, engine and component maintenance, the logistics centre, and development and manufacturing operations, and is therefore the headquarters of Lufthansa Technik. The largest maintenance stations are in Frankfurt, Munich and Berlin, with other stations in all larger German airports and at 50 other sites around the world. In recent years new equity investments and locations have been developed to supplement and expand the product portfolio in line with market and customer requirements, and to produce services that can no longer be provided cost-effectively in Germany in cheaper locations. This strategy was pursued in 2009 as well: in May the first A330 C check was carried out in the recently opened wide-body hangar at Lufthansa Technik Malta. Lufthansa Technik Sofia, the newest member of the worldwide MRO network, celebrated its first anniversary in October, and included the Boeing models 737 Classic and Next Generation alongside the Airbus A320 family in its portfolio for the second overhaul line as of July 2009.

German locations also saw continued development. In order to strengthen its position as an innovative supplier of cabin products for airlines and VIP and business jet clients, Lufthansa Technik inaugurated the research and development centre for the Cabin Innovation division in Hamburg at the start of 2009.

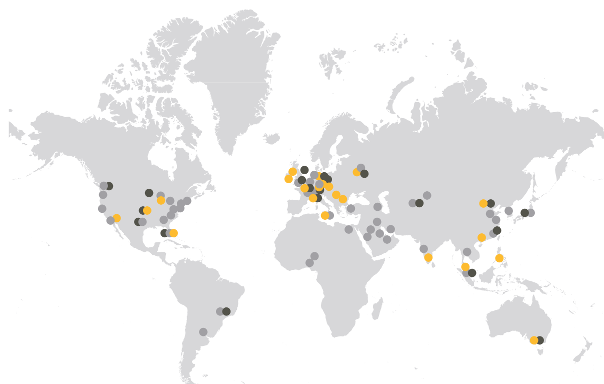
New strategic course set

At the beginning of 2009 Lufthansa Technik reorganised the international maintenance business, uniting operations under the roof of Lufthansa Technik Maintenance International GmbH in Frankfurt. The new wholly owned subsidiary of Lufthansa Technik AG has almost 800 staff and is the centre of excellence for maintenance services for clients other than Lufthansa Passenger Airlines. A new centre for aircraft maintenance and component supply was also opened at Milan-Malpensa airport in Italy in order to service aircraft operated by Lufthansa Italia and other clients locally. The service range of Lufthansa Technik Milan includes component supply and maintenance services up to A checks as well as aircraft-on-ground support.

Lufthansa Technik's product divisions



Locations Lufthansa Technik



• Largest maintenance stations • Sales offices • Largest equity investments

Outside Europe, Lufthansa Technik has also developed its strategic position: BizJet International, a wholly owned US subsidiary, completed the first refit of an Airbus A318 Elite in 2009. In September 2009 Ameco Beijing received the Laureate Award for International Cooperation at the 13th Aviation Expo in China. The joint venture between Air China and Lufthansa, founded in 1989, was the first MRO cooperation in the Chinese civil aviation industry. It employs more than 5,600 people overall.

Markets and competition

Lufthansa Technik increases market share

The total market for technical civil aviation services had an estimated volume of USD 41bn in 2009 and was therefore smaller than the previous year, although less so than originally expected. Lufthansa Technik's modern portfolio covers nearly 80 per cent of this market volume.

The crisis in air transport with fewer flights and sharp falls in income was increasingly felt in the MRO sector in 2009. While the worldwide fleet grew overall, despite the number of parked aircraft, demand for MRO services fell, as the older and therefore higher-maintenance aircraft are retired first. The enormous cost pressure on airlines due to reduced average yields and increasing kerosene prices is passed on to the MRO industry, raising pressure on prices. Thanks to its broad product range and triple certification as a maintenance, manufacturing and development business, Lufthansa Technik was able to build on its position as global market leader with a market share of over 16 per cent in 2009 and benefits substantially from its long-term strategic orientation. But some clients and aircraft models in Lufthansa Technik's portfolio are also affected by the adverse market developments. This has resulted in lost revenue and earnings due to customer insolvencies and write-downs on receivables.

Lufthansa Technik's competitors include aircraft, engine and component OEMs (original equipment manufacturers), but also airlines offering MRO services such as Air France-KLM and independent MRO contractors (like ST AERO, SR Technics). Competition keeps getting tougher: new MRO capacities on the market are facing sinking demand, thereby intensifying price pressure in addition to the airlines' already high pressure on costs and margins. Lufthansa Technik therefore established programmes at an early stage for making capacity more flexible, cutting costs and increasing efficiency in response to market changes.

Sales and customers

High share of revenue from third-party business

Lufthansa Technik has over 690 customers worldwide. In addition to airlines and VIP jet operators these include aircraft leasing companies. Revenue from customers outside the Lufthansa Group continued to rise in 2009, climbing markedly by 3.7 per cent to 58.0 per cent of total revenue (previous year: 59.6 per cent). Europe including the CIS states again represents the most important sales region. Its share of revenue came to 69.6 per cent. Asia follows with 11.7 per cent, ahead of Middle East/Africa and America with 9.6 per cent and 9.1 per cent respectively.

Lufthansa Technik's services are mainly sold centrally by means of direct sales; individual products are also sold decentrally, however. Sales is organised in regional units, with key account managers for large and important customers, sometimes at their local base. E-marketing is also being promoted using a customer portal that was redesigned in 2009 and presents all key information and new developments. Customer contact is also reinforced and developed by various print media, participation in international trade fairs and the group's own product-oriented professional conferences. A precise picture of customers' wishes is gained both from the regular surveys of customer satisfaction and from direct feedback received by sales representatives and customer services.

In the Cabin Innovation division Lufthansa Technik was able to win the aircraft manufacturer Bombardier Aerospace as a new client for the product known as nice® (networked integrated cabin equipment). Highlights of the product primarily include new developments for managing and controlling different cabin systems for VIP and business aircraft. For its latest innovation in the field of infotainment, the niceview™ product, Lufthansa Technik won the Crystal Cabin Award 2009 in the category Entertainment and Communications.

Lufthansa Technik and the company eJet Services have extended the scope of their collaboration. This expands the range of comprehensive services to include servicing and operating Bombardier CRJs converted into VIP aircraft. The joint programme was introduced in 2008 and offers operators of smaller, less frequently used business aircraft an all-round, global package of maintenance services and operational support. Lufthansa Technik is also active in the field of new propulsion technologies. Cooperation with the German Aerospace Center on testing fuel cells for aviation was intensified and an experimental fuel-cell plane was stationed at the Lufthansa Technik base in Hamburg.

Course of business

Many new contracts and customers acquired
Lufthansa Technik continued its growth path in 2009. A sales volume of EUR 493m was reached for the full year 2009, with 40 new customers and 456 new contracts, although some customers were lost to insolvency. A total of 252 additional aircraft (+14 per cent) were acquired for MRO services. This brings the serviced fleet to 2,028 aircraft.

Supplies of aircraft components to Aeroflot were increased considerably. The 55th aircraft in Aeroflot's Airbus A320 family is the 2000th aircraft overall to be serviced by Lufthansa Technik as part of its Total Support packages since September. The Air Berlin group also appointed Lufthansa Technik to supply components for its entire fleet. In November Air Canada also decided on component support from Lufthansa Technik, signing a ten-year contract for 18 Boeing 777s. Other new contracts signed included customers such as Vietnam Airlines and Ryanair. Etihad Airways appointed Lufthansa Technik to install the Guideline ColourFit system of non-electric floor path marking in its entire fleet. Airbus and Bombardier (for the C-Series) are to offer their customers the Guideline ColourFit lighting technology as standard. Etihad and Qatar Airways also had cabin modifications in Airbus A340-600s carried out by Lufthansa Technik. A ten-year service contract was signed with the SAS Group for repairing and overhauling the landing gear on its Airbus fleet, which numbers more than 20 planes.

Lufthansa Technik's excellent reputation was underlined in May when it received the award for the best MRO provider from UBM Aviation, a British trade publisher and exhibition organiser. With a total of four prizes in twelve categories, Lufthansa Technik was the most successful of the 24 companies worldwide chosen to take part in the first UBM Aviation Industry Awards.

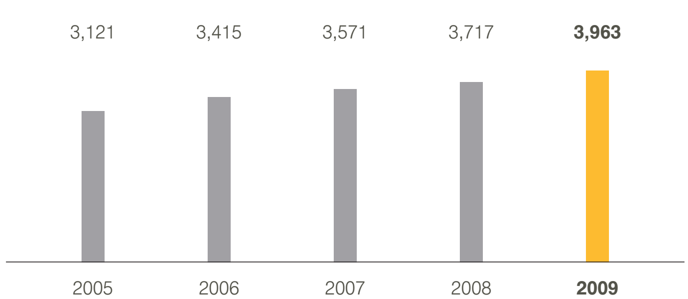
Revenue and earnings development

Revenue growth of 6.6 per cent
Lufthansa Technik continued on its growth path, increasing revenue year on year by 6.6 per cent to EUR 4.0bn, again achieving anti-cyclical growth. Revenue from companies in the Lufthansa Group rose by EUR 165m to EUR 1.7bn (+11.0 per cent). In addition to servicing the larger fleet, more aircraft overhauls and engine maintenance works were carried out. Lufthansa Technik was also able to expand its external business by EUR 81m (+3.7 per cent) to EUR 2.3bn.

Other operating income of EUR 157m was the same as the previous year.

The MRO segment reported total operating income of EUR 4.1bn (+6.4 per cent).

Revenue MRO in €m



Expenses rose in parallel with revenue by 6.4 per cent
Operating expenses went up by EUR 230m (+6.4 per cent) to EUR 3.8bn. The cost of materials and services accounted for the largest rise of EUR 151m (+8.3 per cent) to EUR 2.0bn. This reflects revenue growth in nearly all segments.

Staff costs rose by 4.9 per cent to EUR 1.1bn. The average number of employees in the MRO segment went up on the previous year due to the integration of Lufthansa Technik Switzerland and recruitment at Lufthansa Technik AG by 2.9 per cent to 19,758.

Depreciation and amortisation rose by EUR 3m to EUR 87m. Other operating expenses increased by 4.1 per cent to EUR 679m due to higher provisions and greater use of external staff.

Operating expenses MRO

	2009 in €m	2008 in €m	Change in %
Cost of materials and services	1,979	1,828	8.3
of which raw materials, consumables and supplies	1,243	1,165	6.7
of which external services	617	523	18.0
Staff costs	1,059	1,010	4.9
Depreciation and amortisation	87	84	3.6
Other operating expenses	679	652	4.1
Total operating expenses	**3,804**	**3,574**	**6.4**

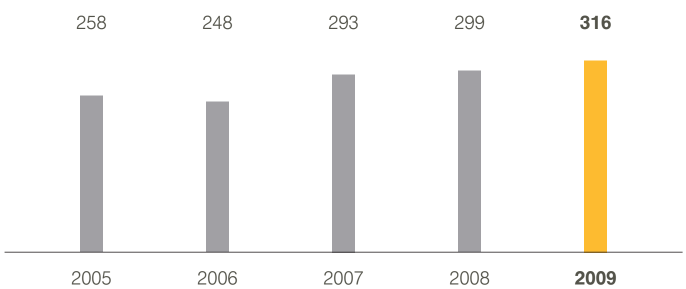
Operating result improved to EUR 316m
Despite the recessionary market environment the MRO segment was again able to report profitable growth in the reporting period, increasing its operating result by 5.7 per cent to EUR 316m. The adjusted operating margin fell slightly to 8.3 per cent (–0.5 percentage points).

Miscellaneous segment income sank by EUR 11m to EUR 18m as a result of writing back fewer provisions than the previous year. Segment expenses declined by EUR 3m to EUR 2m. In the previous year this item reflected the addition to the pension fund for Lufthansa Technik Switzerland.

The result of the equity valuation fell by EUR 7m to EUR –1m. In addition to lower profits from AMECO and Heico, this was largely due to higher losses at Alitalia Maintenance Systems, the stake in which has since been sold as of 18 January 2010. The segment result was nevertheless 0.6 per cent higher than the previous year at EUR 331m.

Segment capital expenditure down slightly year on year
Segment investment of EUR 121m was slightly below last year's (–0.8 per cent). Investments were primarily made in reserve engines, new machinery and technical equipment.

Operating result MRO in €m



Long-term overview of earnings
Even under changing economic conditions Lufthansa Technik has consistently been able to achieve high operating profits thanks to constant revenue growth, systematic cost management, a modern product portfolio and an international production group.

Outlook

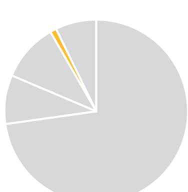
Substantial positive operating result expected again in 2010
Given the growing size of fleets worldwide, the MRO industry is fundamentally optimistic and for the next five years expects average annual growth of 3.9 per cent. The market covered by Lufthansa Technik's product portfolio is even forecast to grow at an annual rate of 5.2 per cent. New MRO capacities are permanently entering the market, however, which adds to the already tough competition. Price and cost pressure is also set to increase as a result of the burden inflicted on airlines by the recession. Only MRO operators that can cut their unit costs substantially will therefore be in a position to share in this growth.

Thanks to its modern product portfolio, low-cost locations and a number of programmes to cut costs and increase efficiency and flexibility, Lufthansa Technik is well prepared. The company is expecting a substantial positive operating result for 2010 as well. From a current perspective, and in view of the competitive challenges, it nevertheless seems an ambitious goal for Lufthansa Technik to match 2009's increased revenue and results in 2010. For 2011 Lufthansa Technik is again expecting to increase revenue and operating result.

IT Services business segment

↗ In a difficult market Lufthansa Systems was able to win new customers in 2009 and cement its competitive position. ↗ Lufthansa Systems combines its airline and IT know-how to develop bespoke solutions for the air transport industry. ↗ Revenue and operating profit are well below the previous year's. ↗ Securing competitive advantage with innovations that deliver significant customer benefits.

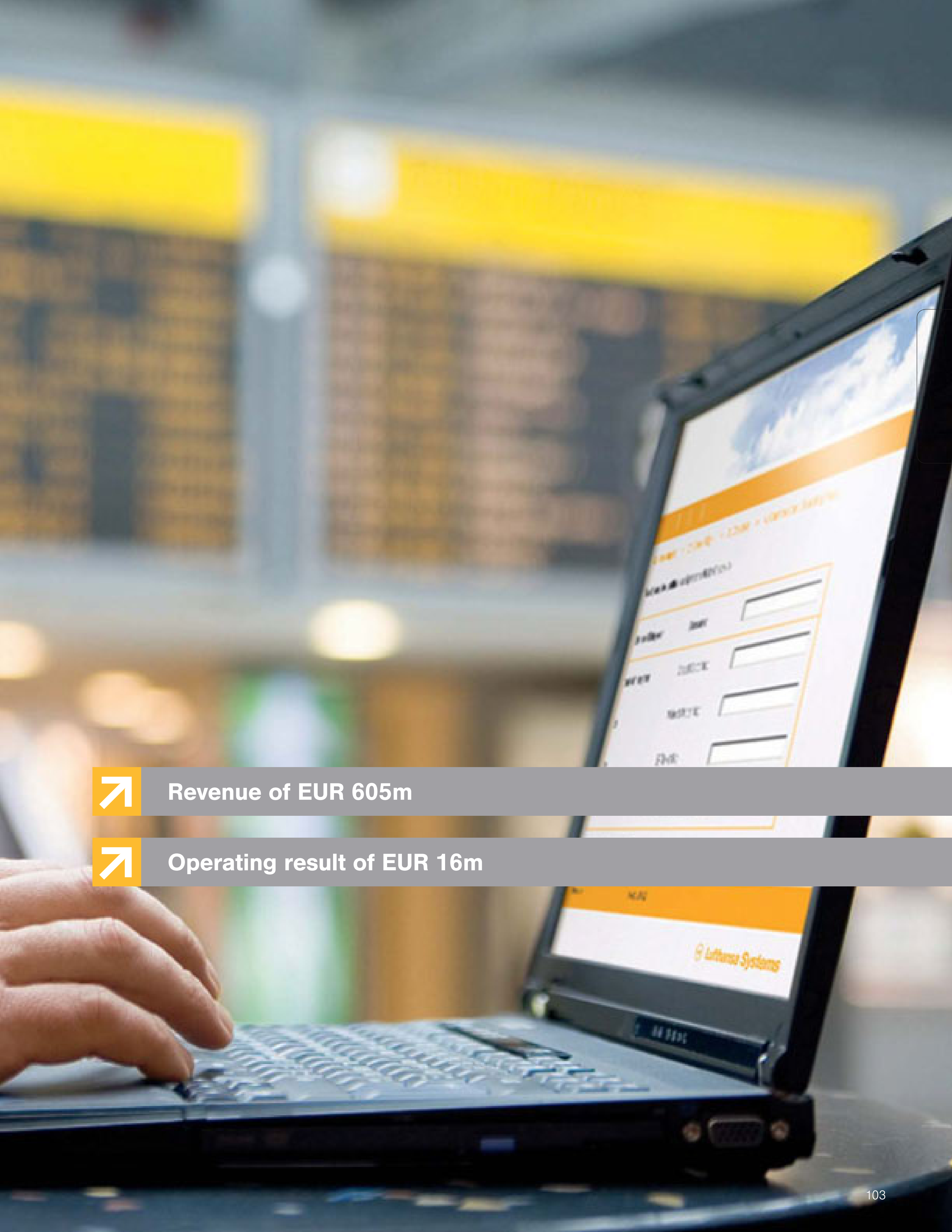
Share of Group revenue 1.1%



↗ Leading IT service provider for the air transport industry

Key figures IT Services

		2009	2008	Change in %
Revenue	€m	605	657	–7.9
of which with companies of the Lufthansa Group	€m	361	378	–4.5
Operating result	€m	16	40	–60.0
Adjusted operating margin	%	2.8	6.2	–3.4 pts
Segment result	€m	16	39	–59.0
EBITDA	€m	54	78	–30.8
CVA	€m	3	29	–89.7
Segment capital expenditure	€m	52	58	–10.3
Employees as of 31.12.	number	3,027	3,033	–0.2
Average number of employees	number	3,041	3,002	1.3



Revenue of EUR 605m

Operating result of EUR 16m

Business and strategy

Leading IT portfolio for the air transport industry

Lufthansa Systems is the IT specialist in the Lufthansa Group. Worldwide, too, the company is one of the leading IT service providers for the air transport industry. Lufthansa Systems offers its customers, which include more than 200 airlines, a comprehensive portfolio of innovative solutions to increase their efficiency and flexibility irrespectively of their business model. Companies from other sectors that give a high priority to understanding complex business processes also rely on the expertise of Lufthansa Systems.

The head offices of Lufthansa Systems are in Kelsterbach near Frankfurt am Main. It has additional sites in Germany as well as in 14 other countries throughout the world. The company provides its services through five divisions, structured according to the needs of the market. Further details are given in the diagram below. Lufthansa Systems offers its customers the full spectrum of IT services on a dependable 24-hour basis, from consultancy and developing and implementing applications right through to complete IT outsourcing. In addition, the company has its own data centres in Kelsterbach and Hamburg as well as at carefully chosen locations abroad.

Innovations that deliver significant customer benefits

IT has a key role in airlines' endeavours to cut their costs sustainably. The complex business processes that are a feature of the airline industry can only be optimised with correspondingly powerful IT solutions. In recent years Lufthansa Systems has therefore turned the focus of its strategy towards integrated platform solutions and has developed a gamut of innovative and technologically advanced products covering all of the core processes an airline applies. The particular benefit of these platforms for customers lies in the fact that they improve the speed and quality of decision making by providing all the necessary information in a central system.

In view of the ongoing difficult economic situation in the air transport industry particular priority is given to solutions that lead to greater revenue and lower costs in the short term, thereby strengthening customers' cash flows and results. Lufthansa Systems deals with its customers' disinclination to commit capital by offering some of its solutions on an operating basis, which minimises the customer's need to invest in IT infrastructure. One of the main conditions for developing these products, and at the same time a strength of Lufthansa Systems, is its comprehensive understanding of all an airline's business processes, combined with outstanding IT skills.

Markets and competition

Lufthansa Systems extends market share in 2009

The worldwide market for airline IT has a volume of around EUR 7.8bn. Of this total, some EUR 4.0bn is outsourced and the rest is provided by the airlines' own IT departments. Within the EUR 4.0bn outsourced, the sales region Europe/Middle East/Africa (EMEA) accounts for the largest submarket, with a volume of EUR 1.6bn. Lufthansa Systems has the leading position here, with a market share of 35 per cent. In America (EUR 1.3bn) and Asia/Pacific (EUR 1.1bn) regions it has a market share of 3 per cent respectively. Key competitors in the airline IT market are Sabre Airline Solutions, EDS, SITA and Boeing with its subsidiary Jeppsen. However, none of these companies has a product range as all-encompassing as that of Lufthansa Systems.

Divisions of Lufthansa Systems

Lufthansa Systems

Airline Management Solutions
- Network Planning
- Crew Management & Operations Control
- Pricing & Revenue Management
- Marketing & Sales

Passenger Airline Solutions
- Weight & Balance
- Reservation Systems
- Check-in & Boarding
- PSS* Competence Centre

Airline Operations Solutions
- Flight Planning
- Electronic Flight Deck Solutions
- Navigations Charts
- Route Planning

Industry Solutions/ERP Airline Solutions
- Maintenance, Repair & Overhaul (MRO)
- Cargo & Logistics
- Financial Management for Airlines
- Revenue Accounting

Infrastructure Services
- Telecommunications
- Consultancy
- Application Hosting
- Desktop Management
- Data Centre Services

* PSS = Passenger Service System.

Locations Lufthansa Systems

The IT systems currently in use by airlines are in some cases considerably more than 20 years old. Persistent cost pressure and the significance of flexibility and swift reactions in a volatile competitive environment are increasingly making high-performance IT a vital competitive factor, however. Although the overall willingness to invest is low, this gives Lufthansa System's platform strategy a good chance in the market. The company's international sites keep it in close touch with the main regional markets and at the same time enable a balanced globalisation of production with a view to maintaining competitive cost structures.

Sales and customers

Percentage of external revenue to be increased
Lufthansa Systems' customer base includes international network carriers as well as no-frills and regional airlines. More than 100 companies from other industries also rely on the knowledge of Lufthansa Systems. They primarily include logistics companies, publishers and customers from the transport and healthcare sectors.

Lufthansa Systems sells its services directly through local sales offices, which are decentralised and focussed on the regions. Lufthansa Passenger Airlines, currently the largest customer, is served as a key account. Work for external customers is carried out on the basis of contracts running for several years, except in the case of one-off projects. One of Lufthansa Systems' strategic goals is to increase its share of revenue from customers outside the Lufthansa Group on a long-term basis. The temporary fall in the external revenue share to 40 per cent (previous year: 42 per cent) is due to the fact that since 2009 formerly external clients have been part of Lufthansa's group of consolidated companies.

Tailored solutions combine IT and airline experience
A wide variety of exogenous factors are taken into consideration when all-round platform solutions are developed for existing or new customers. Developing a solution to optimise crew rostering, for example, requires precise knowledge of the complex legal and collective-bargaining rules as well as the logistical parameters for deploying an airline's pilots and cabin staff. The new crew optimiser that Lufthansa Systems has been offering its customers since 2009 allows them to increase the productivity of their airborne staff by up to 5 per cent. Another example is the IT solution Lido/Flight developed by Lufthansa Systems to optimise flight routes, which is in use at many international airlines. Companies using it can cut the fuel consumption of their fleet, also by up to 5 per cent.

Course of business

Customer base broadened and costs cut in the crisis
The course of business at Lufthansa Systems was heavily influenced by the general crisis in international air traffic in 2009. Faced with declining passenger numbers, airlines have reduced or postponed their capital expenditure. To the extent that the contracts with customers provide for volume-based fees, the fall in passenger numbers and flight movements also affected revenue at Lufthansa Systems. The company responded swiftly to the difficult conditions by taking steps to cut costs. The number of external staff has been cut, planned capital expenditure has been reduced, and holidays and overtime accounts have been systematically run down.

Despite these difficult conditions, Lufthansa Systems was again able to sign a number of contracts with new and existing customers in 2009. SWISS outsourced operations of its core IT applications to Lufthansa Systems. The new customer Ethiopian Airlines decided to network its worldwide sites using the SkyConnect solution. Cargoitalia, a new Italian cargo airline, has been using an extensive IT package from Lufthansa Systems since it commenced operations and signed a five-year contract to deploy integrated flight-operations solutions. For a few months now, passengers flying with Austrian Airlines have been able to check in by mobile phone with the help of technology from Lufthansa Systems, and the long-time customer Etihad chose the flight-route planning system Lido/Flight. Lufthansa Systems also extended its customer base in the Asia/Pacific region. The Lido/Route Manual navigation maps were introduced at Malaysia Airlines, for instance, and Virgin Blue from Australia adopted the load-planning solution LoadControl for its aircraft handling.

Focus on aviation as the core business segment

Outside the aviation industry cooperation was extended with Vattenfall and Hermes Logistik Group. The same applies to the Hamburg Port Authority, which appointed Lufthansa Systems to renew its traffic, infrastructure and transport processing systems and adapt them to the new business processes at the port for rail-freight traffic. As part of a greater concentration on the core aviation segment Lufthansa Systems will not sign any new IT outsourcing contracts outside the air transport and logistics industry. The company has already begun to implement the structural adjustments to its Infrastructure Services division resulting from this portfolio recalibration. Not affected by this decision is SAP and IT consultancy for customers in other sectors. Here the company will continue to operate across all industries.

Investing in high-quality training for project managers

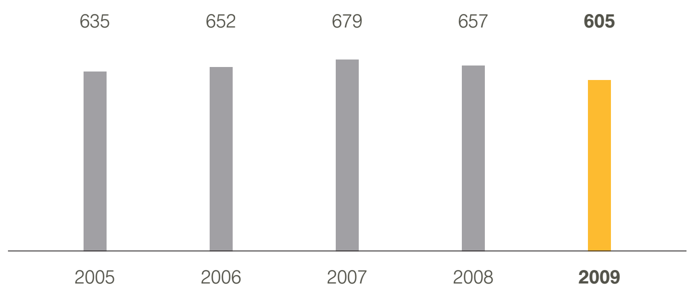
Lufthansa Systems continued systematically to develop its skills in the field of project management. Given the great complexity of IT projects, project management is of vital importance in completing them on time and within budget. Both aspects have a positive effect on the company's profitability and on customer satisfaction. One of the activities in this area is for Lufthansa Systems to offer project managers a career path of equivalent standing to that of traditional managers. Further progress was made on introducing process-oriented quality management in 2009. Nearly two third of the company's processes have now been standardised. The project is due for completion by the end of 2010.

Revenue and earnings development

Revenue down by 7.9 per cent

Due to the slump in demand Lufthansa Systems' revenue fell year on year by 7.9 per cent to EUR 605m. Revenue from Lufthansa Group companies accounted for EUR 361m (–4.5 per cent), which is due to price reductions for operator models and operating specific applications as well as to the outsourcing of IT services in the area of passenger systems. With clients from outside the Group Lufthansa Systems generated revenue of EUR 244m. This was 12.5 per cent below the previous year's figure. The drop is due to the fact that formerly external clients are now part of Lufthansa's group of consolidated companies. New business could not make good the full extent of the decline in prices and volumes.

Revenue IT Services in €m



Other operating income fell by 26.9 per cent to EUR 38m as a result of exchange rate fluctuations and a non-recurring effect from the previous year. Other operating income largely consists of work in progress in connection with current customer business and capitalised internal expenses for modernising Lufthansa Systems' product portfolio.

Total operating income sank by 9.3 per cent to EUR 643m.

Operating expenses reduced by 6.3 per cent

The cost of materials and services went up slightly to EUR 81m (previous year: EUR 79m).

The steps to safeguard earnings are reflected in both staff costs and in other operating expenses. Staff costs went down in the second half of the year thanks to reductions in overtime and holiday entitlement accounts. Higher expenses for retirement benefits nevertheless resulted in a minor increase of 0.4 per cent in overall staff costs for the full year, taking them to EUR 233m. The average number of employees went up by 1.3 per cent to 3,041, although here, too, the figure sank in the second half of the year.

Depreciation and amortisation was stable year on year at EUR 37m. Other operating expenses were cut by 14 per cent to EUR 276m (previous year: EUR 321m) thanks to a considerable reduction in external staff and lower expenses for purchased IT infrastructure services.

This brought total operating expenses to EUR 627m (–6.3 per cent).

Operating expenses IT Services

	2009 in €m	2008 in €m	Change in %
Cost of materials and services	81	79	2.5
Staff costs	233	232	0.4
Depreciation and amortisation	37	37	0.0
Other operating expenses	276	321	–14.0
of which external staff	75	107	–29.9
of which rent / maintenance of IT	104	102	2.0
Total operating expenses	**627**	**669**	**–6.3**

Operating profit reduced to EUR 16m

Lufthansa Systems' operating result sank to EUR 16m in 2009 as a result of the fall in revenue (previous year: EUR 40m). The cost-cutting measures introduced in the second half of the year had a tangible effect and led to an improvement in earnings. The segment result was EUR 16m (previous year: EUR 39m).

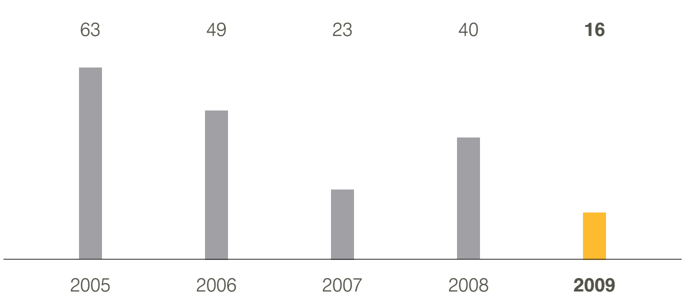
Segment capital expenditure to safeguard existing business

Segment capital expenditure fell in the second half of the year to EUR 52m (previous year: EUR 58m) as a result of the cutbacks adopted in the first half. They mainly served to secure existing business.

Long-term overview of earnings

By concentrating on its core business from 2007 Lufthansa Systems pruned back both its product and its investment portfolio. This was already reflected in the drop in revenue for the 2008 financial year. By contrast, the operating margin improved from 3.7 per cent in 2007 to 6.2 per cent in 2008. The fall in recognised revenue could not be absorbed in full at short notice, so the operating margin fell in 2009 to 2.8 per cent.

Operating result IT Services in €m



Outlook

Lufthansa Systems intends to take a disproportionate share of market growth

As airlines' economic situation is tense, their overall spending on IT services is not expected to grow appreciably in the years ahead. In order to avoid capital expenditure and cut costs – by reaping economies of scale from larger data centres for example – airlines will replace their own systems with external solutions. IT has a key role to play in the airline consolidation process as a means of realising synergies. Under these circumstances the market for outsourced IT services is expected to grow by an annual average of 5.2 per cent over the next five years.

Lufthansa Systems and its portfolio are well positioned in this market and continue to focus on developing innovative products for the airline market. Lufthansa Systems will therefore pursue its ongoing development projects in 2010 but spread them over a longer period.

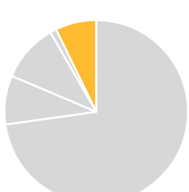
Revenue at Lufthansa Systems is forecast to decline again in 2010. As well as the effects of the business cycle, this is also due to further portfolio pruning in the Infrastructure Services division. This will additionally lead to a temporary fall in the share of revenue from external clients. In the longer term the aim is to increase this share to 60 per cent. This is to be achieved by greater marketing of IT outsourcing for airlines as part of Lufthansa Systems' platform strategy.

The steps initiated in 2009 to cut operating costs and adjust internal staff capacities to production volumes are nevertheless expected to deliver an operating result for 2010 above that for last year. For 2011 further improvements in revenue and operating result are expected as a consequence of slightly higher revenue and continued cost-cutting measures.

Catering business segment

Despite the sharp fall in demand, LSG Sky Chefs was able to maintain its competitive position in the market. Revenue declined by 9.6 per cent. Despite lost revenue the operating result was 2.9 per cent up on the previous year. Revenue and profits should improve again from 2011. LSG Sky Chefs is increasingly differentiating itself on the market by its innovation and environmental awareness.

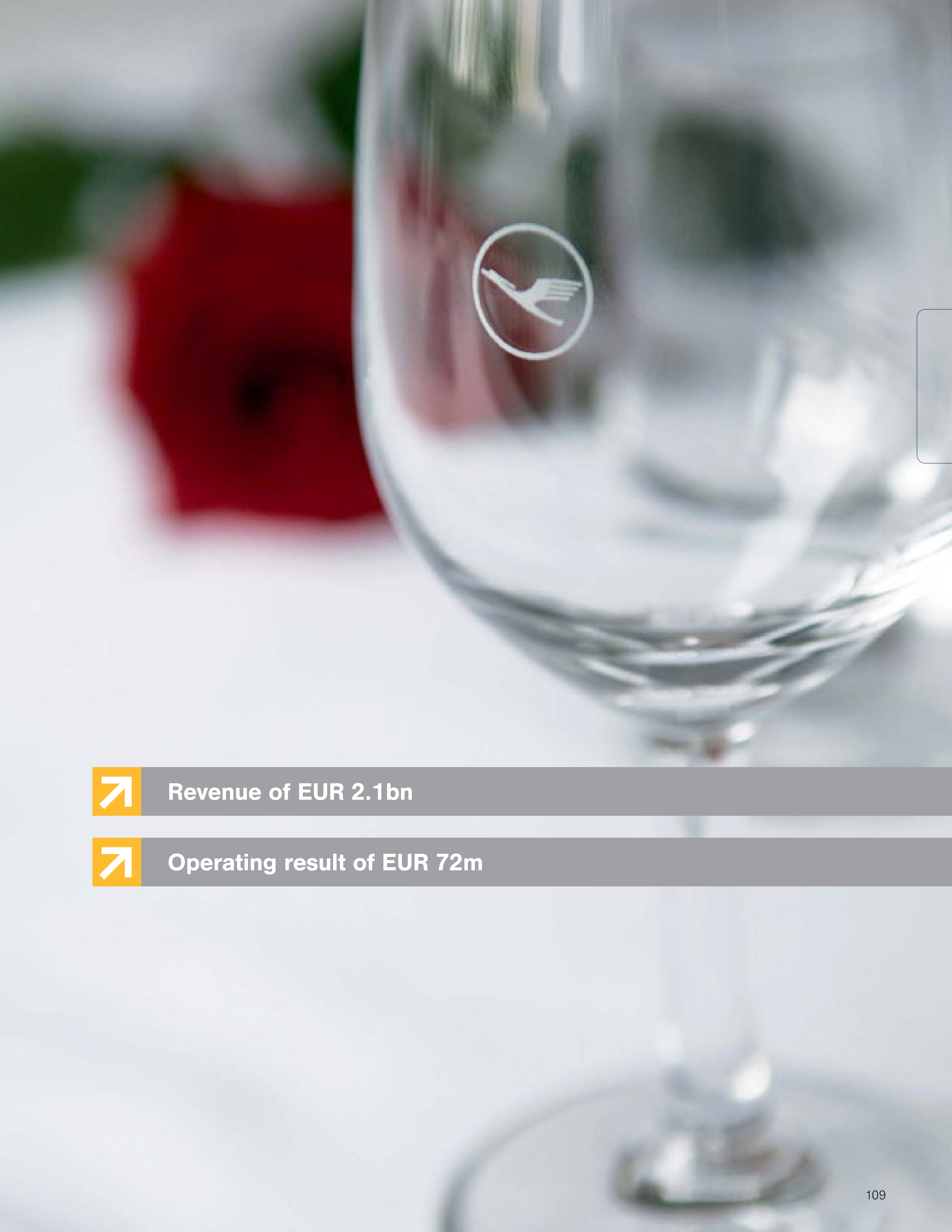
Share of Group revenue 7.1%



Global market leader in airline catering

Key figures Catering

		2009	2008	Change in %
Revenue	€m	2,102	2,325	–9.6
of which with companies of the Lufthansa Group	€m	513	562	–8.7
Operating result	€m	72	70	2.9
Adjusted operating margin	%	3,5	3,1	0.4 pts
Segment result	€m	75	94	–20.2
EBITDA	€m	120	166	–27.7
CVA	€m	–68	–17	
Segment capital expenditure	€m	58	116	–50.0
Employees as of 31.12.	number	28,390	30,273	–6.2
Average number of employees	number	28,935	31,215	–7.3



Revenue of EUR 2.1bn

Operating result of EUR 72m

Business and strategy

Global market leader in airline catering
The LSG Sky Chefs group is the global market leader in airline catering and in all upstream and downstream in-flight service processes. The group consists of 130 companies with more than 200 sites in 52 countries. The parent company for the group, LSG Lufthansa Service Holding AG, is based in Neu-Isenburg. LSG Sky Chefs has developed its comprehensive, detailed knowledge of in-flight service management over more than 60 years and in the last two decades in particular has expanded very rapidly. In recent years it has expanded its portfolio significantly, based on its worldwide experience. This has been complemented by the development, procurement and logistics of in-flight service equipment, through to the planning, implementation and management of all processes related to in-flight service.

Reorganisation to make better use of growth potential
The market environment for LSG Sky Chefs is defined by dwindling demand for traditional catering as a result of the general economic situation and the airlines' savings initiatives. The cost pressure and tough competition that have characterised the market for years are therefore becoming ever more intense. The company has adjusted its strategic orientation accordingly. It can be summarised under four main themes: to strengthen ongoing improvement initiatives with a focus on standardisation and lean processes in all operating and administrative units, to intensify sales of products and services for airlines beyond airline catering, to develop additional partnerships for entering growth markets and complementary product areas, and to realise growth potential in neighbouring markets such as train or school catering.

Locations Catering

• LSG Sky Chefs • Joint ventures • Strategic partnerships

Until the end of 2009 the company's global activities were divided into seven geographic regions, each of which was led by a regional management team comprising the core functions operations, finance, sales and human resources. The regions were supported by various centres of excellence, for example for innovation, in-flight equipment and frozen food, as well as by head office functions in the holding company.

As of 1 July 2009 Jens Theuerkorn was appointed by the Supervisory Board as CFO of LSG Holding. Effective 30 September 2009 Thomas Nagel retired as COO of LSG Holding after a term of five years. Responsibilities within the Executive Board were redistributed at the same time. There are now three Executive Board seats again: the Chief Executive Officer responsible for Group functions and initiatives and Chief Human Resources Officer, Chief Financial Officer, including IT / Processes, Purchasing and M&A, and Chief Operating Officer, which includes Sales. Along with the reorganisation, the geographic breakdown for Europe, Middle East and Africa has now been changed to three regions, Germany, Europe and Emerging Markets. The changes take effect as of 1 January 2010. The new organisational structure puts markets of similar maturity and comparable specifications under common management responsibility, thereby enabling a concentrated and rapid approach to the market.

Markets and competition

Additional geographic regions to be developed via cooperation agreements
The global catering market has been shrinking since the beginning of the fourth quarter 2008, to varying degrees according to the region. Several factors have contributed to the decline: reductions in fleets and route networks, cutbacks in the standards of in-flight service, lower passenger numbers and the sustained passenger migration from the premium classes to the economy class.

LSG Sky Chefs is the established market leader in nearly all its regions. Gate Gourmet is the only international competitor that operates worldwide. All other airline catering contractors have only a regional or even simply a local presence. According to its own estimates LSG Sky Chefs has a global market share of around 30 per cent. In America and Europe its market share is between 35 and 40 per cent, again according to the company's own calculations. In Asia, the Middle East and Africa the majority of local airlines still have their own catering facilities at their hubs. In these growth markets LSG Sky Chefs is endeavouring to build up its presence via partnerships and management contracts. Under these cooperation agreements LSG Sky Chefs contributes the expert catering knowledge as well as access to the extensive skills of its global network, while the local partners provide specific market intelligence and local contacts. In addition to geographic expansion, LSG Sky Chefs is also increasingly building on partnerships in logistics, equipment and IT.

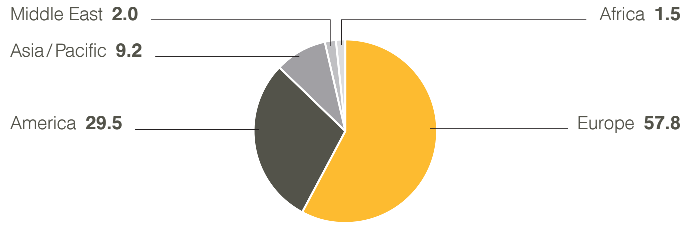
Sales and customers

Customers include nearly all airlines worldwide
Nearly all international airlines and numerous national and regional ones – network carriers, charter companies and no-frills airlines – belong to LSG Sky Chefs' global customer base. The scope of their business varies from providing catering at just a few of the stations they fly to, through to supplying a whole region or several regions. The business relationships differ to a considerable extent not only geographically, but also in terms of time. The duration of contracts varies from a few months to several years.

Everyday business with customers at the local stations is dealt with by customer service staff. In addition, a key account manager from the regional sales team advises one or several customers on the more important and strategic topics. A sales team situated in the parent company LSG Holding is responsible for elaborating the global sales strategy and coordinating customer topics that are common to more than one region. Its responsibilities also include comparing notes at customer conferences run by the company in the different regions and organising customer-specific workshops to identify and evaluate innovative service concepts.

In addition to pure airline catering, LSG Sky Chefs is increasingly providing consultancy, development and logistics services for its customers. These include design and purchasing for instance, as well as the transportation and optimisation of existing in-flight equipment or comprehensive advice on evaluating and selecting menu concepts. Surveys to measure customer satisfaction are carried out regularly at the airlines' head offices and with local customer representatives at the stations supplied.

Catering revenue by region in %



Course of business

Costs cut in the crisis, but not at the expense of growth
For LSG Sky Chefs and its markets the year 2009 was characterised by a significant fall in demand in nearly all regions. In addition to continuing and developing the high-quality and reliable customer service, the focus was therefore in particular on adjusting cost structures and finding further opportunities to cut costs. Two additional sets of measures were therefore adopted to safeguard short and long-term earnings. With the support of Performance 2009 it was possible to safeguard the earnings and cash flow targets for the current year. Major contributions came from reinforcing and accelerating the lean initiative and procurement activities in the main markets Germany and North America.

The Upgrade^{plus} programme was also introduced in parallel. This is a two-year programme aimed at preserving a competitive and sustainable corporate structure over the long term. It builds on the Upgrade to Industry Leadership initiative that began in 2007, accelerating and strengthening the necessary structural adjustments. All the previously existing dimensions of Upgrade to Industry Leadership are to be continued. At the same time, the Upgrade^{plus} programme analyses, adjusts and standardises structures and processes throughout the company, drives the lean initiative worldwide with even more vigour than before, initiates specific programmes in purchasing to achieve rapid, sustainable savings, and investigates potential opportunities for generating additional profitable income. In this context LSG Sky Chefs is reviewing opportunities in neighbouring markets such as train and school catering in addition to the target group airlines. The aim of Upgrade^{plus} is to cut costs compared with 2008's volume-adjusted level by EUR 200m by the end of 2011 and to generate EUR 50m in additional earnings from new business.

As part of the ongoing restructuring, five small, decentralised plants were closed in the USA in 2009 and building work was halted on the new plant planned in the Indian city of Chennai (Madras) due to the different situation on the Indian market. At the same time, geographic expansion in growth markets is being continued at a moderate level. As part of the Africa strategy launched in the previous year, LSG Sky Chefs successfully entered the market in Uganda, Nigeria and Angola in 2009 and reinforced its market position in Egypt. In Brazil too, LSG Sky Chefs was able to build on its market leadership. It acquired catering companies at three sites in the touristic north-eastern part of the country. In Asia it also increased its stake in an equity investment in Hong Kong, taking over the management and control of the company, which has been fully consolidated since July as a result.

To extend its service portfolio and gain long-term customer loyalty with innovative products, LSG Sky Chefs set up Oakfield Farms in the USA with a partner. This enables the integrated supply of airlines with innovative, customised catering products. Meal boxes complete with packaging design and contents can now be offered for instance. A partnership agreement was also signed with Norduyn, a Canadian company, aimed at developing a lightweight trolley for use on board.

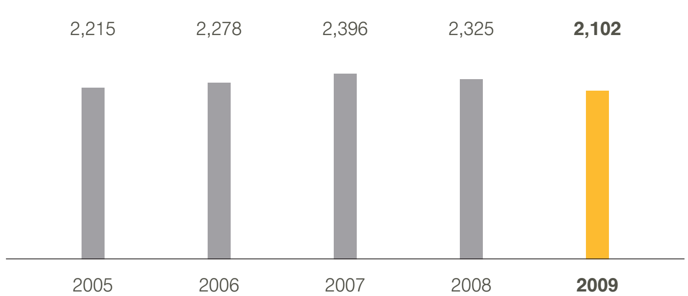
Altogether, LSG Sky Chefs managed to strengthen its customer base further in spite of the difficult market environment. Major contracts for individual sites were signed or successfully renewed with Air Canada, Delta, US Airways, Qantas, TUI Group, Swedish Railroad and Dragonair. Customers responded increasingly to LSG Sky Chefs' extended portfolio. In 2009 the company took on the equipment management for TACA from South America, as well as the procurement, logistics and administration of the equipment customised for Czech Airlines. The contract with SAS in Scandinavia expired at the end of April 2009, however.

Standing out via innovation and environmental awareness
LSG Sky Chefs intends to differentiate itself more clearly on the market via innovation and environmental awareness. Three out of a total of nearly 1,000 entries won prizes as part of the first company-wide innovation competition organised in spring 2009. The company's capacity to innovate also found a positive echo externally and was acknowledged by international design prizes. It received the "red dot – best of the best 2009" award for its development of the tableware for Lufthansa Economy Class, and the "observeur du design" prize for the design of the Corsairfly equipment. In order to increase environmental awareness within the company, the energy and water consumption of all plants worldwide was measured and analysed as part of a company-wide survey in 2009. Measures to optimise these figures were then developed in focussed workshops and depending on the necessary capital expenditure were also implemented. Innovations are also increasingly taking place at the product level: examples include the development of a lightweight trolley mentioned above, the use of PET wine bottles produced in-house, the installation of an automatic start/stop mechanism in catering vehicles, and the increasing use of easily degradable, natural materials for developing and producing in-flight tableware. The quality of the sites worldwide was further improved by a quality campaign. This achievement was based on self-assessments and measures derived from them, as well as by focussing on first time quality, i. e. learning a method of avoiding errors from the start.

Revenue and earnings development

Revenue down by 9.6 per cent
In the financial year 2009 LSG Sky Chefs group revenue fell by 9.6 per cent to EUR 2.1bn. This decline is largely due to sharp capacity reductions by airlines, the continuing passenger migration from premium classes to economy class and the loss of SAS as a major customer. External revenue sank to EUR 1.6bn (–9.9 per cent), while internal revenue was down by 8.7 per cent at EUR 513m. The companies consolidated within the LSG Sky Chefs group for the first time in 2009 made a revenue contribution of EUR 26m.

Revenue Catering in €m



Other operating income went up by 35.9 per cent to EUR 125m, principally due to the arbitration settlement on the D&O policy for the SAS contract in Scandinavia (EUR 40m). Overall, however, total operating income declined by 7.9 per cent to EUR 2.2bn.

Operating expenses Catering

	2009 in €m	2008 in €m	Change in %
Cost of materials and services	941	1,059	–11.1
Staff costs	775	824	–5.9
Depreciation and amortisation	58	59	–1.7
Other operating expenses	381	405	–5.9
Total operating expenses	**2,155**	**2,347**	**–8.2**

Operating expenses reduced by 8.2 per cent

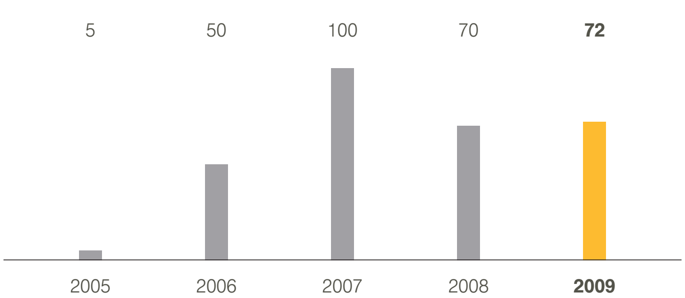
Operating expenses were cut by 8.2 per cent to nearly EUR 2.2bn for the financial year. The cost of materials and services made a major contribution to this, as thanks to savings made in purchasing, they fell more steeply than revenue by 11.1 per cent to EUR 941m despite the adverse exchange rate effect.

Average staff numbers declined by 7.3 per cent to 28,935. Staff costs only fell by 5.9 per cent to EUR 775m, however, due to higher wage settlements and the opposing reduction of staff capacities in operational areas and in administration as well as to positive one-off effects from pension provisions in the USA.

Depreciation and amortisation came to EUR 58m or 1.7 per cent below last year's figure. Increased depreciation on the new catering facility at Frankfurt Airport was more than offset by lower amortisation of intangible assets.

Other operating expenses of EUR 381m were 5.9 per cent lower than the previous year. This is primarily due to lower exchange rate losses in the reporting year.

Operating result Catering in €m



Operating result increased by 2.9 per cent

Following these developments LSG Sky Chefs reported an operating result of EUR 72m, or 2.9 per cent higher than the previous year. The segment result for the reporting year came to EUR 75m and was therefore EUR 19m (–20.2 per cent) below the figure for last year. This decline is mainly due to the fall of EUR 21m in segment income. This income included gains realised to a large extent the previous year from the sale of a Spanish subsidiary and of LSG-Airport Gastronomiegesellschaft mbH.

Segment capital expenditure cut by half

Segment capital expenditure was cut by 50.0 per cent to EUR 58m. The main reason for the fall was the investment made the previous year in the new catering facility in Frankfurt as well as in expanding global frozen food capacities. Furthermore, capital expenditure during the reporting period was limited to the minimum necessary for operations as part of the programme to safeguard earnings.

Outlook

Under persistently difficult market conditions the aim is to continue delivering positive earnings contributions

For the financial year 2010 LSG Sky Chefs is expecting total global demand for catering services to stagnate, but with regional variations. In view of the cost pressure on airlines the company is not reckoning on the recovery being swift, particularly in Europe. In North America in-flight service is anticipated to continue at the current low level, while a slight upturn in demand is forecast for the growth markets in Asia and Eastern Europe.

Faced with these demand trends, the company will continue to concentrate on pursuing its Upgrade^{plus} programme with tenacity and consistency, focussing on Lean and Procurement, as well as signing new wage agreements in Germany and North America. At the same time, LSG Sky Chefs is to expand its customer relationships and strengthen its presence in the growth markets of the future.

LSG Sky Chefs is assuming that the difficult market environment may lead to a loss of revenue. Despite the market environment the company expects to report positive earnings contributions again in 2010. From the current perspective an upswing in revenue and earnings seems possible for 2011.

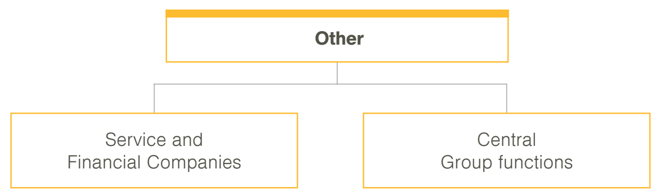
Other

New reporting standards mean that the "Other" segment has been expanded to include central Group functions. Total operating income fell by 2.8 per cent. Due to higher expenses its operating result came to EUR –134m. AirPlus and Lufthansa Flight Training again made positive earnings contributions.

Other

	2009 in €m	2008 in €m	Change in %
Total operating income	1,230	1,265	–2.8
Operating result	–134	–72	86.1
Segment result	–94	–273	65.6
Average number of employees	3,701	3,626	2.1

Structure Other



New reporting standards

Segment reporting has been brought into line with internal reporting structures as stipulated in IFRS 8 Operating Segments, applicable from 1 January 2009. Since then, the segment Other includes the Service and Financial Companies in the Group, such as Lufthansa AirPlus Servicekarten GmbH (AirPlus), Lufthansa Flight Training GmbH (LFT) and Lufthansa Commercial Holding GmbH, where Lufthansa's financial equity investments are held. It also includes the central Group functions of Deutsche Lufthansa AG. To enable comparison, the figures for the previous year have been restated based on the new parameters. More information can be found in the Notes to the consolidated financial statements on p. 150.

In the reporting period Lufthansa Commercial Holding acquired Germanwings GmbH from Eurowings Luftverkehrs AG for a purchase price of EUR 14.5m. The traffic and financial figures for Germanwings continue to be consolidated in the Passenger Airline Group segment.

Increase in operating expenses due to consolidation of Group functions

Total operating income for the segment Other sank by 2.8 per cent in the reporting period to EUR 1.2bn. Operating expenses rose by 2.0 per cent to EUR 1.4bn, primarily due to exchange rate losses. This dragged down the segment's operating result to EUR –134m, compared with EUR –72m the previous year. Thanks to an increase of EUR 63m in miscellaneous segment income and a decrease of EUR 171m in miscellaneous segment expenses, the segment result came to EUR –94m (previous year: EUR –273m). The Group functions had a significant influence on this, with a negative earnings contribution of EUR 149m.

AirPlus and Lufthansa Flight Training significantly contributed to revenue and results.

AirPlus offers global travel management solutions

AirPlus is one of the leading global providers of payment and analysis solutions for business travel management and is now represented in over 30 countries. Tailored products and solutions for effective travel expense monitoring are offered under the Air-Plus International brand. The aim is to become the preferred global provider of payment and analysis solutions for business travel management by 2012.

In the reporting year AirPlus again expanded its international partner network and intensified its customer service with a range of initiatives. AirPlus customer satisfaction continued to rise.

Companies around the world cut their travel budgets and altered their booking patterns as a result of the recession. Thanks to a parallel increase in demand for payment and analysis solutions in the travel management segment, AirPlus was able to recoup some of the lost revenue and develop its position. International markets now account for 46 per cent of total billing volume in business travel management. Total billing revenue came to EUR 17.1bn in 2009. In Germany AirPlus remains the market leader. Around the world more than 800 AirPlus staff provide services to over 32,000 corporate customers; 110 million transactions were billed via AirPlus in 2009.

The global recession is reflected in AirPlus's billing volumes and therefore also in its revenue and earnings figures. Although operating income was 3.2 per cent up on the year at EUR 295m, this was mainly the result of exchange rate gains. The fall in travel management revenue was partly made good by strict cost management and new customer wins. The company reported an operating result of EUR 17m (previous year: EUR 26m).

Lufthansa Flight Training is the global leader in training services for airlines

With sites in Frankfurt am Main, Berlin, Vienna, Bremen, Munich and Phoenix/Arizona, Lufthansa Flight Training GmbH is the world's leading provider of training services for airlines. It has decades of experience in training cockpit and cabin crew in areas such as flight simulators, service and emergency training and computer-aided learning (e-learning).

In addition to Lufthansa Group companies, around 150 other airlines make up the customer base of Lufthansa Flight Training. The company acquired new customers in 2009 and renewed contracts with existing clients. The difficult economic environment meant that demand for pilot training fell in 2009, however. The long-term contracts signed in previous years ensured that the flight simulator capacities were used to satisfactory levels, however. Total operating income for Lufthansa Flight Training came to EUR 148m, below last year's figure of EUR 154m. The operating result was 19.7 per cent down on the previous year at EUR 24m.

Lufthansa Flight Training commissioned additional facilities in 2009 in order to satisfy the future demand for training services. Construction work began in Frankfurt on an annexe to house eight flight simulators, and in Munich another simulator centre was added to the existing training facilities.

In mid November the true-to-life A380 Cabin Emergency Evacuation Trainer arrived in Frankfurt. The A380 cockpit simulator was also extended and began operations at the start of 2010.

Employees

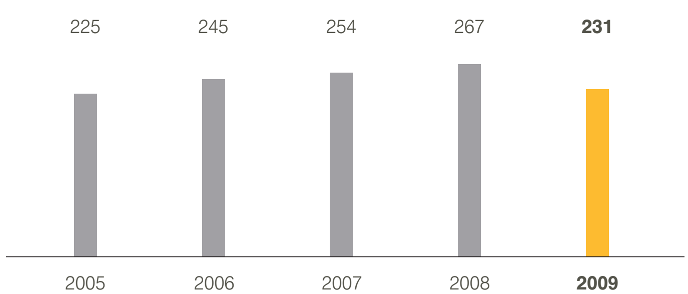
↗ Our staff and a unique corporate culture are crucial success factors for Lufthansa. ↗ The number of employees increased by 9.0 per cent due to acquisitions. ↗ We continue to invest in vocational and professional training. ↗ To counter the effects of the crisis, all companies in the Group have had to take initiatives to safeguard earnings, which include cutbacks in areas affecting staff. ↗ Lufthansa continues to get top marks in employer rankings.

Employees as of 31.12.

		2009	2008	Change in %
Group employees	number	117,521	107,800	9.0
of which Passenger Airline Group*	number	58,083	46,350	25.3
of which Logistics	number	4,488	4,655	–3.6
of which MRO	number	19,796	19,804	–0.0
of which IT Services	number	3,027	3,033	–0.2
of which Catering	number	28,390	30,273	–6.2
of which Other*	number	3,737	3,685	1.4
Revenue per employee	thousands €	198	230	–13.7
Revenue per full-time equivalence	thousands €	231	267	–13.5

* Group functions have been transferred from the Passenger Airline Group to Other (IFRS 8).

Revenue per full-time equivalence Lufthansa Group in € thousand



The Lufthansa Group operates in an industry that is characterised by a large number of competitors. It is therefore vital to develop unique selling points that go beyond pure product and price differentiation and have a lasting effect. We are convinced that the quality, competence and motivation of our staff, combined with our corporate culture, are key success factors for the Lufthansa Group. They enable us to thrive on competition despite the difficult economic times.

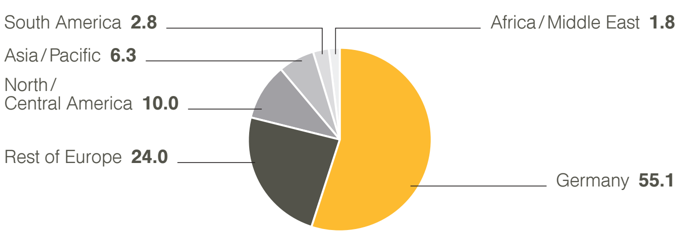
In terms of human resources the year 2009 was also defined by the integration of the new group airlines and the effects of the global financial crisis. The initiatives underway in all Group companies to safeguard against these effects also meant cutbacks in areas affecting staff. They have been defined and implemented for each company with the involvement of works councils and labour union partners, with the aim of doing justice to the individual situation of each Group company. The number and scale of the selected measures vary depending on each company's exposure; see "Business segments" starting on p. 74. The necessary operating changes will therefore be made while taking care to minimise the burdens on staff. In the taking on of new airlines we are using the experience gained from the successful integration of SWISS to engage the staff at the new airlines in Group human resources issues in a meaningful way.

Increase in staff numbers and international diversity

Around the world, the Lufthansa Group employed 117,521 staff in 2009. The year-on-year growth of 9.0 per cent is largely due to the consolidation of the new group airlines Austrian Airlines and British Midland. Despite these foreign acquisitions, most of the jobs in the Group are still based in Germany.

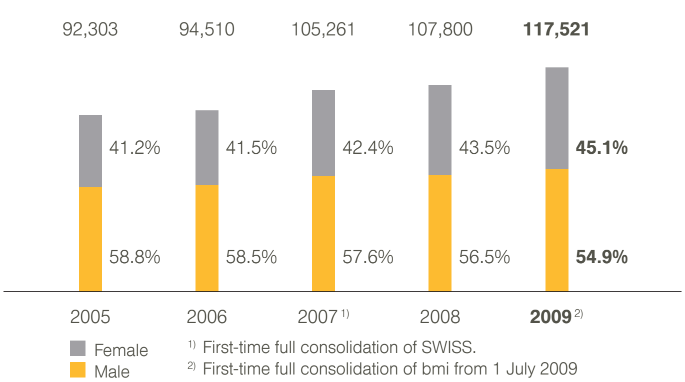
Aside from the growth in staff numbers due to acquisitions, there was little movement in 2009 due to the crisis, with 4,374 new recruits from the external labour market and 5,390 departures. Staff turnover came to 7.1 per cent. The percentage of women in the Group remained constant at 45.1 per cent.

Employees by region in %



The changes in the group of consolidated companies meant that the average age of the workforce stayed the same as the previous year at around 40 years. A slight increase in the average age of Lufthansa employees was offset by a younger average age for the staff at Austrian Airlines and bmi. Average staff seniority came to about 13 years. Fundamentally, however, general demographic trends will cause the average age of the workforce to rise. The Group has been dealing with the challenges this brings for many years. The activities vary from segment to segment in terms of tasks and aim to account for factors such as qualifications, external recruitment options and strenuous physical work. One area of special focus is health management. Measures on offer range from information on diverse medical and healthy-living topics and Group-wide initiatives on taking exercise, through to annual influenza vaccinations.

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 percentage of disabled employees in the Group also remained constant for Germany at 3.4 per cent. We demonstrate our social responsibility by, among other things, holding an Integration Day every year on the International Day of Persons with Disabilities, where disabled school children can find out about apprenticeships and employment opportunities. More information on this topic and on all the other projects and initiatives reflecting the Company's social responsibility can be found in the sustainability report Balance and online at i www.lufthansa.com/responsibility.

Collective bargaining policy with the new "Arbeitgeberverband Luftverkehr"

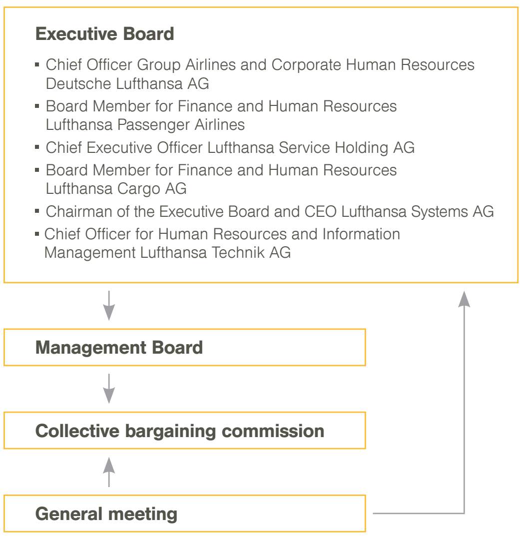
In terms of the Lufthansa Group's collective bargaining policy the year 2009 was defined by intensive negotiations and organisational changes. The "Arbeitgeberverband Luftverkehr" (AGVL) was established on 15 October 2009. From 2010 AGVL will replace the previous employers' federation "Arbeitsrechtliche Vereinigung Hamburg e. V." (AVH) as the collective bargaining partner for the trade unions in the Group. By creating the employers' federation the Group intends to ensure that the special interests of the air transport companies in the Group are optimally represented by an employers' federation set up for this specific purpose. The AGVL structure as laid down in its articles of association guarantees that appropriate collective bargaining procedures can be coordinated between the members and implemented as necessary via the federation.

New wage agreements signed

A wage settlement for cabin staff at Deutsche Lufthansa AG was reached in March 2009 with the trade unions UFO and ver.di. The salaries of cabin crew members were increased retroactively to 1 January 2009 by 4.2 per cent. Employees in the three entry levels received a one-off payment of EUR 100. Their monthly salaries were also increased by EUR 100. In addition, cabin crew and all ground crew received a profit-sharing payment for 2008 of up to 3 per cent of basic annual salary. The collective bargaining partners also agreed to withdraw some of the measures introduced in 2005 as part of the concerted action campaign. Additional measures were aimed at improving working conditions on board. The wage settlement runs for 14 months up to 28 February 2010. This settlement for cabin staff reflects the agreement reached with ver.di in August 2008 for ground and cabin staff and is a demonstration of unified collective bargaining and equal treatment for different groups of employees.

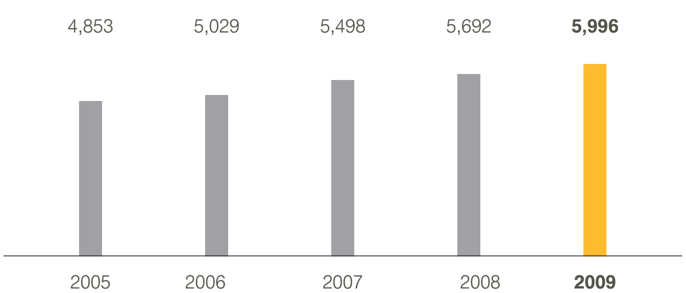
The wage agreements for cockpit staff at Deutsche Lufthansa AG and Lufthansa Cargo AG expired on 31 March 2009 but remain in force until replaced by a new settlement. The agreement for the pilots at Germanwings also expired at the end of June. In December 2009 the Vereinigung Cockpit (VC) pilots' union declared the talks a failure. After holding a strike ballot VC called for industrial action, which began on 22 February 2010. As the Company considers the strikes and the union's demands to be unreasonable, Lufthansa sought a court injunction. At the initial hearing before the Frankfurt Labour Court on 22 February 2010 an end to the strike

Structure of the Air Transport Employers' Federation



action and a cooling-off period until 8 March 2010 were agreed at the recommendation of the court. Vereinigung Cockpit paved the way for constructive talks on the general working agreement and the wage agreement for the German region by renouncing disputed demands relating to Lufthansa Italia.

Staff costs Lufthansa Group in €m



Investment in our staff is indispensable

We are convinced that investing in the development and training of our staff and managers pays off. We therefore carried out a wide range of training measures in 2009 despite the crisis. The internal training budget nevertheless fell by a small 7 per cent to EUR 99m as a result of the crisis.

To ensure the highest possible quality in the field of customer contact we also continued to invest in vocational and professional training for our service staff and in vocational training for new pilots in 2009. The focus for cabin staff was on professional training to become a qualified First Class flight assistant, in which 3,024 participants took part. Training began for 240 new pilots to fill future cockpit positions. At the same time 172 junior pilots finished their vocational training and were taken on as regular employees.

The apprentices at the Lufthansa Group take part in two different forms of vocational training: traditional apprenticeships and part-time degree courses alongside their employment. In terms of traditional apprenticeships Lufthansa trained 1,227 apprentices in 35 different apprenticeships in Germany last year. For the Bachelor programmes the Lufthansa Group had 307 students in 25 degree courses. The Group offers its employees numerous opportunities to gain additional qualifications even after they have completed their vocational training. One example is the destinationBACHELOR programme of student grants in place at Lufthansa Technik. It enables high-flying apprentices to start a part-time Bachelor degree course alongside their regular employment by paying their tuition fees at selected universities.

Lufthansa School of Business is a corporate university for our staff

With the inauguration of the Lufthansa Training & Conference Center in March, the Lufthansa School of Business (LHSB) returned to its birthplace in Seeheim. It was founded in 1998 as the first corporate university in Germany. Its courses range from seminars on interdisciplinary topics and part-time professional training through to tailor-made programmes for managers. The Lufthansa Corporate College is the section of the LHSB responsible for interdisciplinary qualifications for all staff in the Lufthansa Group. Qualifications for staff in their own specialist fields are provided via the training infrastructure of each company.

All the courses and tools intended for managers at the LHSB are based on the competence model known as the Aviation Leadership Compass. This has been refined in order to reflect the new environment and demands made of our managers, in particular those resulting from the Lufthansa Group's expansion to include new airline group partners. Special attention has been given to management skills and capabilities in the area of change management. As a result, the structures and content of all the relevant staff development instruments have been revised to take account of these adjustments. This allows us to develop and train the managers needed to fill specific management positions in the larger Lufthansa Group. We also ensure compatibility between business segments and airlines, thereby contributing to the integration of the new airline partners. Future challenges can be better anticipated so that management development can make its contribution to overcoming crises.

LHSB collaborates with respected business schools in the field of executive education. In 2009 it received an award from the European Foundation for Management Development for its partnership with the London Business School as part of the General Management Program, a programme for senior managers consisting of three modules completed over several months. Out of 25 applicants from 16 countries Lufthansa and the London Business School were joint winners in the category Partnership in Learning and Development.

Lufthansa acknowledged as an attractive employer

In 2009 Lufthansa was again one of the most popular employers in Germany among graduates in business studies, law and engineering, taking top places in employer rankings. The result was confirmed by the Universum study, which came to comparable conclusions.

Graduate ranking
trendenceInstitut GmbH, published in "Manager Magazin"

Degree course	**Ranking 2009**	Ranking 2008
Business studies	1st place	5th place
Engineering	9th place	10th place
IT	17th place	17th place
Law	9th place	13th place

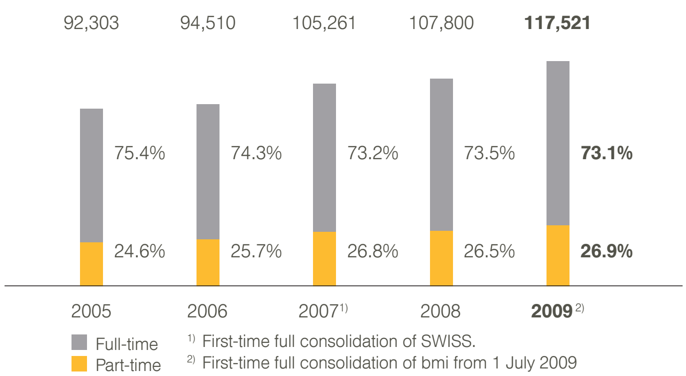
Also thanks to these excellent rankings the number of applications received for the Lufthansa trainee programmes rose to more than 5,000. The recruitment of trainees from China, India and the USA demonstrates that interest in the programmes comes from well beyond the German labour market.

In 2009 the Group's career portal i www.Be-Lufthansa.com was again the central platform for the Group companies' personnel marketing and recruiting activities, receiving an average of 170,000 visitors a month. The number of applications was correspondingly high, reaching 85,000 in 2009 despite there being considerably fewer vacancies due to the recession.

Work-life balance – an important topic for Lufthansa

Reconciling private and professional interests is of ever greater importance for our employees' career planning. This social trend is also reflected by an increasing number of male employees taking parental leave. A further indicator is the number of staff working part time. This figure also rose again slightly last year to around 27 per cent.

Number of employees in part-time and full-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.

By enabling a successful work-life balance we both strengthen the motivation and performance of our staff and create the potential for flexibility. Lufthansa offers its employees a wide variety of part-time working options, health management programmes and training courses on managing their own resources as well as support in caring for children and the elderly. The Group continued to demonstrate its family-friendliness by adding to the number of places and emergency care now on offer in day-care centres and crèches in Frankfurt and Wiesbaden.

Ideas management results in cost savings

The Lufthansa ideas management programme Impulse continued its successful progress in 2009. Lufthansa employees throughout the Group generated 3,500 valuable ideas. They ranged from time-optimised processes for aircraft maintenance to improvements in loading meals on board Airbus A320s and A321s, which saved both space and weight. In total, the analysis of suggestions for improvement revealed savings of EUR 8.5m. We have also refined the Lufthansa Group's ideas management system in qualitative terms and made it more international: our aim is to anchor the idea of continuous improvement in the minds of our staff and increase the use made of our ability to innovate. It is one of the Group's strengths and of enormous value, precisely at times of crisis.

Sustainability

↗ Sustainability is an established feature of Lufthansa's vision, our corporate values and our leadership principles. ↗ Lufthansa again scored top marks in sustainability rankings. ↗ Further progress is made in climate and environmental protection.

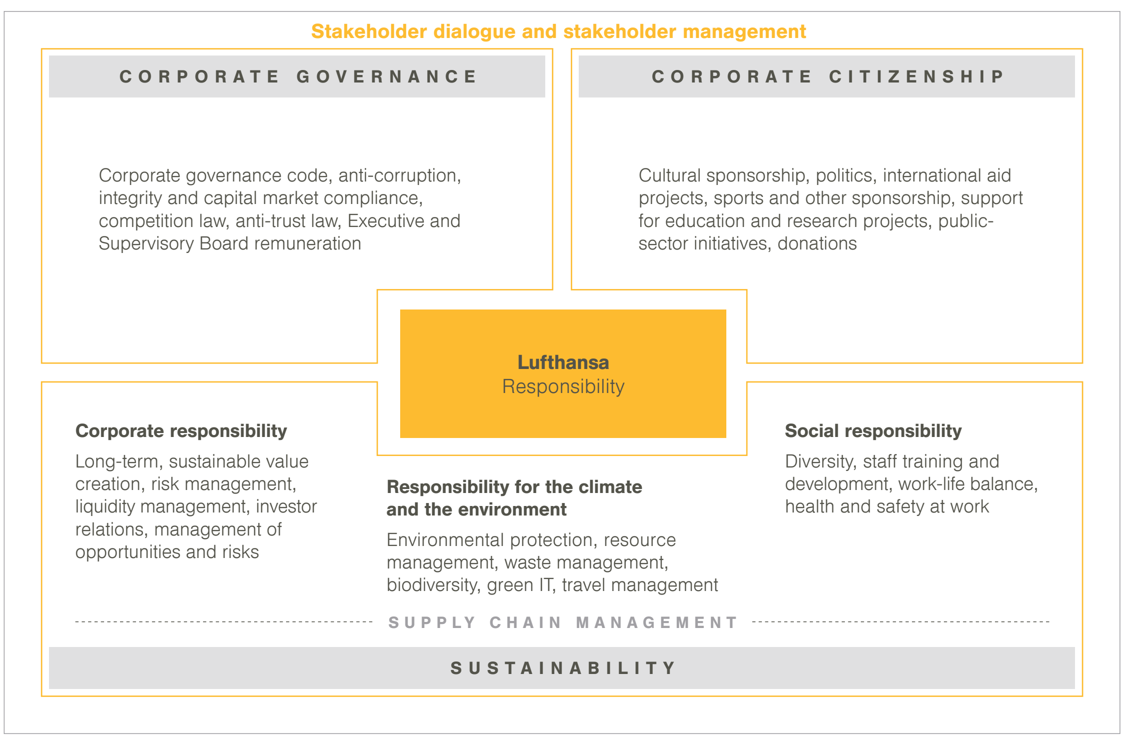
Sustainability is an established feature of Lufthansa's vision, our corporate values and our leadership principles. Spheres of activity such as diverse efforts to improve climate and environmental protection, staff satisfaction and professional training at all levels are of great importance for all business segments and support the Group's objective of carrying on its business sustainably. They are intended to increase the Company's long-term value.

The Lufthansa Executive Board bears the ultimate responsibility for sustainable business in the Group. The interdisciplinary and interdivisional Sustainability Board at senior management level consists of the heads of the Group departments Policy, Environmental Concepts, Corporate Labour Realtions, Communications and Investor Relations. The Board has primarily a coordinating and advisory function. Its members report directly to the Executive Board.

Share confirmed in Dow Jones Sustainability Index

As in prior years our consistent endeavours to act sustainably were acknowledged by external experts. The Lufthansa share was again included in the Dow Jones Sustainability Index. This is based not only on economic factors, but also on ecological and social criteria. The Company attained its highest score since being included in the index in 1999, again beating the previous year's outstanding

Lufthansa's understanding of responsibility



marks. Lufthansa attained industry leadership in the social dimension, particularly thanks to top marks in personnel development, recruiting highly qualified talent and staff loyalty. On the environmental criteria Lufthansa received top grades in noise reduction and local air quality. In the economic arena the airline's efficiency was particularly applauded. Lufthansa is also included in other sustainability indices such as FTSE4Good, Ethibel and ASPI.

We are committed to the principles of the UN Global Compact and support its activities. Since 2002 Lufthansa has complied with all recommendations of the Corporate Governance Code and also follows most of its facultative suggestions.

At Lufthansa all aspects relating to the topic of sustainability are structured under the overarching concept of responsibility. In addition to sustainability this also covers our corporate governance and corporate citizenship activities.

Fifteen principles of environmental protection anchored in Company strategy

The 15 principles were redefined in 2008 and laid down in the Strategic Environment Programme. They demonstrate the priority given to environmental matters in the Lufthansa Group's corporate goals. We aspire to make further significant progress in environmental efficiency by 2020. To do so, we want to embed environmentally compatible behaviour even more firmly as a decision-making factor for everyday business in future. Our website i www.lufthansa.com/responsibility gives an overview of our current environmental targets and activities, including their status, progress made and also targets that have not been met.

We measure our performance and the success of our climate and environmental protection endeavours using several key performance indicators (KPIs). All operating processes and activities in the Lufthansa Group that effect the environment are systematically identified, documented and evaluated. The information base for environmental management at Group level is the extensive environmental database, where we record annual data on energy and kerosene consumption, emissions, noise, refuse, water and waste water. This is supplemented by important human resources and economic data. Using this information our experts try to achieve constant improvements in Lufthansa's environmental performance. Lufthansa also has a leading position in the air transport industry in terms of certifying environmental management systems. Our long-term goal is to implement a certifiable environmental management system in all larger Group companies.

Our primary aim remains 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 mean achieving reduced CO_2 emissions of just 84 g/pkm approximately. For the financial year 2009 this figure was 108.4 g/pkm (previous year: 109.3 g/pkm) – an improvement of 0.9 per cent.

Overall, transport services provided by the Lufthansa Group in 2009 caused emissions of 24.2 million tonnes of CO_2 – an increase of 0.1 per cent. The increase is primarily the result of growth in transport services due to consolidation. Adjusted for this effect CO_2 emissions were reduced by 5.7 per cent compared with the previous year.

The new aircraft added to the fleet have modern, fuel-efficient engines and are key to our successful efforts to decouple CO_2 emissions from transport. This is accompanied by further optimisation of fuel consumption. In the air traffic industry this figure is normally measured in litres per 100 passenger-kilometres in order to facilitate comparisons. For the financial year 2009 the figure for the Lufthansa Group was 4.30 l/100 pkm, that is 0.04 l/100 pkm or 0.9 per cent less than the previous year (4.34 l/100 pkm). All environmental performance indicators for the financial year 2009 are published separately at i www.lufthansa.com/responsibility towards the middle of the year.

Reducing fuel consumption, CO_2 emissions, resources used and the resulting refuse all has great economic importance for our Company in addition to its ecological effect on the climate and the environment. Fuel expenses are one of the largest expense items for the Lufthansa Group, alongside staff costs. When the EU emission trading scheme is extended to air traffic from 2012 the CO_2 emissions will also have an impact on the bottom line. If the

Key environmental performance indicators for the Lufthansa Group's operating fleet

		2009	**Change in %**	2008	Change in %	2007
Fuel consumption	in litres / 100 pkm	4.30	–0.9	4.34	+0.5	4.32
CO_2 emissions (direct)	in gramme / pkm	108.4	–0.9	109.3	+0.5	108.8

number of emissions certificates required exceeds the emission rights allocated free of charge, additional certificates must be purchased. For us this means an initial cost of more than EUR 100m, depending on the market price of the certificates.

As a service company, Lufthansa does not carry out its own research and development in the classic sense. However, focussed research is necessary to evaluate the effects of air traffic on the environment objectively. Lufthansa therefore supports a number of scientific projects, the results of which form the basis for the Group's effective environmental activities. Examples include:

Research project MOZAIC: As part of the MOZAIC project, a number of Lufthansa's Airbus A340-300 aircraft take daily measurements during the flight of ozone, water vapour, carbon monoxide and nitrogen oxide in the atmosphere – to be used as data for refining global climate models.

EU research project IAGOS: IAGOS, a continuation of the MOZAIC project, is intended to make a key contribution to establishing an observation network for the atmosphere by using civilian aircraft for the routine collection of data on atmospheric trace constituents, aerosols and cloud. The data that IAGOS will gather are of vital importance for climate research and numerical weather forecasts.

EU research project CARIBIC: CARIBIC is a fundamental research project on the earth's atmosphere that aims to investigate the complex chemical and physical processes that take place there. This flying observatory, known as CARIBIC, gives detailed and precise data on the most diverse trace constituents and on the concentration and size distribution of aerosols.

EU research project ERAT: The aim of this project, which began in late 2007, is to develop concepts to reduce the environmental effects of noise and emissions from air traffic in the proximity of airports and to improve air quality at the same time.

Effective environmental protection with four-pillar strategy

Lufthansa's environmental and climate protection programme mentioned above is oriented towards the internationally recognised four-pillar strategy for air traffic, which covers the full range of practicable steps in air traffic to protect the climate and which is described in detail below. Furthermore, we support the IATA climate protection goals that provide for the CO_2-neutral growth of the air transport sector from 2020 as well as a reduction in absolute CO_2 emissions by 50 per cent compared with 2005 by 2050.

1. Technical innovations, including fleet modernisation and alternative fuels

In spite of the challenging environment Lufthansa still considers its comprehensive fleet replacement programme to bring considerable benefits. The renewal of the fleet is to be continued and older planes successively replaced by new ones. In 2010 around 50 aircraft with more efficient fuel consumption and lower noise emissions are to start operations. This will further reduce the average age of the fleet from 11.3 years in 2008 and 10.8 years in 2009. Sustainable alternative fuels will be a decisive component of emissions avoidance in future. Assuming that sufficient quantities are available and the price is acceptable, Lufthansa intends to blend synthetic fuel with conventional kerosene for up to ten per cent of the total by 2020. Strategic partnerships are intended to support this project.

2. Optimising infrastructure in the air and at airports

Efforts to reduce fuel consumption and CO_2 emissions by deploying new route planning systems and modern aircraft must be backed up by further projects and measures. These include legal and regulatory specifications as well as the expansion of airport infrastructure in line with demand in order to increase efficiency and avoid holding patterns and landing delays. Particularly urgent are practicable and competitive operating times at intercontinental hubs in the interest of all stakeholders and a solution to the still outstanding reform of Europe's fragmented air traffic control authorities to create unity through the Single European Sky project. The aim must be to abolish the unnecessary costs and superfluous emissions caused by the demonstrably inefficient management of European airspace. Lufthansa is in close and constant contact with the relevant political groups, decision-makers and trade associations in order to achieve a satisfactory result for all parties. The German Air Transport Initiative, which Lufthansa co-founded, is also directed towards this goal.

3. Optimisation of operating procedures

We work at optimising processes every day in order to make operating procedures more efficient and effective. Some examples from companies in the Group illustrate these endeavours: Lufthansa Cargo is currently testing the use of lightweight containers in order to save some 30,000 tonnes of kerosene over the next ten years. Software developed by Lufthansa Systems finds shorter flight routes – the result is a kerosene reduction of up to 5 per cent per flight segment. LSG Sky Chefs' new refrigeration controls at Frankfurt Airport cut energy consumption by 30 per cent. Lufthansa Technik has developed a new engine wash that reduces annual CO_2 emissions by around 75,000 tonnes. In the Lufthansa airline group joint efforts to reduce fuel consumption are being ramped up as part of a project in the Upgrade to Industry Leadership initiative. The Fuel Efficiency competence network exists to advance the joint development and the exchange of measures to cut fuel consumption.

4. Economic incentive systems

We are also in favour of economic instruments, to the extent that they constitute an effective means of controlling greenhouse gas emissions. We are always open for new approaches to finding solutions. This is why we are supporting the introduction of NOx-based airport charges in a three-year pilot phase in Frankfurt and Munich which began on 1 January 2008. This would give airlines that operate fleets with lower nitrogen oxide emissions and therefore a lower environmental impact an advantage over companies with more elderly fleets. Since September 2009 it has also been possible to use bonus miles from the Miles & More frequent flyer programme to purchase voluntary carbon offsets at Lufthansa and SWISS. Passengers can calculate the amount of carbon dioxide (CO_2) produced by their individual flight and have the offset deducted from their miles account. The Swiss foundation myclimate receives a corresponding amount of money from Miles & More, which it invests in high-quality climate protection projects. The air transport industry does not consider the extension of EU emission trading to air traffic from 2012 to be fit for purpose and as a stand-alone solution for the EU believes it does not go far enough, because there is no coherent overall strategy for reducing emissions from air traffic. Furthermore, an emissions trading scheme limited to Europe would lead to considerably higher costs – especially for European airlines – and therefore to a distortion of competition at the international level without achieving any positive effects for the climate. Lufthansa therefore supports the efforts of the industry associations IATA and AEA to develop a global solution to a global problem.

Key performance indicators for employees

in %	2009	2008	2007
Turnover rate	7.1	6.8	6.3
Female employees	45.1	43.5	42.4
Female employees in management positions	14.7	14.5	14.3

Increasing our attractiveness as an employer

The chapter “Employees” from p. 116 discusses in detail the importance of motivated employees for Lufthansa as a service company and Lufthansa’s attractiveness as an employer. Having carried out an employee survey again in 2008 we are continuing to implement the suggestions for improvements that were made. The range of professional training courses is also being extended again.

Focus on sustainable economic development at all times

The long-term enhancement of corporate value through sustainable economic development forms the foundation for all the Lufthansa Group’s activities. For this reason we practise value-based management, measuring success and thereby also managers’ variable remuneration by means of cash value added (CVA); see the chapter “Value-based management and targets” from p. 45. This enables us to set incentives to develop the Group sustainably and to minimise the risk of decisions that appear successful in the short term but have no lasting effects.

Sustainable economic development is facilitated not only by long-term planning but also by balanced risk management. The chapter “Risk report” from p. 126 gives a detailed description of the risk management system and its instruments.

The financial year just ended was marked by consolidation in the European air traffic segment. Lufthansa integrated three new airlines into its group via the takeovers of Austrian Airlines and British Midland and the equity investment in Brussels Airlines. The thoughts behind these acquisitions are based on sustainable partnership and the realisation of synergies. The Group’s expert knowledge is made available to the new partners so that they can start operating profitably as soon as possible.

In the area of procurement our relationship to our suppliers is defined by a spirit of fairness in a competitive market. To ensure sustainability in our purchasing processes as well, we work with a three-pillar model that rests on internal regulations, transparent decision making and tender systems, and sustainability provisions in all our contracts. In addition, all Lufthansa employees are bound to respecting the Competition Compliance and the Integrity Compliance regulations. German company law, codetermination 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. Efficient structures and clear processes guarantee responsible corporate leadership, which targets sustainable value creation and respects the rights and interests of shareholders and other parties. We attach great importance to open, clear corporate communications and a dialogue with all our stakeholders. This is one of the main conditions for maintaining and developing the trust established with investors, employees and the general public.

Disclosures in accordance with Section 315 Para. 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 Para. 1 German Aviation Compliance Documentation Act (LuftNaSiG) together with Section 71 Para. 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 Para. 2 and 3 LuftNaSiG together with Section 4 Para. 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 Para. 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 2009 the proportion of foreign shareholders was 25.8 per cent. Detailed information on the German Aviation Compliance Documentation Act (LuftNaSiG) can be found on our website

i www.lufthansa.com/investor-relations.

Direct or indirect shareholdings with more than 10 per cent of voting rights

As of 31 December 2009 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 225m:

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

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 24 April 2009 to buy back its own shares until 23 October 2010. 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. 181.

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" on p. 208.

Supplementary report

On 4 February 2010 the Vienna Commercial Court registered the squeeze-out voted at the shareholders' meeting of Austrian Airlines AG held on 16 December 2009 in the Vienna Commercial Register. All the shares held by minority shareholders were thereby transferred to the main shareholder ÖLH Österreichische Luftverkehrs-Holding-GmbH. To the extent that securities were issued on the basis of these membership rights they now only confer the right to cash compensation. Official trading ceased when the squeeze-out was registered and the delisting procedure for Austrian Airlines AG was initiated.

In February 2010 the Executive Board and works council at Lufthansa Cargo agreed to extend the policy of reduced working hours for payscale and non-payscale ground staff in Germany until 28 February 2011, on a reduced level of 20 per cent. This enables Lufthansa Cargo to continue adjusting its staff capacities to developments in demand in the airfreight business. Executive Board members and managers contribute by voluntarily foregoing a part of their salaries.

On 19 February 2010 Lufthansa and Fraport reached a compromise on airport fees that gives planning certainty until 2015. In addition to the fee increase of 12.5 per cent that had already been agreed for the years 2010 and 2011, this provides for annual increases of 2.9 per cent each over the period from 2012 to 2015. The agreement also takes account of future developments in passenger numbers at Frankfurt.

As part of the ongoing collective bargaining dispute the Vereinigung Cockpit (VC) pilots' union balloted its members and called for strike action at Lufthansa Passenger Airlines, Lufthansa Cargo and Germanwings, which began on 22 February 2010. The companies affected adjusted their flight capacities with a special limited flight timetable. As the Company considers the strikes and the union's demands to be unreasonable, Lufthansa sought a court injunction. At the initial hearing before the Frankfurt Labour Court on 22 February 2010 an end to the strike action and a cooling-off period until 8 March 2010 were agreed at the recommendation of the court. VC paved the way for constructive talks on the general working agreement and the wage agreement for the German region by renouncing disputed demands relating to Lufthansa Italia.

Risk report

↗ Risk management is integrated into all the Group's business processes. ↗ Financial risks are managed centrally, however. ↗ The risk map lists all material risks which could endanger the Company's earnings and its continued existence. ↗ There are currently no identifiable developments which could endanger the Company's continued existence.

Opportunity and risk management system

Lufthansa is an international aviation company and therefore exposed to macroeconomic, sector-specific and company risks. Our permanently updated management systems enable us to identify both risks and opportunities at an early stage and act accordingly. This proven risk strategy allows us to take advantage of 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 conscious management of opportunities and risks is an integral part of corporate management. For this reason we have not created a special organisational unit for risk management but have integrated it into the existing business processes. The system enabling risks to be identified and managed at an early stage is composed of several modules that are systematically linked with one another. There is an exception from this principle for the way the management of financial risks is organised. In contrast to general and strategic risk management, responsibility for this area is centralised. This enables these homogenous risks to be identified in their entirety and responsibly managed with the necessary economic competence. Here the functions of trading, settlement and financial controlling are strictly separated and are based in independent organisational units. The risk management system for financial instruments is part of central financial management. It is described in the section "Financial opportunities and risks" from p. 133 and in the Notes to the consolidated financial statements "Note 46" on p. 196.

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, Group Finance, Corporate Accounting, Corporate Audit (permanent member without voting rights), Corporate Information Management, Controlling Lufthansa Passenger Airlines and Delvag Group and is responsible for making constant improvements to 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 lists all the instruments for managing these risks. Risks count as material if they are capable of causing damage of at least one third of the operating result necessary for maintaining the value of the Company. For 2009 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.

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

The established Opportunity and Risk Report, which appears quarterly, tracks identified opportunities and risks throughout the year in relation to planned earnings. Potential departures from 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.

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

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

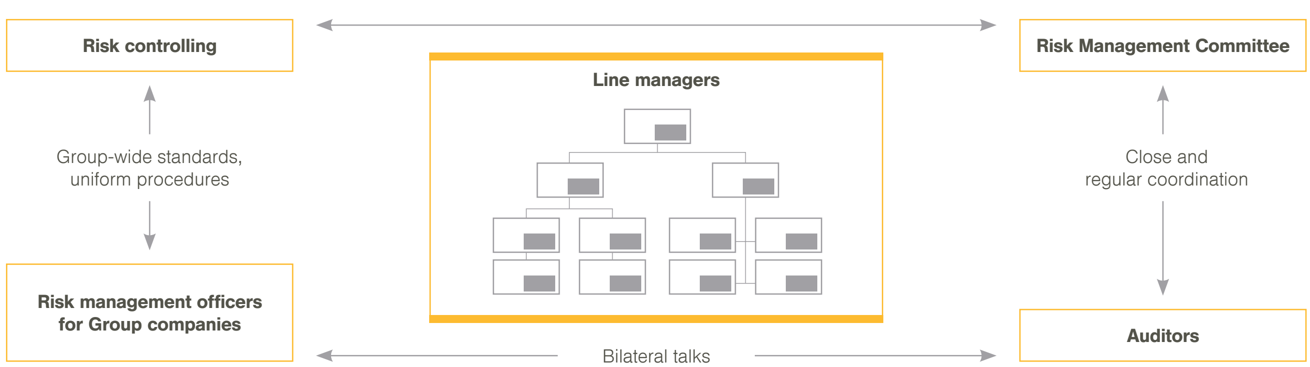
Macroeconomic risks

Towards the end of 2008, the global economy slipped into one of the most severe recessions since the crash of 1929. Following the massive slump which ensued, the downward momentum of the global economy has diminished significantly since the summer of 2009. The first signs of stabilisation in the global economy can, however, now be discerned. The driving force behind this is international trade, supported by extensive economic stimulus packages around the world. The absolute amount of trade, however, remains well below the pre-crisis level. Moderate economic growth is expected from this comparatively low base for 2010.

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

If the forecasts of an economic recovery turn out to be mistaken or premature, there is a risk that demand for air transport services will be lower than planned. Given the developments in demand at the airlines in the Group, new orders in the other business

Risk management at Lufthansa



segments would then also be expected to turn out lower than originally planned for 2010. Their different business models mean that the segments' results would be affected to a different extent and at different times, however.

As a rule, changes in economic growth rates 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. 133 of this report.

As the economic cycle has a considerable influence on demand for oil, especially in the Asian growth markets, a link also exists to price movements for the aviation fuel kerosene. In conjunction with declining economic growth, prices for kerosene initially fell back significantly. A considerable increase has been underway again since the beginning of 2009, however, which is ahead of a recovery in the economy. There is a risk that macroeconomic developments will drive fuel prices up before growth has a positive impact on demand for air transport services.

Compared with unhedged competitors, hedging at current price levels creates opportunities to benefit from our hedging transactions if prices rise again. Further explanations of the principles and effects of fuel hedging can be found in the section "Financial opportunities and risks" from p. 133.

Sector-specific opportunities and risks

Market and competitive risks affecting capacity and load factors

International passenger air traffic was hard hit by the global economic and financial crisis in 2009, as explained in detail in the chapter "Sector developments" from p. 53. IATA is assuming that global passenger demand will increase by a moderate 3.2 per cent in 2010 and by 6.4 per cent in subsequent years in line with forecast economic growth. These predictions of future demand trends are nevertheless subject to considerable uncertainty.

In addition to the cyclical fluctuations of the world economy and its effects on demand, it is changes in airlines' available capacities which largely determine the risk profile in the industry. In view of the boom in orders for new aircraft in recent years and despite greater financing difficulties, we expect many airlines to have growing overcapacities in many market segments in the years ahead. Competitiveness under these conditions depends primarily on how flexible a company is and how fast it can react to changes in demand.

In the current environment, keeping costs variable is a decisive competitive factor. In this respect, priority is given to the ability to adjust aircraft capacities to 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 Lufthansa to follow demand by adjusting capacities. As the majority of the aircraft are wholly owned by us and have already been partly depreciated, 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 many subsidies that can be witnessed can have the effect of distorting 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" from p. 74.

Constant improvements to cost structure are vital if we are to stay ahead of the competition. In the Lufthansa Group this takes place both by the initiation and implementation of programmes to safeguard earnings where necessary and by continuing to cut costs and make the cost basis more flexible on an everyday basis. Costs at Lufthansa Passenger Airlines are to be reduced sustainably by EUR 1bn by the end of 2011 thanks to the Climb 2011 programme; see from p. 74. The turnaround of Austrian Airlines and bmi and the use of resulting synergies should enable these companies to make a positive contribution to earnings and value creation in the short to medium term. Furthermore, all other Group companies are planning to implement wide-ranging steps to cut costs. 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. We have always emphasised the importance of infrastructure. This involves having not only the necessary capacities but also 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 Germany's position as an air traffic location. The planned extension of the runway and terminal system at Frankfurt Airport, for example, is a prerequisite for securing its position as a leading air transport hub in the future. This applies all the more in view of the megahubs being built elsewhere in the world (in the Gulf region for instance), which aim to attract global traffic flows by means of low-cost structures. For Lufthansa on the other hand, the expansion of the domestic hub offers the chance to implement extensive product and process improvements and thereby increase its competitiveness.

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 results 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.

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

In this competitive environment alliances and more indepth 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 Star Alliance's breadth by developing targeted regional cooperation agreements.

The majority takeover of Austrian Airlines and bmi and the purchase of shares in Brussels Airlines will enable additional prospects and synergies to be realised in the Lufthansa airline group that go beyond those that can be achieved in the Star Alliance. One good example is the successful integration of SWISS with the Lufthansa Group.

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

Legal and contingent risks

New laws and changes to national and international regulations also have a major effect on Lufthansa's future business success. Air traffic rights, 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 factors" from p. 55. Lufthansa also runs a compliance programme, which is described in detail in the chapter "Corporate governance" on p. 39.

Political, geopolitical and regulatory risks

The air traffic industry is severely exposed to geopolitical events such as wars, terrorist attacks or pandemics. However, political decisions can also have drastic effects: when they either abolish or create distortion to competition for instance. The introduction of emissions trading from 1 January 2012 as adopted by the EU will alter the market and competition situation within the air transport industry; for more details see p. 55. Lufthansa is preparing to implement these requirements. A hedging strategy is currently being elaborated for the price risk of emissions certificates and adjustments to the relevant IT systems are being prepared. A more restrictive regulation of night flights at Frankfurt Airport could also have a negative impact on earnings development and growth prospects at this hub. For available capacities to be used economically and in line with demand a practicable arrangement for night flights is indispensable, see p. 56 for the status of legal proceedings. If the ruling by the administrative court in Kassel is upheld it must be assumed that the ensuing amendment to operating regulations will allow virtually no night flights. Lufthansa Cargo's current business model would be severely jeopardised and the operation of its own cargo aircraft from Frankfurt, the largest cargo hub in Europe, called into question.

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, Lufthansa is already familiar with most of the standards under debate, however. It is nevertheless important to ensure that EU compensation standards for instance stay at levels defined by international treaties and do not put the European industry at a disadvantage in global competition.

The management of geopolitical risks must concentrate on dealing with the consequences after the event. Our emergency response programme Security and Reliability forms the basis for minimising the consequences of an incident for all involved. The individual steps are adapted in response to ongoing developments and are laid down in an Emergency Response and Action Plan (ERAP). As insurers remain extremely cautious, it is very expensive for European airlines to arrange effective insurance coverage against terrorist attacks. Specialised insurers now only offer limited coverage of these risks.

As this insurance cover is not obligatory for an airline's operating licence, there is no danger of planes being grounded because of it. In cooperation with the aviation industry liability insurers have drafted proposals for new terms. Instead of completely excluding all coverage, the third-party liability risk is now to be capped at a reasonable level. In this respect the draft amendment to the Rome Convention presented to the International Civil Aviation Authority in Montreal is questionable. The convention is intended to regulate the fundamental liability of an aircraft operator for damages to persons and property caused by terrorist attacks and suffered by third parties not involved in air traffic. Particularly worrying is the attempt to make the aviation industry unilaterally liable for damages due to terrorist attacks by instituting a limited strict third-party liability together with liability in case of fault for further damages. This is unacceptable, not least because the target of potential terrorist attacks is generally the community of states and the social community, and not private aviation companies.

Company-specific opportunities and risks

A tightly meshed, worldwide route network is strategically important for the success of a network carrier with global operations. Together with our Star Alliance partners, the airlines in the Lufthansa group give their customers access to the largest flight network in the world. Systematic network and alliance management enable risks to be identified at an early stage and opportunities used effectively. We are well placed in the growth markets of Asia, and in Africa, too, Lufthansa's positioning has been improved decisively by the networks of SWISS and Brussels Airlines. We believe we have good development prospects in both regions.

Lufthansa is playing an active role in the consolidation of the industry. The expansion of the Passenger Airline Group reinforces the airline profile in Lufthansa's portfolio of equity investments. 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. Furthermore, Lufthansa continues to invest in renewal and growth. Investment decisions need to be taken today so that market opportunities can be exploited tomorrow. Risks arise from the generally volatile environment of the sector. Its forecast growth path nevertheless promises global market opportunities in the longer term. Strategic opportunities present themselves for us and our alliance partners with their sites in the various regions of the world. 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. This promotes local entrepreneurialism and combines the typical strengths of a large company with the advantages of largely autonomous units focussed on their local regions and marketplaces.

The successful implementation of the airline group strategy depends largely on realising synergy potential in the airline group and on bringing the new partners Austrian Airlines and bmi 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. The Airline Development Board has been established to drive the group forward.

Other consolidation projects have been reviewed 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 under the brand name Lufthansa Italia. The risks here lie partly in the further development of the local market and the level of competition.

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.

The current crisis seems also to be accelerating structural market shifts. Continuing to refine our portfolio of operations, products and services can promote ensuing opportunities and reduce risks.

Staff

Changes in the macroeconomic environment mean that staff-related risks have shifted from securing growth by optimised recruitment to ensuring that staff capacities are breathable in case of changes in operations. In various areas of the Group this is accompanied by steps in response to structural shifts and efforts to cut unit staff costs. Staff costs accounted for the largest single item of operating expenses in 2009 at around 24 per cent, ahead even of fuel costs.

Our staggered procedure for adjusting staff capacities that has been refined over the course of many crises in the industry has proved invaluable in compensating for fluctuations. It includes imposing an early hiring freeze (generally for the whole Group), bringing in reduced working hours (focussing on cargo) and reducing external staff. The speed and effectiveness of reaction are risk factors, however, especially where employee capacities have to be cut due to structural adjustments. Shedding staff capacity (primarily in administrative areas) is facilitated by phased early retirement and severance pay in compensation for voluntary departures as well as innovative forms of special leave. Wide-ranging restructuring in the field of human resources presents some airlines in the Group (especially Austrian Airlines, bmi, regional airlines) with particular challenges. Redundancies at these companies cannot be avoided completely. Transparency and a clear priority for socially acceptable measures continue to ensure that employees' vital and traditionally high motivation levels are maintained. This also preserves Lufthansa's first-class reputation in the labour market, which improved again last year. In conjunction with the latest systems and methods of personnel marketing and development, this retains Lufthansa's future ability to select its new recruits from among the best.

The classical staff risks also include acceptance and cost risks within the framework of collective bargaining and staff representation agreements. This mainly relates to the way remuneration and benefits are dealt with in wage settlements. The negotiations that this generally entails hold risks that we endeavour to tackle by means of early and intensive dialogue.

Increasingly heterogeneous staff structures and smaller social partners with a greater focus on the interests of a subset of the workforce can endanger cooperation between employees and the cost structures in the enlarged group. Lufthansa deals with these risks by means of intensive dialogue with the labour union partners, concepts that foster cooperation, and active communications both inside and outside the Company. Nevertheless, further escalation of collective bargaining disputes up to and including strike action cannot be ruled out for 2010. In addition to the damage this does to Lufthansa's image as a dependable service provider, it also entails the risk of considerable revenue losses and additional costs.

Expanding the Group's portfolio of equity investments to include new, foreign companies implies challenges in terms of human resources, which Lufthansa tackles with its highly developed diversity culture and initiatives to globalise, to develop linguistic and cultural understanding, and to promote a dialogue of equals. The Group promotes economical and at the same time stable staff structures focussed on the employees by respecting autonomous decentralised responsibilities and identities. We meet increased demands for ensuring uniform standards, for example in the area of HR reporting, and the human resources responsibility of Lufthansa as a Group by actively involving new colleagues.

Lufthansa deals proactively with HR risks stemming from epidemiological risks (for example the H1N1 virus) with its professional medical services based on our pandemic plan.

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

IT systems are part of Lufthansa's everyday business processes. The use of IT is inseparable from risks to the availability and stability of business processes and the confidentiality of data. An 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, based on the criticality of the business processes and their data as defined by those responsible for the processes. The assessment covers critical applications and joint infrastructures and takes a variety of potential threats into account, including system malfunctions, hacker attacks or the theft and manipulation of data. The IT risk management process is organised on a cross-segment basis; the results are consolidated and dealt with by the Risk Management Committee.

Any security loopholes 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 business segments. They are responsible for implementing the IT security standards in the business segments. In this way we can maintain an adequate 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 in 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 Passenger Airline Group segments of the statute and carrying out data protection audits. On the other hand, the data protection experts advise the operating departments on the introduction of new systems and on designing or altering processes in order to optimise and coordinate data protection and economic concerns from an early stage.

Quality

Customers were more satisfied with Lufthansa in 2009 than ever before. This fortifies us in our orientation as a premium and quality carrier, to which we remain committed. In the years ahead the challenges will consist principally of achieving the quality standards we have set ourselves in the airline group ever more efficiently. There is potential to do so at the stations for instance, also with regard to the growing trend for automating customer processes. In European traffic there is also a tendency towards larger aircraft, which increases customer comfort and also holds the promise of lower unit costs.

Communications

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

Accounting

Numerous national and European regulations and statutory provisions apply to Lufthansa's accounting and the preparation of its financial statements, as for all publicly listed companies in Germany. 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. Further information can be found in the "Corporate governance" from p. 39.

Operational risks

Like any airline, Lufthansa also has potential risks relating to flight and technical operations. One of these is the risk of not being able to carry out regular flight operations for 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, with the possibility of damages 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 are integrated into countermeasures, 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 air traffic company, the Lufthansa Group is faced with financial risks in the form of changes in fuel prices, interest rates and exchange rates. The principally conservative approach towards financial and commodity risks is reflected in systematic financial management. 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 Internal Audit departments monitor compliance with the guidelines. Furthermore, the current hedging policies are also permanently discussed in management board meetings across the business areas. The Supervisory Board is regularly informed of the amounts at risk. Detailed information on currency, interest rate and fuel hedges can be found in the Notes to the consolidated financial statements "Note 46" on p. 196.

Derivative financial instruments are used exclusively for hedging underlying transactions. The market value of the derivatives must therefore be seen in connection with the hedged items. The planned regulation of OTC derivatives could create a significant risk for the Lufthansa Group; see also p. 196.

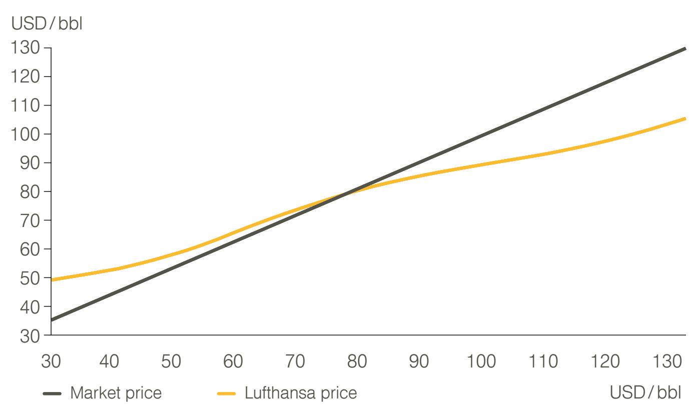
The main aim of fuel price and currency hedging is to reduce earnings volatility. This is achieved by forming averaging prices by means of layered hedging. Interest rate hedging has the aim of reducing the cost of interest and minimising fluctuations in interest expense at the same time. All underlying and hedging transactions are tracked in a treasury system. This means they can be valued at any time. For these transactions we only work with banks that have at least a long-term "BBB" rating or similar.

Lufthansa's ratings were downgraded by Moody's and Standard & Poor's in 2009. The result was what is known as a split rating, with one of investment grade and one of non-investment grade, but which has not so far made financing terms appreciably more expensive. If in future Standard & Poor's were to also downgrade the credit rating to non-investment grade, which cannot be ruled out, this could lead to a distinct deterioration in funding terms and financial risk management and restrict access to new funding and hedging instruments. To secure and improve the rating over the medium term, capital expenditure has been postponed and intensive efforts are being made to bolster cash flow from operating activities.

Fuel price risks

In the reporting year the Lufthansa Group consumed around 8 million tonnes of kerosene. It is a major item of expense, making up around 14.7 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 2010 would increase (reduce) fuel costs for the Lufthansa Group by EUR +222m (EUR –286m) after hedging.

Oil price scenario 2010 for the Lufthansa Group



Lufthansa therefore hedges fuel prices with a time horizon of up to 24 months. This is aimed at reducing fluctuations in fuel prices. The hedging level and the time horizon depend on the risk profile, which is derived from the business model of the Group company concerned. The hedging policies and structures shown in the diagram for Lufthansa Passenger Airlines and SWISS are currently being established for Austrian Airlines as well.

We use standard market instruments and hedge fuel price risks with a lead time of up to 24 months, mostly by means of option structures. Hedges are mainly in crude oil for reasons of market liquidity. The hedging transactions are therefore based on fixed rules and map the average of crude oil prices over time. The amounts hedged each month result in a hedging level of up to 85 per cent, depending on the Group company concerned. For Lufthansa Passenger Airlines for instance, the six months following a given date are hedged to 85 per cent. At the beginning of the year there were crude oil hedges for 67 per cent of the forecast fuel requirement for 2010, in the form of spread options and other hedging combinations. For 2011 around 26 per cent of the forecast fuel requirement was hedged at the reporting date. The fuel surcharge has established itself in the market as a further means of reducing risk. It is uncertain, however, to what extent the fuel surcharge can be maintained if the economy remains weak. If fuel prices were to drop by 20 per cent below their year-end 2009 level (future price USD 83.53/bbl) expenses for the Lufthansa Group would be reduced by around EUR 616m from the forecast EUR 4.8bn to around EUR 4.1bn. 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 accounted for in the currency exposure.

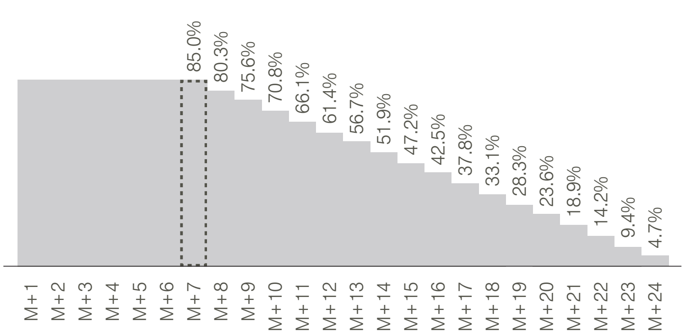
Currency risks

International ticket sales and the purchase of fuel, aircraft and spare parts give rise to foreign currency risks for the Lufthansa Group. All subsidiaries report their currency exposure to the Group over a timeframe of 24 months. At Group level, a net position is aggregated for each currency in order that "natural hedging" can be taken advantage of. Of the 60 currencies in use within the Lufthansa Group, 20 are actively managed. 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" on p. 196.

Liquidity, financing and interest rate risks

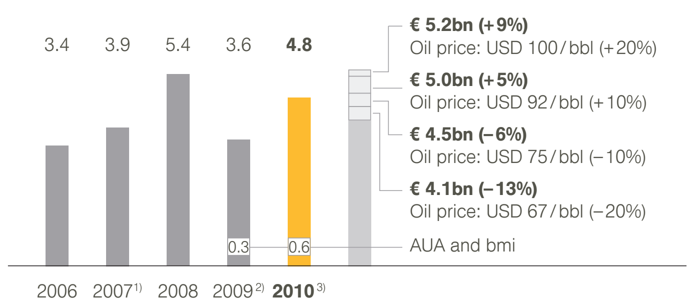
Securing sufficient liquidity at all times is a vital task for Lufthansa's financial management. The financial reporting system provides centralised information on the actual financial status and expected cash flows of all companies in the Lufthansa Group. This adds up to an up-to-date picture of the Group's liquidity at all times. To maintain its freedom of action, Lufthansa always holds strategic minimum liquidity available at short notice, as defined in its financial strategy. As the Group has grown, the amount has been increased from EUR 2.0bn to EUR 2.3bn. As of 31 December 2009 the Group held total liquidity of EUR 4.7bn. At year-end Lufthansa also had unused bilateral credit lines for a further EUR 1.7bn.

Lufthansa's hedging policy Medium-term crude oil hedging



Brent collar   Hedge (average Brent price consists of 18 individual prices)

Fuel costs in €m (as of 4.1.2010)



1) Incl. SWISS (from July 2007).
2) Incl. bmi (from July 2009), AUA (from September 2009).
3) Forecast.

Estimate based on average futures price of USD 83.53/bbl and a USD exchange rate of 1,4378 on 4.1.2010.

Lufthansa needs to borrow in order to make the investments planned for the years ahead. The current international financial crisis has done lasting damage to banks around the world in particular. This has made debt generally scarcer and more expensive. An effect on Lufthansa's borrowing can therefore not be ruled out. Nevertheless, due to its sound credit rating for the industry and position in the market, banks and investors still consider Lufthansa to be a preferred partner. Our financial profile and the pillars of our financial strategy are presented in detail in the chapter "Financial strategy" on p. 50 of this report.

Interest rate risks arise from financing our business. As of 31 December 2009 total outstanding financing came to EUR 6.8bn. 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" on p. 196.

Credit risks

Considerable exposure results from financial risk management. To manage the related risks we use a counterparty limit system in our financial management, with which counterparty default risk can be permanently assessed and managed. A maximum acceptable risk is determined for each counterparty. This is primarily derived from the rating given by recognised rating agencies. For oil companies without a rating the maximum credit limit is generally EUR 20m. The extent to which counterparty limits are taken up by existing financial market transactions is calculated and monitored daily. If limits are exceeded, an escalation procedure comes into play, requiring decisions to be taken on the action needed. Additional information and the credit risk positions existing at year-end 2009 can be found in the Notes to the consolidated financial statements "Note 46" on p. 196.

In times of economic downturn the default risk for trade receivables increases. We track the performance of receivables closely at the level of the Group and the individual business segments. Preventive measures are also taken. Passenger and freight documents are largely sold via agents, whose credit rating is regularly reviewed and partly secured by guarantees or similar instruments. Counterparty risks in connection with credit card companies are also monitored closely and incoming payments reviewed daily. Payment targets with some credit card companies were significantly reduced in 2007 and 2008 to lessen default risk.

Market risk from capital investments

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. At least EUR 300m must be in investments which can be liquidated on a daily basis. For its operating liquidity Lufthansa mainly uses money market funds which can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities, especially commercial papers, from creditworthy issuers. Investments must be with counterparties which have a rating of at least BBB. Only 20 per cent of investments for operating liquidity may be invested with counterparties with less than an A– rating. Investment in money market funds may not exceed 10 per cent of the fund's total assets. In 2009 the 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. A small proportion was covered by a capital guarantee, which established early protection against a fall in value in the current crisis. 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 the own investment guidelines derived from the general Lufthansa investment principles. The asset allocation is reviewed regularly and adjusted as necessary. The experience from the current 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 2009 the strategic liquidity achieved a return of 5.9 per cent.

The investments for the Lufthansa Pension Trust are also made on the basis of an allocation study. Here too, Lufthansa's conservative investment principles are paramount and form the basis for the individual 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. In 2009 this mechanism led to a successive unwinding of hedges from 2008. This enabled us gradually to participate in last year's market performance. For the pension assets this resulted in a return for 2009 of 5.5 per cent.

Overall statement on the risk situation of the Group

The opportunities and risks for the Lufthansa Group will be defined essentially by macroeconomic factors and their subsequent effects on global air traffic markets and competition. Past experience shows that developments in external parameters are subject to great uncertainty. In particular, there is a danger that fuel prices, in expectation of a sustainable economic upswing, will increase further before passenger and freight demand have recovered. Passing on all the additional costs on the income side would be inconceivable in the current market and competitive environment. Another major influencing factor is the dramatic decline in the proportion of Business Class and First Class passengers compared with the previous year. The Group is confronted with the risk that this structural shift in the composition of demand will not be fully reversible and will lead to a permanently lower average yields, especially in European traffic. 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 achieve cost cuts. In view of persistently weak demand and revenue trends and resurgent fuel prices, Lufthansa has tightened its programmes to safeguard earnings, including by launching the Climb 2011 programme; see from p. 74. In the other business segments as well, resources are deployed individually in line with respective sales expectations and the steps to safeguard earnings are being ramped up.

The new additions to Lufthansa's portfolio of equity investments, Austrian Airlines, bmi and Brussels Airlines, are exposed to the same sectoral risks as other Group airlines. As a result, this could have additional effects on profitability and economic development. In response, these companies will also enforce their restructuring efforts and adjust their resources in line with economic developments. However, synergy opportunities from cooperation within the airline group are also expected.

Counterparty risks are becoming more important in the current economic environment, both in financial markets and with regard to clients in all business segments. We track these risks on a continual basis and manage them according to the creditworthiness of the counterparty. Lufthansa itself has sufficient liquidity. Over the course of 2009 it was possible to raise a considerable amount of funding on advantageous terms. If the rating were to be further downgraded to below investment grade by both rating agencies, which cannot be ruled out, this would lead to considerably worse financing conditions and could restrict access to new funding.

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

Description of internal control and risk management system in accordance with Section 315 Para. 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) reduces 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. Separate financial statements that contain errors are selected and restated as necessary at Group level on the basis of control mechanisms already defined in the 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 (CGUs) 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 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 recover over the course of 2010. ↗ The air transport industry is assuming that demand will rise in future and that pricing and yields will remain under pressure. ↗ The Group's structure enables Lufthansa to derive particular benefits from long-term growth in the air traffic industry. ↗ We are upholding our goal of leading the industry in terms of profitability.

Macroeconomic outlook

GDP development Forecast 2010 to 2013 compared with previous year

in %	**2009***	2010*	2011*	2012*	2013*
World	−2.0	2.9	3.3	3.9	3.7
Europe	−4.0	1.1	1.7	2.1	2.3
Germany	−4.8	1.5	1.6	1.9	1.8
North America	−2.5	2.6	2.7	3.8	3.0
South America	−2.1	3.3	4.4	4.4	4.2
Asia/Pacific	1.3	5.1	5.0	5.5	5.6
China	8.5	9.9	8.5	8.5	8.6
Middle East	−0.1	3.8	5.5	5.2	4.6
Africa	2.0	3.8	4.6	4.8	4.8

Source: Global Insight World Overview as of 15.1.2010.
* Forecast.

Prospects of an emerging recovery for the economy in 2010

A tentative recovery in the global economy is expected for 2010. The difficult state of the international financial system has not yet been overcome, however. It is also assumed that energy prices will continue to rise on the back of an economic revival. Furthermore, the effects of the economic stimulus programmes launched around the world are likely to tail off over the course of 2010. The likely continued increase in unemployment will also depress consumer spending. As long as a self-sustaining recovery is not in sight, the timing and the way in which the economic stimulus and support packages are wound down will have a considerable effect on further growth. Overall, the global economy is forecast to grow by 2.9 per cent in 2010, rising to 3.3 per cent the year after.

The prospects for the economy in the USA have improved. There are many signs that in the months ahead, the American economy will gradually return to a growth path. The economic stimulus programme will have its greatest effect in the winter half-year 2009/2010. Private consumption will rise much more slowly than in the past, however, as households suffered an enormous depletion of assets and are likely to increase their savings plans. High unemployment will also depress consumer spending. The fiscal impact on demand is likely to diminish in 2010. Overall, the US economy is expected to report modest year-on-year growth of 2.6 per cent in 2010.

The Asian economies are benefiting from China's rapid growth rates. The region will continue to benefit from government support measures, which should stimulate domestic demand. There are good reasons to think that growth rates will pick up in 2010. In Japan the further development of the economy depends largely on the performance of international markets. Positive effects for external trade are primarily expected to come from China and the USA. These effects will be less pronounced than in previous upturns, however, due to the fragility of the global economic recovery. For the Asia/Pacific region total growth of 5.1 per cent is forecast for 2010.

The countries in the euro area should also recover moderately in 2010. Unemployment is expected to rise further, which is likely to depress domestic demand. Overall growth of 1.1 per cent is predicted for the euro area in 2010, which is to increase thereafter. The economic situation in Germany too is forecast to warm up tentatively in 2010. German exports will rise at a moderate rate given the still feeble expansion of the world economy. Domestic demand is only expected to pick up slowly, however. Companies' willingness to invest is likely to remain low in view of the scant improvement in sales prospects and unfavourable financing terms. Overall, growth of 1.5 per cent is forecast for Germany in 2010, rising modestly in subsequent years.

Interest and exchange rates

Although the volatility of currency markets has declined slightly since the time of the financial crisis, high levels of national debt mean that volatility is expected to remain severe during 2010. The exceptionally low interest rates are not expected to rise before mid 2010. Depending on the performance of the economy, a moderate interest rate rise is possible in the second half of the year.

Rising oil prices anticipated

In view of the expected economic recovery, demand for oil is forecast to rise, particularly in emerging economies such as China, India and Brazil. For this reason, we and many other market players are assuming that oil prices will return to higher levels in the medium term. In an unfavorable scenario, speculative trading will drive up oil prices even before economic recovery sets in. Medium-term expectations can be seen above all in the forward contracts for delivery of IPE Brent in December 2012, which at the end of January 2010 were trading at a premium of 16 per cent over the spot price.

Results remain under pressure

Given the rising fuel prices, rapid capacity growth and low price levels IATA is predicting total losses of USD 5.6bn for the airline industry worldwide in 2010. On this estimate the North American and European markets will sustain the heaviest deficits, with each losing more than USD 2bn. Despite the more rapid upswing in demand, airlines from the Middle East and Asia are also expected to report negative results. Latin America is the only market forecast to generate a profit in 2010.

Stronger recovery in freight traffic

International freight traffic was hit particularly hard by the global recession in 2009. By the end of 2009 the slide in worldwide cargo volumes had flattened out, however. Under these circumstances IATA is expecting strong growth of 7.0 per cent in international freight traffic for 2010. In view of resurgent economic activity, which has a direct effect on cargo traffic, IATA is assuming an average annual growth rate of around 7 per cent for international freight traffic in its four-year forecast.

Sector outlook

Air traffic industry expects slight recovery in demand

In line with a recovery in the world economy in 2010, slight growth is forecast for the air traffic industry. According to IATA, passenger numbers are due to grow worldwide by around 4.5 per cent in 2010, after falling by 4.1 per cent in 2009. For the next four years IATA is expecting an average growth rate for international traffic of more than 5 per cent. It will not return to pre-crisis levels before 2011 or 2012, however.

The recovery is very unevenly divided between countries and markets. This is reflected in the regional performance of the airline markets. During the IATA forecast period 2010 to 2013, the fastest growth in international passenger traffic is expected in the Middle East and Africa. In Asia/Pacific, where a relatively swift economic rebound can be seen, IATA also predicts strong growth in international passenger traffic. Strong economic growth and further liberalisation of the air traffic market have made Asia the main driver of passenger traffic for the years ahead. By contrast, a rapid recovery is not to be expected in European and North American markets due to high household debt, rising unemployment and an increased savings rate.

Changes in business and organisation

Over the last fifteen years the Lufthansa Group has undergone many changes. The year 2009 in particular was marked by the acquisition and integration of new airlines. The Company's organisational structure is continually reviewed in the light of these changes and adapted as necessary. A new division of responsibilities for the Executive Board was introduced in June 2009 in preparation for expanding the strategic business segment Passenger Airline Group. It reflects Lufthansa's evolution into an integrated group of autonomous airlines and the principle of positioning and managing the Group in close proximity to its markets; see also the "Value-based management and targets" chapter from p. 45. These new structures are to be established in 2010 and will be adjusted as required. Product developments and strategic orientation for the individual business segments are explained in the corresponding chapters from p. 74.

Outlook for the Lufthansa Group

Demand recovers – challenges remain for 2010

Looking at the forecasts for the global economy and our industry, all the signs indicate that demand will improve again from 2010 but that the pressure on profitability will remain; see also from p. 139. We intend to take our share of resurgent demand in the air traffic industry and use it to continue our course of profitable growth. The extent and the pace of economic recovery in 2010 depend on two crucial factors for the sector: the point at which recovery in demand becomes stable and the development of the oil price. We are assuming that many of our business customers will also continue with their current cost-cutting measures for the immediate future, which means that the airlines cannot count on a rapid recovery in the booking situation or in average yields in the premium classes. In European traffic it must also be assumed that lasting, structural shifts in demand have taken place that will have a dampening effect on future volumes and pricing.

In terms of costs, the development of the oil price will be decisive, as it could well increase in simple anticipation of an economic revival, as has been the pattern in recent years. In the event that the economic recovery does not materialise or is severely delayed, however, it could also reduce expenses accordingly. Thanks to our systematic hedging policy, our hedging instruments reduce expenses from around USD 79/bbl upwards, while enabling us to benefit from any falls in price. Despite this, price movements do have a tangible effect on our cost base as well: the current sensitivity analysis shows that a rise or fall in the oil price of just 20 per cent, assuming no change in currency rates, would have an impact of EUR –650m to EUR +450m on fuel costs for the Group; see from p. 133. Whether and to what extent any additional expenses can be passed on in the form of fuel surcharges depends ultimately on the resilience of renewed demand. Company-specific risks to Lufthansa's earnings development in 2010 lie for instance in the development of ongoing collective bargaining disputes.

Leadership confirmed in terms of profitability – outlook not yet quantifiable

Under the market conditions described, we are assuming that the Lufthansa Group will see revenue climb in 2010 from the previous year's low base. The full-year consolidation of the new companies will also make a contribution. In 2010 they will still continue to burden earnings, however. We will nevertheless endeavour to earn a higher operating result than last year. The factors described above can give rise to scenarios which impede or advance the achievement of this target. At present it is not yet possible to determine the operating result more precisely or to quantify it. We can, however, confirm our intention to uphold our established leadership in terms of profitability, which applies independently of the absolute earnings level.

To this end we are pursuing with undiminished energy our efforts to manage costs via the different initiatives underway in the business segments and the Group. All business segments intend to uphold their strong positions in this still challenging environment. In the individual chapters, starting on p. 74, we describe the outlook for each segment in detail.

Financial profile picks back up

The course of business outlined above will have a decisive effect on the Group's assets and financial position in the financial year 2010. Our financial goals nevertheless remain unchanged:

We will maintain our minimum liquidity, now at EUR 2.3bn, for 2010. Our balance sheet shall also preserve its strength, for instance by keeping a high proportion of unencumbered aircraft. We are upholding our goal of a sustainable equity ratio of 30 per cent, but do not expect to return to this level in 2010. Bringing the gearing back down to the target corridor of 40 to 60 per cent also appears to be an ambitious target for 2010 from the current perspective. We also stand by our dividend policy. It will lead to dividend payments being resumed as soon as the conditions are met. We will continue to follow the proven, flexible approach to funding pensions. In view of the change in market conditions we have cut planned capital expenditure to EUR 2.2bn for 2010. As in prior years, we plan to finance it primarily from cash flow and available liquidity. By postponing new aircraft deliveries we are striving to generate a free cash flow, but whether this succeeds will depend on the strength of cash flow from operating activities. In our fund raising we will be guided as in the past by medium-term financial requirements and by market conditions and opportunities.

Further improvement expected for 2011

In the current environment a medium-term forecast is also subject to a degree of risk. Assuming that the global economy continues to recover and that the steps to safeguard earnings and restructure are effective, we expect to increase revenue and to increase the operating result substantially in 2011. The synergies from the integration of the new companies will contribute to this. Our objective is to return to reasonable operating margins, as our aspiration remains to create sustainable value in the form of a positive cash value added over the air transport cycle.

Opportunities

A generous share of sector growth

The scenarios presented in the previous chapter also represent opportunities for the course of business in 2010, if underlying conditions develop better than expected. In the medium term, opportunities can even be derived from a challenging environment with high oil prices, as some competitors who have neglected to hedge their fuel prices in recent years could be driven from the market by the severe cost pressure that this would exert. At a fundamental level Lufthansa also has a range of opportunities, as air transport is notable for being one of the industries characterised by underlying growth, despite its considerable short-term volatility. In recent years Lufthansa has taken a disproportionate share of this growth, in long-haul traffic for instance, but also in the MRO segment. Even during the crisis we have been able to make far-sighted decisions and investments that will further strengthen our position. In our decision making we will continue to evaluate opportunities and risks for corporate development carefully and in the spirit of sustainable value creation.

Overall statement on the expected development of the Group

Positive prospects confirmed for Lufthansa

We continue to see the outlook for the Lufthansa Group in the years ahead as positive. The Lufthansa Group is well positioned and has demonstrated throughout the economic crisis that its defensive mechanisms are effective. The Group's structure enables Lufthansa to derive particular benefits from long-term growth in the air traffic industry:

- High quality standards and service levels in all business segments demonstrate our strong customer focus.
- At times of crisis, our customers appreciate Lufthansa's reliability more than ever and reward it with considerable loyalty.
- All segments have demonstrated that they can adjust their costs, their growth and their capital expenditure to changes in market conditions, without losing sight of their prospects for the future.
- We are pursuing our cost management, increasing flexibility and tackling structural alterations consistently.
- Managers and staff have overcome the crisis together by trusting and working with one another. They are highly skilled and motivated and are well prepared for the upturn.
- Our shareholders, customers and staff appreciate our sustainable development. We intend to strengthen our leading role in terms of sustainable profitability and it is our firm intention to create value.

Consolidated financial statements

Consolidated income statement
for the financial year 2009

in €m	Notes	2009	2008
Traffic revenue	3	17,604	19,970
Other revenue	4	4,679	4,872
Total revenue		**22,283**	**24,842**
Changes in inventories and work performed by entity and capitalised	5	225	178
Other operating income	6	2,531	1,969
Cost of materials and services	7	–12,700	–13,753
Staff costs	8	–5,996	–5,692
Depreciation, amortisation and impairment	9	–1,475	–1,289
Other operating expenses	10	–4,597	–4,946
Profit / loss from operating activities		**271**	**1,309**
Result of equity investments accounted for using the equity method	11	5	–22
Result of other equity investments	11	53	42
Interest income	12	181	202
Interest expenses	12	–506	–374
Other financial items	13	–233	–427
Financial result		**–500**	**–579**
Profit / loss before income taxes		**–229**	**730**
Income taxes	14	129	–178
Profit / loss after income taxes		**–100**	**552**
Profit / loss attributable to minority interests		–12	–10
Net profit / loss attributable to shareholders of Lufthansa AG		**–112**	**542**
Basic earnings per share in €	15	–0.24	1.18
Diluted earnings per share in €	15	–0.24	1.18

Statement of comprehensive income
for the financial year 2009

in €m	2009	2008
Profit / loss after income taxes	**–100**	**552**
Other comprehensive income		
Differences from currency translation	–18	127
Subsequent measurement of available-for-sale financial assets	193	–115
Subsequent measurement of cash flow hedges	–93	–29
Other comprehensive income from investments accounted for using the equity method	–7	–7
Revaluation due to business combinations	–44	–
Other expenses and income recognised directly in equity	–13	9
Income taxes on items in other comprehensive income	17	5
Other comprehensive income after income taxes	**35**	**–10**
Total comprehensive income	**–65**	**542**
Comprehensive income attributable to minority interests	–52	–15
Comprehensive income attributable to shareholders of Lufthansa AG	**–117**	**527**

Consolidated balance sheet
as of 31 December 2009

Assets

in €m	Notes	**31.12.2009**	31.12.2008	1.1.2008
Intangible assets with an indefinite useful life*	16	1,511	821	797
Other intangible assets	17	328	261	252
Aircraft and reserve engines	18 21	10,444	8,764	8,380
Repairable spare parts for aircraft		810	669	586
Property, plant and other equipment	19 21	2,157	1,931	1,773
Investment property	20	3	3	3
Investments accounted for using the equity method	22	320	298	323
Other equity investments	23 24	878	790	777
Non-current securities	23 24	349	509	298
Loans and receivables	23 25	506	475	399
Derivative financial instruments	23 26	255	339	368
Deferred charges and prepaid expenses	29	31	15	22
Effective income tax receivables	14	69	72	79
Deferred claims for income tax rebates	14	35	28	19
Non-current assets		**17,696**	**14,975**	**14,076**
Inventories	27	646	581	511
Trade receivables and other receivables	23 28	3,033	3,015	3,448
Derivative financial instruments	23 26	252	213	481
Deferred charges and prepaid expenses	29	128	119	110
Effective income tax receivables		105	130	62
Securities	23 30	3,303	1,834	1,528
Cash and cash equivalents	23 31	1,136	1,444	2,079
Assets held for sale	32	93	97	25
Current assets		**8,696**	**7,433**	**8,244**
Total assets		**26,392**	**22,408**	**22,320**

* Including goodwill.

Shareholders' equity and liabilities

in €m	Notes	31.12.2009	31.12.2008	1.1.2008
Issued capital	33 34	1,172	1,172	1,172
Capital reserve	35	1,366	1,366	1,366
Retained earnings	35	3,094	2,872	1,795
Other neutral reserves	35	574	579	589
Net profit/loss		–112	542	1,655
Equity attributable to shareholders of Deutsche Lufthansa AG		**6,094**	**6,531**	**6,577**
Minority interests		108	63	55
Shareholders' equity		**6,202**	**6,594**	**6,632**
Pension provisions	36	2,710	2,400	2,461
Other provisions	37	620	291	349
Borrowings	38 39	6,109	3,161	3,098
Other financial liabilities	40	87	51	55
Advance payments received, deferred income and other non-financial liabilities	41	1,000	1,024	933
Derivative financial instruments	26 38	225	118	371
Deferred income tax liabilities	14	663	710	663
Non-current provisions and liabilities		**11,414**	**7,755**	**7,930**
Other provisions	37	1,122	847	739
Borrowings	38 39	693	420	247
Trade payables and other financial liabilities	38 42	3,796	3,626	3,959
Liabilities from unused flight documents		1,906	1,693	1,546
Advance payments received, deferred income and other non-financial liabilities	43	1,008	882	723
Derivative financial instruments	26 38	106	492	481
Effective income tax obligations		145	99	51
Provisions and liabilities relating to disposal groups	44	–	–	12
Current provisions and liabilities		**8,776**	**8,059**	**7,758**
Total shareholders' equity and liabilities		**26,392**	**22,408**	**22,320**

Consolidated statement of changes in shareholders' equity
as of 31 December 2009

in €m	Issued capital	Capital reserve	Fair value measure-ment of financial instru-ments	Currency differ-ences	Reva-luation reserve (due to business combi-nations)	Other neutral reserves	**Total other neutral reserves**	Retained earnings	Net profit/loss	**Equity attrib-utable to share-holders of Lufthansa AG**	Minority interests	**Total share-holders' equity**
As of 31.12.2007	**1,172**	**1,366**	**140**	**–180**	**237**	**392**	**589**	**2,063**	**1,655**	**6,845**	**55**	**6,900**
Changes in accounting policies	–	–	–	–	–	–	–	–268	–	–268	–	–268
Adjusted as of 31.12.2007	**1,172**	**1,366**	**140**	**–180**	**237**	**392**	**589**	**1,795**	**1,655**	**6,577**	**55**	**6,632**
Capital increases/reductions	–	–	–	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–3	–	–3	–6	1,082	–1,082	–6	6	–
Dividends to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	–573	–573	–7	–580
Consolidated net profit/loss attribt. to minority interests	–	–	–	–	–	–	–	–	542	542	10	552
Other expenses and income without effect on profit and loss	–	–	–139	131	–	4	–4	–5	–	–9	–1	–10
Adjusted as of 31.12.2008	**1,172**	**1,366**	**1**	**–52**	**237**	**393**	**579**	**2,872**	**542**	**6,531**	**63**	**6,594**
As of 31.12.2008	**1,172**	**1,366**	**1**	**–52**	**237**	**393**	**579**	**3,140**	**599**	**6,856**	**63**	**6,919**
Changes in accounting policies	–	–	–	–	–	–	–	–268	–57	–325	–	–325
Adjusted as of 31.12.2008	**1,172**	**1,366**	**1**	**–52**	**237**	**393**	**579**	**2 872**	**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	–	–	–	–	–	–	–	–	–112	–112	12	–100
Other expenses and income recognised directly in equity*	–	–	117	–18	–44	–61	–6	–	–	–6	41	35
As of 31.12.2009	**1,172**	**1,366**	**118**	**–70**	**193**	**333**	**574**	**3,094**	**–112**	**6,094**	**108**	**6,202**

* Please refer to Note 35 for more information on other comprehensive income.

Consolidated cash flow statement
for the financial year 2009

in €m	Notes	2009	2008
Cash and cash equivalents 1.1.		**1,444**	**2,079**
Net profit/loss before income taxes		–229	730
Depreciation, amortisation and impairment losses on non-current assets (net of reversals)	9 13	1,634	1,413
Depreciation, amortisation and impairment losses on current assets		74	25
Net proceeds on disposal of non-current assets	6	–27	–25
Result of equity investments	11	–58	–20
Net interest	12	325	172
Income tax payments/reimbursements		48	–123
Change in working capital[1]		224	301
Cash flow from operating activities		**1,991**	**2,473**
Capital expenditure for property, plant and equipment and intangible assets	16 – 20	–2,174	–1,785
Capital expenditure for financial investments	24 25	–29	–80
Additions to repairable spare parts for aircraft		–165	–102
Proceeds from disposal of non-consolidated equity investments		94	8
Proceeds from disposal of consolidated equity investments[2]		–	30
Cash outflows for acquisitions of non-consolidated equity investments	22 – 24	–98	–274
Cash outflows for acquisitions of consolidated equity investments[3]	1	–104	–15
Proceeds from disposal of intangible assets, property, plant and equipment and other financial investments		448	96
Interest income		214	190
Dividends received		74	71
Net cash from/used in investing activities		**–1,740**	**–1,861**
Purchase of securities/fund investments[4]		–3,107	–1,412
Disposal of securities/fund investments		1,284	769
Net cash from/used in investing and cash management activities		**–3,563**	**–2,504**
Capital increase[5]	33 – 35	6	–
Non-current borrowing		2,633	363
Repayment of non-current borrowing		–755	–279
Other financial debt		1	33
Dividends paid		–333	–580
Interest paid		–281	–226
Net cash from/used in financing activities		**1,271**	**–689**
Net increase/decrease in cash and cash equivalents		**–301**	**–720**
Changes due to currency translation differences		–7	85
Cash and cash equivalents 31.12.	31	**1,136**	**1,444**
Securities		3,303	1,834
Total liquidity	30	**4,439**	**3,278**
Net increase/decrease in total liquidity		1,161	–329

[1] Working capital consists of inventories, receivables, liabilities and provisions.
[2] Cash balances of EUR 2m sold the previous year.
[3] Less cash balances acquired of EUR 431m (previous year: EUR 1m).
[4] Including transfer to LH Pension Trust of EUR 283m (previous year: EUR 283m).
[5] Capital increase from minority interests.

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

Notes to the consolidated financial statements
of Deutsche Lufthansa AG for 2009

Notes to consolidation and accounting policies

International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) applied
The consolidated financial statements of Deutsche Lufthansa AG and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union (EU).

Under the revised version of IAS 1 Presentation of Financial Statements, a statement of comprehensive income is required which includes income and expenses previously recognised directly in equity without effect on income (other comprehensive income). The standard affects the presentation of the financial statements, but not the net assets, financial and earnings position of the Group.

In accordance with IFRIC 13 Customer Loyalty Programmes, which is mandatory from 1 January 2009, miles earned but unused under bonus miles programmes are to be accounted for at fair value using the deferred revenue method. Compared with the additional cost method applied to date, this results in a considerably higher deferred value per mile and has a corresponding effect on the Group's net assets, financial and earnings position. Following this switch, the obligation under bonus miles programmes increased as of 1 January 2009 compared with the financial statements for 2008 from EUR 1,026m to EUR 1,454m, deferred tax liabilities fell by EUR 103m and equity by EUR 325m. If IFRIC 13 had been applied for the financial year 2008, the net profit before income taxes would have been EUR 74m lower and the net profit after income taxes EUR 57m lower. In accordance with IFRIC 13, obligations under bonus miles programmes previously shown in other provisions are now recognised in deffered income or other non-financial liabilities. The figures for the previous year have been adjusted accordingly.

As a result of IFRS 8 Operating Segments, applicable from 1 January 2009, the segment reporting has been adapted structurally and in terms of its contents to the reports regularly presented to decision makers within the Group. The main earnings indicator in the segment reporting is now the operating result instead of the segment result, which is also reported.

The standard affects the presentation of segment reporting but not the Group's net assets, financial and earnings position. The comparable figures shown in the segment reporting for this reporting period have been adjusted as if IFRS 8 had already been applied the previous year. The segment previously known as Passenger Transportation is presented under the new name of Passenger Airline Group and without the centralised Group functions. The operating result for the new segment adjusted accordingly was therefore shown as being EUR 141m higher in the previous year. There is no further segment reporting on Service and Financial Companies as for this segment there is no obligation to report under IFRS 8.

Other amendments to the standards in comparison with the previous year had no significant effect on the net assets, financial and earnings position of the Group.

IAS 23 Borrowing Costs, as amended, replaces the option of either capitalising or recognising as expenses borrowing costs incurred in close connection with the financing of the purchase or production of an asset with the obligation to capitalise these costs for financial years beginning on or after 1 January 2009. The corresponding interest expense is to be determined using the effective interest method. The main effects on the net assets, financial and earnings position of the Group results from the capitalisation of financing costs for prepayments on aircraft orders placed after 1 January 2009.

Changes to IFRS 2 giving a more precise definition of the conditions for exercising option rights in share-based remuneration, to IAS 32 and IAS 1 on the distinction between equity and liabilities, to IFRIC 9 on the amended assessment of embedded derivatives and to IAS 39 on the reclassification of financial assets, had no effect on the net assets, financial and earnings position of the Group. Amendments to IFRS 7 Financial Instruments: Disclosures resulted in additional disclosures in the Notes to the consolidated financial statements such as the introduction of measurement levels for financial instruments held at fair value as well as additional quantitative and qualitative information on liquidity risks. The amendments had no effect on the net assets, financial and earnings position of the Group.

In May 2008 various other amendments to existing standards were published, which were mandatory for the Lufthansa Group from the financial year 2009 onwards.

The amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations makes it clear that even in the event of a partial disposal that leads to the loss of possible control over a consolidated company, all the assets and liabilities of the consolidated company are to be reclassified as “held for sale”. Some additional disclosures are also required for discontinued operations.

The amendment to IAS 1 Presentation of Financial Statements makes it clear that financial debt not primarily classified as “held for trading” is to be categorised as current or non-current in line with general provisions.

IAS 16 Property, Plant and Equipment and IAS 7 Statement of Cash Flows have been amended in respect of the recognition of property, plant and equipment and proceeds from the disposal of property, plant and equipment generally sold on the expiry of their lease to third parties.

A further amendment to IAS 19 Employee Benefits specifies the criteria for distinguishing negative past service cost from curtailments to pension plans and short-term and long-term benefits to employees.

The amendment to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance stipulates that the difference between the interest rate on a public loan and the market rate is to be treated as a grant in accordance with IAS 20.

The amendment to IAS 27 Consolidated and Separate Financial Statements makes it clear that financial instruments recognised at fair value in line with IAS 39 are still to be recognised at fair value even in the event that they are classified as held for sale under IFRS 5.

The amendment to IAS 28 Investments in Associates and correspondingly to IAS 32 Financial Instruments Presentation and IFRS 7 Financial Instruments: Disclosures makes it clear that for the purposes of impairment testing the shareholding in an associated company is to be considered as a single asset and that impairment losses are to be reversed as necessary. In addition, the amendments relating to IAS 31 Interests in Joint Ventures made it clear that when associated companies or joint ventures are measured in line with IAS 39 Financial Instruments: Recognition and Measurement, in place of the equity method only some, but not all, of the disclosures must be made that are required under IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures in addition to the disclosures under IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures.

The amendment to IAS 36 Impairment of Assets makes it clear that where fair value less cost to sell is calculated on the basis of discounted cash flows, the same disclosures must be made as for the calculation of the value in use.

The amendment to IAS 38 Intangible Assets deals with more precise rules on straight-line depreciation and amortisation and clarifies those cases in which an advance payment is to be considered an intangible asset.

The amendment to IAS 39 Financial Instruments: Recognition and Measurement defines when the reclassification of financial instruments between the categories “at fair value through profit and loss” and “held for trading” is permitted and when not.

As a result of amendments to IAS 40 Investment Property and ensuing amendments to IAS 16 Property, Plant and Equipment, property which is built or developed for future use as a financial investment no longer comes within the scope of IAS 16, but is from the outset within the scope of IAS 40. Further changes result for subsequent measurement in line with IAS 40.

The Annual Improvement Project 2008 also made some changes to the wording of the existing standards IFRS 7 Financial Instruments: Disclosures, IAS 8 Accounting Policies: Changes in Accounting Estimates and Errors, IAS 10 Events after the Reporting Period, IAS 18 Revenue, IAS 34 Interim Financial Reporting, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 40 Investment Property and IAS 41 Agriculture.

The amendments published in May 2008 and applicable from the financial year 2009 onwards will not have any or any significant effect on the net assets, financial and earnings position of the Group.

The interpretation IFRIC 15 Agreements for the Construction of Real Estate draws a distinction between transactions for which IAS 18 Revenue and those for which IAS 11 Construction Contracts is to be applied.

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 18 Transfers of Assets from Customers was published in January 2009, primarily for the benefit of the energy sector.

IFRIC 15, 16 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 IFRS issued by the IASB and in effect at the time these financial statements were prepared and applied by Deutsche Lufthansa AG have been adopted by the European Commission for application in the EU. The consolidated financial statements of Deutsche Lufthansa AG, denominated in EUR million, therefore comply with the IFRS as applicable in the EU and with the further commercial law provisions of Section 315a Paragraph 1 HGB and with the IFRS in general.

These consolidated financial statements for 2009 are to be examined and approved by the Supervisory Board of Deutsche Lufthansa AG in its meeting on 10 March 2010 and are then authorised for publication.

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

The amendments to standards described below are mostly only applicable from the financial year 2010 onwards. To the extent that amendments described hereafter are only applicable from a later date, this will be specifically mentioned.

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

The new IAS 27 makes it obligatory to apply the “economic entity approach” to the purchase and disposal of equity stakes once the possibility of control has been acquired and maintained. This means that transactions with minority shareholders are to be recognised in equity and not through profit or loss. For successive share purchases which result in the control of a company, or when shares are sold, resulting in the loss of control, the standard requires that the shares already or still held are revalued at fair value through profit or loss. Depending on the type and scope of future transactions the amendments to IAS 27 and IFRS 3 may affect the net assets and financial and earnings position of the Lufthansa 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 “inner value” of the option. The change in the “time value” is recognised in the financial result, which will lead to corresponding fluctuations in net profit / loss for the period that cannot be estimated at present given their dependence on future market developments. This has no effect on realised hedging gains or losses on hedged items, as 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 will have no effect on the assets and financial position. The amendment is to be applied retrospectively for the Lufthansa Group from the financial year 2010.

The revision of IAS 24 Related Party Disclosures, produced a uniform definition of ‘related party’ and was more precise about the purpose of the disclosure. In the future certain disclosures are no longer required for companies that are at least subject to significant influence from the public sector (“government-related entities”). This amendment is applicable from the financial year 2011 onwards.

The new standard IFRS 9 Financial Instruments deals with classification and measurement standards for financial assets. The effects of IFRS 9, which is applicable from 1 January 2013, on the net assets, financial and earnings position and the presentation in the consolidated financial statements are currently under review.

Other changes relate to IFRS 1 First-time Adoption of International Financial Reporting Standards, but these are not relevant for the Lufthansa Group.

IFRIC 17 Distributions of Non-cash Assets to Owners governs the accounting treatment of non-cash distributions to third parties. This standard is not currently relevant for the Lufthansa Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments was adopted in November 2009 and defines the standards required when a company renegotiates the terms of a financial liability with its creditor and the creditor receives shares or other equity instruments from the company as full or partial repayment of the debt.

The interpretation is binding for financial years beginning on or after 1 July 2010. It has not yet been endorsed by the EU.

In 2009 there were also several minor adjustments made to various standards, the application of which will not be relevant to or not have a significant effect on the net assets, financial and earnings position of the Lufthansa Group.

1 Group of consolidated companies

All significant subsidiaries under legal and/or actual control of Deutsche Lufthansa AG are included in the consolidated financial statements. Significant joint ventures or associated companies are accounted for using the equity method when the Group holds between 20 and 50 per cent of the shares and/or can, together with other shareholders, exercise control or significant influence.

A list of significant subsidiaries, joint ventures and associated companies can be found on p. 216–221. The list of shareholdings is published in the electronic edition of the Federal Gazette (Bundesanzeiger).

LSG Sky Chefs/GCC Ltd. is classified as a fully consolidated subsidiary in spite of a 50 per cent share of voting rights because the Lufthansa Group exercises economic and financial control over the company.

Special purpose entities in which the Group does not hold a voting majority are, nonetheless, classified as subsidiaries if the Group derives majority benefit from their activities or bears most of the risk. The companies affected are identified as such in the list of significant subsidiaries.

In addition to Deutsche Lufthansa AG as the parent company, the group of consolidated companies includes 70 domestic and 135 foreign companies, including special purpose entities (previous year: 69 domestic and 101 foreign companies).

Changes in the group of consolidated companies during the 2009 financial year are shown in the following table:

Changes in the group of consolidated companies

Name, registered office	Consolidated as of	Deconsolidated as of	Reason
Passenger Airline Group segment			
Lufthansa Italia S.p.A., Milan, Italy	5.6.09		Established
LHBD Holding Ltd., London, UK	19.6.09		Established
Austrian Airlines AG, Vienna, Austria	3.9.09		Purchase
Lauda Air Luftfahrt GmbH, Vienna, Austria	3.9.09		Purchase
Tyrolean Airways Tiroler Luftfahrt GmbH, Innsbruck, Austria	3.9.09		Purchase
AUA Beteiligungen Gesellschaft m.b.H., Vienna, Austria	3.9.09		Purchase
TRAVIAUSTRIA Datenservice für Reise und Touristik GmbH & Co. Nfg. KG, Vienna, Austria	3.9.09		Purchase
Austrian Airlines Lease & Finance Company Ltd., Guernsey	3.9.09		Purchase
Suriba Beteiligungsverwaltungs GmbH, Vienna, Austria	3.9.09		Established
Österreichische Luftverkehrs-Beteiligungs GmbH, Vienna, Austria	3.9.09		Consolidated for the first time
Österreichische Luftverkehrs-Holding GmbH, Vienna, Austria	3.9.09		Consolidated for the first time
ÖLP Österreichische Luftverkehrs-Privatstiftung, Vienna, Austria	3.9.09		Consolidated for the first time
British Midland Airways Ltd., Donington Hall, UK	1.7.09		Increased shareholding
British Midland Ltd., Donington Hall, UK	1.7.09		Increased shareholding
Lufthansa Leasing Austria GmbH & Co. OG Nr. 1, Salzburg, Austria	6.7.09		Established
UIA Beteiligungsgesellschaft mbH, Vienna, Austria	3.9.09		Purchase
A319 LDA-LDB-LDC Ltd., George Town, Cayman Islands	3.9.09		Purchase
A319 LDD-LDE-LDF Ltd., George Town, Cayman Islands	3.9.09		Purchase
AUA 2006 MSN 263 Ltd., George Town, Cayman Islands	3.9.09		Purchase
AUA A320/A321 2001 Ltd., George Town, Cayman Islands	3.9.09		Purchase
AUA LNR/LNS/LNT/LNU Ltd., George Town, Cayman Islands	3.9.09		Purchase
LNN/LNO/LAE Ltd., George Town, Cayman Islands	3.9.09		Purchase
LPC/LNP/LNQ Finance Ltd., George Town, Cayman Islands	3.9.09		Purchase

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Changes in the group of consolidated companies (continued)

Name, registered office	Consolidated as of	Deconsolidated as of	Reason
Logistics segment			
Cargo Counts GmbH, Hattersheim		1.1.09	Merger
Catering segment			
International Food Services Ltd., Hong Kong, Hong Kong	1.1.09		Consolidated for the first time
LSG Sky Chefs (Qingdao) Co., Ltd., Laixi City, China	1.1.09		Consolidated for the first time
LSG Sky Chefs Culinary Service GmbH, Neu-Isenburg	1.1.09		Consolidated for the first time
LSG Sky Chefs Gulf Solutions W.L.L., Manama, Bahrain	1.1.09		Consolidated for the first time
Fortaleza Serviços de Bordo Ltda., Fortaleza, Brazil	7.1.09		Purchase
Belém Serviços de Bordo Ltda., Belém, Brazil	7.1.09		Purchase
Natal Catering Ltda., Natal, Brazil	7.1.09		Purchase
LSG Lufthansa Service Hong Kong Ltd., Hong Kong, Hong Kong	1.7.09		Increased shareholding
Oakfield Farms Solutions, L.L.C., Wilmington, USA	1.10.09		Established
Other			
AirPlus Payment Management Co., Ltd., Shanghai, China	1.1.09		Consolidated for the first time
Lufthansa Training & Conference Center GmbH, Seeheim-Jugenheim	1.1.09		Consolidated for the first time
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	3.9.09		Increased shareholding
AirPlus Holding GmbH, Vienna, Austria	25.9.09		Established

British Midland Airways Ltd. and its holding company British Midland Ltd. (bmi) were included in the consolidated financial statements for Deutsche Lufthansa AG for the first time as of 1 July 2009. Having acquired a stake of 50 per cent plus one share in bmi via LHBD Holding Limited, a Lufthansa subsidiary, the Group now holds 80 per cent of the bmi shares. The purchase price for the shares was GBP 48m. Lufthansa also paid Sir Michael Bishop GBP 175m in compensation for the waiver of his put option. The acquisition cost of the shares mentioned above was EUR 56m. The comparison between the fair values of assets and liabilities and the acquisition costs gives rise to an excess of costs over net assets of EUR 128m. As bmi has no value as a cash-generating unit (CGU), this figure was not recognised as goodwill, but offset against risk provisions made in previous years in the form of negative market values of financial derivatives or other provisions. The remaining 20 per cent of bmi shares were purchased for GBP 19m from SAS Scandinavian Airlines on 1 November 2009. In addition, Lufthansa paid SAS Scandinavian Airlines GBP 19m in compensation for the waiver of its call option. The compensation payments made to SAS were offset against provisions made the previous year without affecting income.

Austrian Airlines AG and its significant subsidiaries were also included for the first time in the consolidated financial statements for Deutsche Lufthansa AG, with effect from 3 September 2009. After the European Commission had approved the merger between Austrian Airlines and Lufthansa and cleared the payment of EUR 500m in restructuring aid for Austrian Airlines by Österreichische Industrieholding AG (ÖIAG), all the contractually agreed conditions precedent for completing the transaction were met. By purchasing the shares held by ÖIAG and those acquired as part of the public takeover offer, Lufthansa – via ÖLH Österreichische Luftverkehrs-Holding GmbH – has acquired 95.4 per cent of the share capital of Austrian Airlines AG for a total purchase price of EUR 208m. In addition to the amount paid to ÖIAG and the remaining shareholders, the acquisition costs include the fair value of the earn-out agreement with ÖIAG. Comparing the fair value of assets and liabilities with the acquisition cost of the shares results in negative goodwill of EUR 87m as of the acquisition date, which in accordance with IFRS 3 is to be recognised immediately in profit and loss and is shown under other operating income.

As of 7 January 2009 an equity interest of 70 per cent was acquired in each of three Brazilian companies: Fortaleza Serviços de Bordo Ltda., Belém Serviços de Bordo Ltda. and Natal Catering Ltda. for a total purchase price of EUR 3m. The shares acquired correspond to the voting rights. Calculating the fair value of the companies' assets and liabilities on the acquisition date resulted in goodwill of EUR 3m.

As of 1 July 2009 the equity stake in LSG Lufthansa Service Hong Kong Ltd., which had previously been accounted for using the equity method, was increased from 38 per cent to 42 per cent. The purchase of the additional shares for a price of EUR 2m was accompanied by the assumption of management responsibility for the company, meaning that it was included in the group of consolidated companies from this point on.

Calculating the fair value of the company's assets and liabilities on the acquisition date resulted in goodwill of less than EUR 1m.

The following table shows the companies' main assets and liabilities immediately before and after the acquisition date:

	bmi		**AUA Group**		**LSG companies**	
in €m	Before acquisition 1.7.2009	After acquisition 1.7.2009	Before acquisition 3.9.2009	After acquisition 3.9.2009	Before acquisition in 2009	After acquisition in 2009
Non-current assets	238	822	1,838	1,758	28	28
Cash and cash equivalents	31	31	380	380	15	15
Other current assets	130	131	463	463	6	6
Current assets	161	162	843	843	21	21
Total assets	**399**	**984**	**2,681**	**2,601**	**49**	**49**
Shareholders' equity	–512	–143	490	309	37	37
Non-current liabilities	316	484	1,258	1,357	2	2
Current liabilities	595	643	933	935	10	10
Total equity and liabilities	**399**	**984**	**2,681**	**2,601**	**49**	**49**

The consolidated net loss for 2009 includes EUR –11m from the equity valuation of the bmi shares as of 30 June 2009. The full consolidation of this company contributed EUR –59m to the Group's net loss for the period. If bmi had been fully consolidated as of 1 January 2009, consolidated revenue would have been EUR 477m higher and the net loss EUR 154m greater.

The full consolidation of AUA Group contributed EUR 38m to the net loss for the period, including the negative goodwill of EUR 86m recognised in income. If the AUA Group had been fully consolidated as of 1 January 2009, Group revenue would have been EUR 1.3bn higher and the net loss EUR 278m greater.

The LSG companies, which were consolidated for the first time in the financial year 2009, contributed less than EUR 1m to the Group's net result for the period.

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 2009.

Company name	Registered office
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 A.E.R.O. GmbH	Alzey
Lufthansa Cargo AG	Kelsterbach
Lufthansa Cargo Charter Agency GmbH	Kelsterbach
Lufthansa CityLine GmbH	Cologne
Lufthansa Commercial Holding GmbH	Cologne
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
Lufthansa Systems AS GmbH	Norderstedt
Lufthansa Systems Berlin GmbH	Berlin
Lufthansa Systems Business Solutions GmbH	Raunheim

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Company name (continued)	Registered office
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.
Miles & More International GmbH	Neu-Isenburg

The consolidated financial statements include equity stakes in 65 joint ventures and 40 associated companies (previous year: 66 joint ventures and 39 associated companies), of which 9 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:

	2009			2008		
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	79	246	357	78	235	340
Current assets	132	117	20	177	163	38
Shareholders' equity	95	122	27	177	90	26
Non-current liabilities	22	148	230	23	141	234
Current liabilities	94	93	120	115	167	118
Income	324	308	57	305	553	56
Expenses	313	289	52	275	545	49

2 Summary of significant accounting policies and valuation methods and estimates used as a basis for measurement

The application of the accounting and valuation methods prescribed by IFRS and IFRIC requires making a large number of estimates and assumptions with regard to the future that may, naturally, not coincide with actual future conditions. All these estimates and assumptions are, however, reviewed continuously and are based either on past experience and/or expectations of future events that seem reasonable in the circumstances on the basis of sound business judgement.

Estimates and assumptions that are of material importance in determining the carrying amounts for assets and liabilities are explained in the following description of the accounting and valuation methods applied to material balance sheet items.

The fundamental valuation method applied in the consolidated financial statements is historical cost. Where IFRS stipulate that other methods of measurement be applied, these are used instead, and are referred to specifically in the following comments on measuring assets and liabilities.

Recognition of income and expenses

Revenue and other operating income is recognised when the service has been provided or when the risk has passed to the customer. Traffic revenue 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 2009 amounted to EUR 50m (previous year: EUR 38m).

Operating expenses are recognised when the product or service is used or the expense arises. Provisions for guarantees are made when the corresponding revenue is recognised. Interest income and expenses are accrued in the appropriate period. Dividends from shareholdings not accounted for using the equity method are recognised when a legal claim to them arises.

Initial consolidation and goodwill

The initial consolidation of Group companies takes place using the purchase method. This involves measuring the fair value of the assets, liabilities and contingent liabilities, identified in accordance with the provisions of IFRS 3, of the company acquired at the acquisition date, and allocating the acquisition costs to them. The proportion of fair value of assets and liabilities not acquired is shown under minority interests.

Any excess of cost over the value of equity acquired is capitalised as goodwill and subject to a regular annual impairment test, thereafter.

If the value of the acquirer's interest in the shareholders' equity exceeds the costs incurred by the acquiring company, the difference is recognised immediately in profit or loss.

Differences from minority interests acquired after control has been assumed are to be set off directly against equity.

Annual impairment tests applied to goodwill are carried out using recognised discounted cash flow methods. This is done on the basis of expected future cash flows from the latest management planning, which are extrapolated on the basis of long-term revenue growth rates and are assumptions with regard to margin development, and discounted for the capital costs of the business unit. Tests are performed at the cash generating unit (CGU) level. For individual premises on which impairment tests were based in financial year 2009, see "Note 16" from p. 168.

Additional impairment tests are applied during the course of the year if events give reason to believe that goodwill could be permanently impaired.

Currency translation and consolidation methods

The annual financial statements of foreign Group companies are translated into euros in accordance with the functional currency concept. The functional currency is mainly the currency of the country in which the company concerned is located. Occasionally, the functional currency differs from the national currency. Assets and liabilities are translated at the middle rates on the balance sheet date. Income statements are translated at the average exchange rates for the year. These translation differences are recognised directly in shareholders' equity without effect on profit or loss. Goodwill from capital consolidation of foreign subsidiaries prior to 2005 is carried at historical cost net of amortisation accumulated by the end of 2004.

Goodwill arising since 2005 has been recognised in the currency of the company acquired.

Transaction differences, however, are recognised in profit or loss. These differences arise in the financial statements of consolidated companies from assets and liabilities based on currency other than the company's functional currency. Any resulting exchange rate differences are included in other operating income as foreign currency transaction gains, or in other operating expenses as foreign exchange losses.

The most important exchange rates used in the consolidated financial statements have developed in relation to the euro as follows:

	2009		2008	
	Balance sheet exchange rate	**Income statement average rate**	Balance sheet exchange rate	Income statement average rate
USD	0.69730	0.71635	0.71063	0.67310
JPY	0.00754	0.00765	0.00788	0.00646
GBP	1.12120	1.11784	1.02412	1.26653
CAD	0.66046	0.62882	0.58384	0.64140
HKD	0.08994	0.09247	0.09168	0.08642
THB	0.02092	0.02086	0.02044	0.02028
SEK	0.09741	0.09429	0.09156	0.10477
NOK	0.12029	0.11457	0.10138	0.12281
DKK	0.13438	0.13430	0.13418	0.13410
CHF	0.67283	0.66078	0.67184	0.62885
KRW	0.00060	0.00056	0.00056	0.00062

The effects of intra-Group transactions are completely eliminated in the course of consolidation. Receivables and liabilities between consolidated companies are netted and intra-Group profits and losses in non-current assets and inventories are eliminated. Intra-Group income is set off against the corresponding expenses. Tax accruals and deferrals are made as required by IAS 12 for temporary differences arising from consolidation.

Other intangible assets (except goodwill)
Acquired intangible assets are shown at cost, internally generated intangible assets from which the Group expects to derive future benefit, and which can be measured reliably, are capitalised at cost of production and amortised regularly using the straight-line method over an estimated useful life. The cost of production includes all costs directly attributable to the production process, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overhead.

Intangible assets with an indefinite useful life 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 the amendment to IAS 23 Borrowing Costs, borrowing costs closely related to financing the production or purchase of a qualifying asset are capitalised. This applies to assets acquired on or after 1 January 2009. 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 present value of the leasing instalments, plus any incidental expenses borne by the lessee. Depreciation methods and useful lives correspond to those applied to comparable purchased assets.

Impairment losses on intangible assets and property, plant and equipment
In addition to amortisation and depreciation on intangible assets and property, plant and equipment, impairment losses are also recognised on the balance sheet date if the asset's recoverable amount has fallen below its carrying amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell, and the present value of the estimated net future cash flows from continued use of the asset.

Fair value less costs to sell is derived from recent market transactions, if available.

If it is impossible to forecast expected cash flows for an individual asset, the cash flows for the next larger asset unit are estimated, discounted at a rate reflecting the risk involved, and the recoverable amount allocated to the individual assets in proportion to their respective carrying amounts.

If the reasons for an impairment loss recognised in previous years should cease to exist in whole or in part in subsequent periods, the impairment loss is reversed.

Repairable spare parts for aircraft
Repairable spare parts for aircraft are held at continually adjusted prices based on average acquisition costs. For measurement purposes, spare parts are assigned to individual aircraft models and depreciated at the same rate as the aircraft models for which they can be used.

Investment property

Property held exclusively for letting to companies outside the Group is classified as a financial investment and valued at historical cost less depreciation.

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 is only carried out in subsequent periods if there are indications of a potential impairment in the entire investment valuation. Interim profits and losses from sales between Group companies and companies accounted for using the equity method are eliminated pro rata in relation to the equity stake.

Financial assets

Financial assets are classified within the Lufthansa Group as "at fair value through profit or loss", "loans and receivables" and "available-for-sale financial assets".

The category "at fair value through profit and loss" includes financial assets held for trading purposes, e.g. derivatives which do not qualify as hedging transactions as part of a hedging relationship.

The category "loans and receivables" consists of financial assets with fixed payment schedules which are not traded in an active market. They are classified as non-current or current assets according to their remaining maturity.

"Available-for-sale financial assets" are non-derivative financial assets which are not attributable to one of the other categories. Securities, equity investments and cash and bank balances count as available for sale.

Derivatives which qualify as hedging transactions within a hedging relationship are not classified in any of these categories.

Financial assets are capitalised on the settlement date, i. e. the date at which the asset is created or transferred, at fair value plus transaction costs. Long-term low or non-interest bearing loans are recognised at net present value using the effective interest method.

Trade receivables from production or service contracts not completed at the balance sheet date are recognised at production costs, 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 a hedging policy defined by the Executive Board and monitored by a committee, and also involves entering into interest rate and exchange rate hedging transactions with non-consolidated Group companies.

Interest rate swaps and interest rate/currency swaps are used to manage interest rate risks. Interest rate/currency swaps also hedge exchange rate risks arising from borrowing in foreign currencies.

The Lufthansa Group uses currency futures and currency options to hedge exchange rate exposure. This involves the use of spread options that combine the purchase and simultaneous sale of currency options in the same currency. Spread options are concluded as zero-cost options, i. e. the option premium to be paid is equal to the premium resulting from the sale of the option.

Fuel price hedging takes the form of spread options and other hedging combinations, primarily for crude oil. To a limited extent, hedging is also undertaken for other products, such as gas oil.

Hedging transactions are used to secure either fair values or future cash flows.

To the extent that the financial instruments used qualify as effective cash flow hedging instruments within the scope of a hedging relationship, in accordance with the provisions of IAS 39, any fluctuations in fair value will not affect the result for the period during the term of the derivative.

Changes in the fair value of the effective portion of an effective cash flow hedge are recognised without effect on profit or loss in equity.

If the hedged cash flow is an investment, the result of the hedging transaction, which has previously been recognised in equity, is set off against the cost of the investment at the time the underlying transaction matures.

In all other cases the cumulative gain or loss previously stated in equity is included in net profit or loss for the period on maturity of the hedged cash flow.

In the case of effective hedging of fair values, any changes in fair value of the hedged asset, or the hedged debt and those of the financial instrument, will balance out in the income statement.

Where the financial instruments used do not qualify as effective hedging transactions but as trading under IAS 39, any changes in fair value are recognised directly as a profit or loss in the income statement. Embedded derivatives – to the extent that they cannot be separated from the financial host contract – are considered with these as trading transactions for measurement purposes. Changes in fair value are also recognised directly as a profit or loss in the income statement. Both types must be classified as financial assets stated at fair value through profit or loss.

It is the Group's hedging policy ("Note 46" from p. 196) only to enter into effective derivatives for the purpose of hedging interest rate, exchange rate and fuel price risks.

Hedging transactions with non-consolidated Group companies and interest/currency swaps do not, however, satisfy the qualifying criteria for effectiveness as defined in IAS 39. Changes in fair value arising from these transactions are therefore recognised directly in profit or loss.

Inventories
This item includes non-repairable spare parts, raw materials, consumables and supplies, purchased merchandise and advance payments made for inventories. They are measured at cost, determined on the basis of average prices, or at cost to produce. The cost of production includes all costs directly attributable to the production process, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overhead. Measurement on the balance sheet date is at the lower of cost and realisable value less costs to sell. Average capacity utilisation of 97 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 2009 amount to EUR 866m (previous year: EUR 466m). In the 2009 financial year EUR 21m (previous year: EUR 11m) 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 middle rate on the balance sheet date.

Share-based liabilities from option programmes for managers were measured at fair value in accordance with IFRS 2 Share-based Payment. Fair value was measured using a Monte Carlo simulation.

The obligation was recognised on the basis of the resulting fair value, taking the term of the programme into account.

Details of the premises used for the model and the structure of the options programmes can be found in "Note 41" from p. 192.

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.

As the application of IFRIC 13 Customer Loyalty Programmes is mandatory as of the financial year 2009, 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. The comparable figures for the previous year were adjusted as if IFRIC 13 had already been applied in the financial year 2008. 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 products and services of 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 188 billion miles were to be measured as of 31 December 2009. EUR 549m (previous year: EUR 528m) of the resulting obligations were recognised in other non-financial liabilities and EUR 887m (previous year: EUR 926m) in deferred revenue, see "Note 41" on p. 192 and "Note 43" from p. 194.

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 2009 was EUR 834m (previous year: EUR 383m).

Deferred foreign tax rates in the 2009 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	2009	2008
Passenger	15,430	16,827
Freight and mail	2,174	3,143
	17,604	**19,970**
Scheduled	17,262	19,512
Charter	342	458
	17,604	**19,970**

Of total freight and mail revenue EUR 1,844m was generated in the Logistics segment. Freight and mail revenue at SWISS, Austrian and Germanwings from marketing cargo space on passenger flights amounted to EUR 330m (previous year: EUR 378m), and is shown in the segment reporting as other revenue from the Passenger Airline Group segment. Traffic revenue for the previous year at Lufthansa Passenger Airlines has been restated as a result of applying IFRIC 13 as of 1 January 2009 and is now EUR 28m lower.

4 Other revenue

Revenue by sector

in €m	2009	2008
MRO	2,162	2,052
Catering services	1,450	1,586
Travel services (commissions)	133	157
IT services	254	288
Ground services	77	84
Other services	603	705
	4,679	**4,872**

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 of material and engines and from logistics services is classified under 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 230m (previous year: EUR 222m) 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 are 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 229m (previous year: EUR 244m). Profits of EUR 50m were set off against them (previous year: EUR 38m). Advance payments by customers amounted to EUR 233m (previous year: EUR 288m). Unfinished contracts with a net credit balance – less any write-downs – are disclosed in trade receivables, see “Note 28” on p. 181. Unfinished contracts for which advance payments by customers exceed the costs plus any offset pro rata profit are recognised as advance payments, see “Note 43” from p. 194. 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	2009	2008
Increase / decrease in finished goods and work in progress	−4	−2
Other internally produced and capitalised assets	229	180
	225	**178**

6 Other operating income

Other operating income

in €m	2009	2008
Income from the disposal of non-current assets	24	29
Income from the disposal of non-current available-for-sale financial assets	27	7
Income from the reversal of impairment losses on fixed assets	14	6
Foreign exchange gains	1,062	912
Income from the reversal of provisions and accruals	187	157
Commission income	165	175
Re-invoicing of charges for computerised distribution systems	42	25
Reversal of write-downs on receivables	43	30
Income from staff secondment	42	34
Compensation received for damages	132	14
Rental income	20	21
Income from sub-leasing aircraft	29	26
Income from the disposal of current available-for-sale financial assets	32	3
Negative goodwill	86	–
Miscellaneous other operating income	626	530
	2,531	**1,969**

The sale of the remaining Condor shares account for EUR 18m of income from the disposal of non-current financial assets. Book gains on the disposal of property, plant and equipment relate in particular to the sale of aircraft and reserve engines (in total EUR 19m).

Compensation received for damages is derived primarily from payments received in connection with damages in Scandinavia, an indemnity for the cancellation of the internet system FlyNet and income from the sales of claims for damages resulting from the insolvency of Lehman Brothers.

Foreign exchange gains mainly include gains from differences between the exchange rate on the transaction date (average rate for the month) and at the time of payment (spot exchange rate) along with foreign exchange gains from measurement at the closing date rate. Foreign exchange losses from these transactions are reported under other operating expenses, see "Note 10" on p. 165.

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.

The negative goodwill of EUR 87m recognised on the first-time consolidation of AUA, less the change in the value of the earn-out that forms part of the acquisition cost, led to total income of EUR 86m.

Miscellaneous other operating income includes items not attributable to any of the aforementioned categories, 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	2009	2008
Aircraft fuel and lubricants	3,645	5,377
Other raw materials, consumables and supplies	2,028	2,013
Purchased goods	374	401
Total cost of raw materials, consumables and supplies and of purchased goods	**6,047**	**7,791**
Fees and charges	3,762	3,499
Charter expenses	592	518
External MRO services	1,066	843
In-flight services	250	213
Operating lease payments	338	280
External IT services	106	94
Other services	539	515
Total cost of purchased services	**6,653**	**5,962**
	12,700	**13,753**

8 Staff costs

Staff costs

in €m	2009	2008
Wages and salaries	4,909	4,685
Social security contributions	678	639
Expenses for pension plans and other employee benefits	409	368
	5,996	**5,692**

Expenses for pension plans principally consist of additions to the pension provisions, see "Note 36" from p. 186.

Employees

	Average for the year 2009	Average for the year 2008	As of 31.12.2009	As of 31.12.2008
Ground staff	80,123	79,468	82,645	78,799
Flight staff	30,759	27,430	33,288	27,595
Trainees	1,438	1,225	1,588	1,406
	112,320	**108,123**	**117,521**	**107,800**

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 1,475m (previous year: EUR 1,289m).

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.

In financial year 2008 the impairment charges came to EUR 15m in total, of which EUR 14m was recognised for four aircraft available for sale and EUR 1m for other items of property, plant and equipment.

Annual impairment testing in 2009 and 2008 did not result in any impairment losses on goodwill.

Further information on impairment testing can be found in "Note 16" from p. 168.

10 Other operating expenses

Other operating expenses

in €m	2009	2008
Sales commission paid to agencies	447	614
Rental and maintenance expenses	717	717
Staff-related expenses	777	820
Expenses for computerised distribution systems	339	327
Advertising and sales promotions	301	311
Foreign exchange losses	797	892
Auditing, consulting and legal expenses	136	149
Other services	110	130
Insurance premiums for flight operations	52	40
Write-downs on receivables	129	119
Communications costs	54	52
Other taxes	67	66
Losses on disposal of non-current assets	24	11
Losses on current available-for-sale financial assets	27	105
Consultancy fees in connection with financial transactions	14	6
Losses on disposal of other current assets	–	0*
Miscellaneous other operating expenses	606	587
	4,597	**4,946**

* Rounded below EUR 1m.

Foreign exchange losses mainly consist of losses from differences between the exchange rate on the transaction date (monthly average rate), and the rate at the time of payment (spot rate) as well as translation losses from measurement at the exchange rate on the balance sheet date, see "Note 6" on p. 164.

11 Result of equity investments

Result of equity investments

in €m	**2009**	2008
Result of joint ventures accounted for using the equity method	5	14
Result of associated companies accounted for using the equity method	0*	–36
Result of equity investments accounted for using the equity method	**5**	**–22**
Dividends from other joint ventures	3	1
Dividends from other associated companies	7	5
Income from profit transfer agreements	27	30
Expenses from loss transfer agreements	–5	–15
Dividends from other equity investments	21	21
Result of other equity investments	**53**	**42**
	58	**20**

* Rounded below EUR 1m.

Income and expenses from profit and loss transfer agreements are shown including tax contributions.

The result of equity investments accounted for using the equity method improved, largely due to the negative equity result for bmi in the previous year. In financial year 2009 bmi's result for the period 1 January to 30 June 2009 of EUR –11m was included in the equity valuation pro rata temporis.

12 Net interest

Net interest

in €m	**2009**	2008
Income from other securities and non-current financial loans	10	11
Other interest and similar income	171	191
Interest income	**181**	**202**
Interest expenses on pensions obligations	–183	–119
Interest expenses on other provisions	–29	–16
Interest and other similar expenses	–294	–239
Interest expenses	**–506**	**–374**
	–325	**–172**

Net interest from financial instruments calculated under the effective interest method of EUR –113m (previous year: EUR –37m) comes solely from financial instruments not held at fair value through profit or loss.

13 Other financial items

Other financial items

in €m	**2009**	2008
Write-downs on available-for-sale financial assets	–145	–121
Write-downs on loans	–21	–35
Gains/losses on fair value changes of hedged items	3	–44
Gains/losses on fair value changes of derivatives used as fair value hedges	5	48
Result of derivatives held for trading classified as at fair value through profit or loss	-75	–199
Ineffective portion of derivatives used as cash flow hedges	–	–76
	–233	**–427**

Write-downs on available-for-sale financial assets include the write-down of EUR 140m on Fraport shares recognised in the first quarter 2009. As the share price recovered in the interim, the fair value for the shares as of 31 December 2009 was EUR 109m higher. The write-back was made directly in equity without effect on income. The write-downs from the previous year related to the significant impairment of EUR 113m in the value of Jet Blue shares due to movements in the share price and the US dollar as of 30 June 2008, which was recognised in income.

14 Income taxes

Income taxes

in €m	**2009**	2008
Current income taxes	35	109
Deferred income taxes	–164	69
	–129	**178**

Current income taxes for 2009 include corporation tax, solidarity surcharge, trade tax and other income taxes paid outside Germany totalling EUR 38m (previous year: EUR 140m). EUR 3m in taxes was refunded for prior years (previous year: EUR 31m).

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.

	2009		2008	
in €m	**Basis of assessment**	**Tax expenses**	Basis of assessment	Tax expenses
Expected income tax expense/refund	−229	−57	730	183
Tax-free income, other allowances and permanent differences*	–	−113	–	49
Profits from equity investments without deferred taxes	–	−5	–	−19
Difference between local taxes and the deferred tax rates of the parent company	–	21	–	−2
Unrecognised tax loss carry-forwards and deferred tax assets on losses	–	27	–	−21
Other	–	−2	–	−12
Recognised income tax expenses	**–**	**−129**	**–**	**178**

* Including taxes from other periods recognised in effective tax expenses.

Deferred taxes are recognised on retained earnings of equity investments accounted for using the equity method for the amount of taxes payable on distribution.

Deferred tax liabilities of EUR 9m (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 109m (previous year: deferred tax liabilities of EUR −31m) were recognised without effect on profit and loss in 2009.

Deferred tax assets and liabilities in 2009 and 2008 are attributable to the following categories:

	31.12.2009		31.12.2008	
in €m	**Assets**	**Liabilities**	Assets	Liabilities
Tax loss carry-forwards, non-deductible interest carry-forwards and tax credits	205	–	88	–
Accelerated tax depreciation, tax-free reserves	–	–	–	–
Pension provisions	238	–	213	–
Finance leases for aircraft	–	2	–	11
Intangible assets, property, plant and equipment	–	815	–	619
Non-current financial assets	152	–	201	–
Fair value measurement of financial instruments	–	28	–	2
Provisions for contingent losses	37	–	27	–
Receivables/liabilities/other provisions	–	500	–	646
Offset amounts	−682	−682	−568	−568
Other	85	–	67	–
	35	**663**	**28**	**710**

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 3,742m (previous year: EUR 1,542m) exist for which no deferred tax assets could be recognised.

Of the unrecognised tax loss carry-forwards, EUR 179m can only be used until 2010, EUR 103m only until 2011, EUR 60m until 2012, EUR 12m until 2014, EUR 6m until 2018 and EUR 2,676m can also be used after 2018. A total of EUR 834m (previous year: EUR 383m) 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. The maximum number of shares that can arise from a conversion is 2,524,622, as in the previous year.

		2009	2008
Basic earnings per share	€	**–0.24**	**1.18**
Consolidated net profit/loss	€m	–112	+542
Weighted average number of shares		457,875,372	457,868,804
Diluted earnings per share	€	**–0.24**	**1.18**
Consolidated net profit/loss	€m	–112	+542
+ interest expenses on the convertible bond	€m	+3	+1
– current and deferred taxes	€m	–1	0*
Adjusted net profit/loss for the period	€m	–110	+543
Weighted average number of shares		460,399,994	460,393,426

* Rounded below EUR 1m.

Due to the first-time application of IFRIC 13 and the ensuing adjustment of the figures for the previous year, earnings per share for 2008 were restated from EUR 1.30 per share to EUR 1.18 per share.

In 2009 EUR 0.70 per share was distributed as a dividend from the net profit for 2008.

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 1.1.2008	882	203	1,085
Accumulated impairment losses	–288	–	–288
Carrying amount 1.1.2008	**594**	**203**	**797**
Currency translation differences	–12	23	11
Additions due to changes in consolidation	–	–	–
Additions	13	0*	13
Reclassifications	0*	0*	0*
Disposals due to changes in consolidation	–	–	–
Disposals	–	–	–
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2008	**595**	**226**	**821**
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 31.12.2009	899	912	1,811
Accumulated impairment losses	–300	–	–300

* Rounded below EUR 1m.

In 2009 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	Passenger Airline Group	Passenger Airline Group	Catering	Catering	Catering	Catering	Catering
Carrying amount of goodwill	EUR 249m	EUR 2m	EUR 277m	EUR 46m	EUR 7m	EUR 6m	EUR 12m
Impairment losses	–	–	–	–	–	–	–
Revenue growth p.a. over planning period	0% to 7.0%	0% to 8.1%	4.0% to 4.7%	3.3% to 3.8%	4.0% to 5.9%	–4.5% to 12.1%	0.9% to 25.2%
EBITDA margin over planning period	4.9% to 11.3%	20.0% to 28.5%	6.1% to 9.6%	28.1% to 29.3%	16.6% to 17.9%	28.1% to 30.0%	3.5% to 28.8%
Investment ratio over planning period	9.0% to 10.9%	8.2% to 20.8%	1.5% to 2.3%	1.0% to 1.1%	1.5%	0.8% to 1.0%	0% to 2.5%
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	4.0%	1.0%	2.0%	3.3%	3.0%	8.0%	1.0% to 5.0%
EBITDA margin after end of planning period	11.3%	28.5%	9.6%	29.3%	17.9%	30.0%	8.0% to 25.0%
Investment ratio after end of planning period	9.0%	8.2%	1.5%	1.0%	1.5%	1.0%	0.5% to 2.5%
Discount rate	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%

* 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 EUR 1.2bn. Assuming a 2.8 per cent increase in revenue per annum, the recoverable amount would be equal to the carrying amount for the asset.

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 EUR 415m. Even if the assumptions for revenue growth are reduced considerably, the recoverable amount is still higher than 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 175m	EUR 109m	EUR 20m
Impairment losses	–	–	–
Revenue growth for brand p.a. in planning period	0% to 9.7%	6.0% to 12.3%	–22.0% to 8.4%
Duration of planning period	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	2.0%	2.0%	0%
Savings in hypothetical leasing payments before taxes (royalty rate)	0.4%	0.35%	0.2%
Discount rate	9.1%	9.1%	9.1%

Assuming sustained brand-related revenue growth after the end of the planning period of 2 per cent, the recoverable amount for the Swiss brand exceeds the carrying amount by EUR 31m.

Assuming sustained revenue growth of 0.8 per cent, the recoverable amount would be equal to the carrying amount.

Under the assumptions shown in the table above, the carrying amounts for the brands AUA and bmi acquired in 2009 are equal to their respective recoverable amounts.

The acquired slots with a carrying amount of EUR 608m were tested for impairment on the basis of their fair value less costs to sell. The 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 1.1.2008	618	88	72	778
Accumulated amortisation	–408	–72	–46	–526
Carrying amount 1.1.2008	**210**	**16**	**26**	**252**
Currency translation differences	13	0*	1	14
Additions due to changes in consolidation	0*	–	–	0*
Additions	35	5	31	71
Reclassifications	11	2	–19	–6
Disposals due to changes in consolidation	–	–	–	–
Disposals	–9	–	0*	–10
Reclassifications to assets held for sale	–	–	–	–
Amortisation	–52	–8	–	–60
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2008	**208**	**15**	**38**	**261**
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 amortisation	–	–	–	–
Carrying amount 31.12.2009	**242**	**17**	**69**	**328**
Cost as of 31.12.2009	726	109	112	947
Accumulated amortisation	–484	–92	–43	–619

* 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 7m (previous year: EUR 6m) were incurred in the period. Firm orders have been placed for intangible assets worth EUR 7m (previous year: EUR 2m), 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 1.1.2008	17,066	1,209	18,275
Accumulated depreciation	–9,893	–2	–9,895
Carrying amount 1.1.2008	**7,173**	**1,207**	**8,380**
Currency translation differences	95	20	115
Additions due to changes in consolidation	–	–	–
Additions	681	661	1,342
Reclassifications	499	–495	4
Disposals due to changes in consolidation	–	–	–
Disposals	–26	0*	–26
Reclassifications to assets held for sale	–21	–	–21
Depreciation	–1,030	–	–1,030
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2008	**7,371**	**1,393**	**8,764**
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 31.12.2009	19,973	1,282	21,255
Accumulated depreciation	–10,811	–	–10,811

* 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 429m (previous year: EUR 536m), 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 2009, as in the previous year, EUR 7m was recognised in other operating income.

The item also includes 57 aircraft carried at EUR 1,928m (previous year: 48 aircraft carried at EUR 1,904m), 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 6.4bn (previous year: EUR 7.1bn).

Within this item aircraft held at EUR 2,700m (previous year: EUR 1,970m) serve as collateral for current financing arrangements and aircraft held at EUR 277m (previous year: EUR 147m) were also acquired under finance leases ("Note 21" from p. 174).

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 1.1.2008	1,831	843	1,117	238	4,029
Accumulated depreciation	–755	–651	–850	–	–2,256
Carrying amount 1.1.2008	**1,076**	**192**	**267**	**238**	**1,773**
Currency translation differences	–3	–2	1	0*	–4
Additions due to changes in consolidation	4	0*	1	0*	5
Additions	37	46	123	166	372
Reclassifications	142	66	6	–212	2
Disposals due to changes in consolidation	–2	–	–3	–	–5
Disposals	–5	–1	–5	–2	–13
Reclassifications to assets held for sale	–	–	–	–	–
Depreciation	–62	–42	–95	–	–199
Reversal of impairment losses	–	–	–	–	–
Carrying amount 31.12.2008	**1,187**	**259**	**295**	**190**	**1,931**
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 31.12.2009	2,297	1,008	1,218	65	4,588
Accumulated depreciation	– 853	– 703	– 875	–	– 2,431

* Rounded below EUR 1m.

Charges of EUR 26m (previous year: EUR 40m) exist over land and property. As in the previous year, pre-emption rights are registered for land held at EUR 259m (previous year: EUR 262m). Other property, plant and equipment carried at EUR 40m (previous year: EUR 43m) serves as collateral for existing financing arrangements. Miscellaneous equipment carried at EUR 203m (previous year: EUR 106m) was also acquired by means of finance leases, see "Note 21" from p. 174.

The following items of property, plant and equipment have been ordered, but are not yet at the Group's economic disposal:

in €m	**31.12.2009**	31.12.2008
Land and buildings	3	18
Technical equipment	13	18
Operating and office equipment	21	43
	37	**79**

20 Investment property

in €m	Investment property
Cost as of 1.1.2007	4
Accumulated depreciation	–1
Carrying amount 1.1.2007	**3**
Currency translation differences	0*
Additions due to changes in consolidation	–
Additions	–
Reclassifications	0*
Disposals due to changes in consolidation	–
Disposals	–
Reclassifications to assets held for sale	–
Depreciation	–
Reversal of impairment losses	–
Carrying amount 31.12.2007	**3**
Cost as of 1.1.2008	3
Accumulated depreciation	0*
Carrying amount 1.1.2008	**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 31.12.2008	**3**
Cost as of 31.12.2008	3
Accumulated depreciation	0*

* Rounded below EUR 1m.

Two plots of land held exclusively as financial investments are carried at EUR 3m as in the previous year. Their fair value as estimated by surveyors using market data is EUR 4m.

In the previous year the fair values of the two plots were EUR 5m.

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 1.1.2008	247	201	5	166	1	1	17
Accumulated depreciation	–184	–87	–1	–60	0*	0*	–16
Carrying amount 1.1.2008	**63**	**114**	**4**	**106**	**1**	**1**	**1**
Currency translation differences	–	10	–	1	–	0*	0*
Additions due to changes in consolidation	–	–	–	–	–	–	–
Additions	–	22	–	5	–	5	–
Reclassifications	–	29	–	1	–	0*	–1
Disposals due to changes in consolidation	–	–	–	–	–	–	–
Disposals	0*	–1	–	0*	–1	0*	–
Reclassifications to assets held for sale	–3	–	–	–	–	–	–
Depreciation	–7	–30	–1	–8	–	0*	0*
Reversal of impairment losses	–	–	–	–	–	–	–
Carrying amount 31.12.2008	**53**	**144**	**3**	**105**	**–**	**6**	**0***
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 31.12.2009	269	387	–	273	–	6	16
Accumulated depreciation	–175	–110	–	–71	–	0*	–16

* Rounded below EUR 1m.

Finance leases

The total amount of leased assets attributed to the Group's economic ownership under IAS 17 is EUR 485m (previous year: EUR 258m), of which EUR 277m (previous year: EUR 147m) relates to aircraft (two Airbus A340s, four Airbus A321s, eight Airbus A320s, two Airbus A319s, five ATRs, 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	2010	2011–2014	from 2015
Lease payments	78	257	266
Discounted amounts	5	55	132
Present values	74	202	134
Payments from sub-leasing	2	6	–

In the previous year the following figures were given for finance leases:

in €m	2009	2010–2013	from 2014
Lease payments	74	171	131
Discounted amounts	4	22	38
Present values	70	149	93
Payments from sub-leasing	1	–	–

One aircraft legally owned by the Group at the end of 2009 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	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 125 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	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.

In the previous year the following figures were given for operating leases:

in €m	2009	2010 – 2013	from 2014
Aircraft	209	343	–
Various buildings	213	872	215 p.a.
Other leases	70	273	56 p.a.
	492	**1488**	**271 p.a.**
Payments from sub-leasing	9	13	1 p.a.

Nine aircraft and reserve engines, legally and economically the property of the Group at the end of 2009, have been leased to third parties under non-terminable operating leases. These leases, which run for up to 10 years, give rise to the following payments:

in €m	2010	2011 – 2014	from 2015
Payments received from operating leases	17	30	5 p.a.

Four aircraft and reserve engines, legally and economically the property of the Group at the end of 2008, had been leased to third parties under non-terminable operating leases. These leases gave rise to the following payments:

in €m	2009	2010 – 2013	from 2014
Payments received from operating leases	9	8	3 p.a.

22 Investments accounted for using the equity method

in €m	Investments in joint ventures	Investments in associated companies	**Total**
Cost as of 1.1.2008	151	180	331
Accumulated impairment losses	–	–8	–8
Carrying amount 1.1.2008	**151**	**172**	**323**
Currency translation differences	9	13	22
Additions due to changes in consolidation	–	–	–
Additions	31	15	46
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–5	–5
Disposals	–26	–64	–90
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	0*	0*
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2008	**165**	**133**	**298**
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 31.12.2009	145	183	328
Accumulated impairment losses	–	–8	–8

* Rounded below EUR 1m.

In two cases (previous year: two cases) the carrying amounts for associated companies were not reduced below EUR 0m. Losses at associated companies of EUR 21m (previous year: EUR 17m) were not taken into account.

23 Financial assets by category

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	–	32	–	223
Trade receivables and other current receivables	3,033	–	–	–
Current derivative financial instruments	–	17	–	235
Current securities	–	9	3,294	–
Cash and cash equivalents	–	–	1,136	–
Total	**3,539**	**58**	**5,657**	**458**

Financial assets in the balance sheet as of 31.12.2008

in €m	Loans and receivables	At fair value through profit or loss	Available for sale	Derivative financial instruments which are an effective part of a hedging relationship
Other equity investments	–	–	790	–
Non-current securities	–	106	403	–
Loans	162	–	–	–
Non-current receivables	313	–	–	–
Non-current derivative financial instruments	–	55	–	284
Trade receivables and other current receivables	3,015	–	–	–
Current derivative financial instruments	–	22	–	191
Current securities	–	–	1,834	–
Cash and cash equivalents	–	–	1,444	–
Total	**3,490**	**183**	**4,471**	**475**

All financial assets in the category "at fair value through profit or loss" from both financial years are assets held for trading. Otherwise, no financial assets have been classified as "at fair value through profit or loss".

The net result of the different categories of financial assets is made up as follows:

2009

in €m	Other operating income	Other operating expenses	Result of equity investments	Other financial items	**Net result**
Loans and receivables	43	–129	–	–19	**–105**
Financial assets at fair value through profit or loss	–	–	–	–75	**–75**
Ineffective portion of derivatives used as cash flow hedges	–	–	–	–	**–**
Available-for-sale financial assets	59	–27	–	–147	**–115**

2008

in €m	Other operating income	Other operating expenses	Result of equity investments	Other financial items	**Net result**
Loans and receivables	30	–119	–	–35	**–124**
Financial assets at fair value through profit or loss	–	–	–	–199	**–199**
Ineffective portion of derivatives used as cash flow hedges	–	–	–	–76	**–76**
Available-for-sale financial assets	10	–105	42	–121	**–174**

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 of fair value hierarchy 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.

Assets

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	–	49	–	49
Current securities	–	6	3	9
Total financial assets through profit and loss	**–**	**55**	**3**	**58**
Derivative financial instruments which are an effective part of a hedging relationship	**–**	**458**	**–**	**458**
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

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 2009 and 2008:

in €m	Investments in affiliated companies	Equity investments	Non-current securities	Total
Cost as of 1.1.2008	239	630	301	1,170
Accumulated impairment losses	–43	–49	–3	–95
Carrying amount 1.1.2008	**196**	**581**	**298**	**1,075**
Currency translation differences	0*	0*	0*	0*
Additions due to changes in consolidation	–	–	–	–
Additions	46	328	241	615
Reclassifications	0*	0*	–	0*
Disposals due to changes in consolidation	–2	–	–	–2
Disposals	–1	–204	–27	–232
Reclassifications to assets held for sale	–2	–31	–	–33
Impairment losses	–8	–113	–3	–124
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2008	**229**	**561**	**509**	**1,299**
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 31.12.2009	361	814	354	1,529
Accumulated impairment losses	–44	–253	–5	–302

* 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 51m (previous year: EUR 54m) and non-current securities held at EUR 9m (previous year: EUR 23m) there is no active market with publicly available market prices. This item includes the equity interest in WAM Acquisition S.A., which is classified as available for sale and is carried at cost as it is not currently possible to determine its fair value reliably, despite the announcement of an initial public offering for the company. In the financial year 2009 equity investments and securities held at EUR 2m were sold, which had previously not been held at fair value as there was no active market for them. This resulted in a gain of EUR 2m.

Securities held at EUR 26m (previous year: EUR 14m) were pledged as collateral for liabilities.

25 Non-current loans and receivables

Loans and receivables

in €m	31.12.2009	31.12.2008
Loans to and receivables from affiliated companies	91	113
Loans to and receivables from other equity investments	1	0*
Other loans and receivables	414	361
Pre-financed rental property	0*	1
	506	**475**

* 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 4m.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 5m (previous year: EUR 3m).

Of the non-current receivables, EUR 113m (previous year: EUR 21m) 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	31.12.2009	31.12.2008
Positive market values – long-term	223	284
Positive market values – short-term	235	191
Negative market values – long-term	–114	–56
Negative market values – short-term	–95	–154
	249	**265**

They relate to the following hedged items:

in €m	31.12.2009	31.12.2008
Fuel price hedges	331	–162
Exchange rate hedges	–169	393
Interest rate hedges	87	34

Derivative financial instruments measured at fair value through profit or loss are shown in the following table:

in €m	31.12.2009	31.12.2008
Positive market values – long-term	32	55
Positive market values – short-term	17	22
Negative market values – long-term	–111	–62
Negative market values – short-term	–11	–338
	–73	**–323**

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.

Of the previous year's short-term negative market values, EUR 312m was from the negative market value of a put option granted in connection with the acquisition of an equity stake. As there was no publicly quoted price on an active market for this option, measurement was made using a recognised discounted cash flow method. In 2009 this negative market value was offset against the payments made in the course of acquiring the bmi shares and against the pro rata negative equity acquired, without effect on profit and loss.

Fair values are all calculated on the basis of recognised financial and mathematical methods, using publicly available market information.

27 Inventories

Inventories

in €m	31.12.2009	31.12.2008
Raw materials, consumables and supplies	536	490
Finished goods and work in progress	110	91
Advance payments	0*	0*
	646	**581**

* Rounded below EUR 1m.

Inventories valued at EUR 32m (previous year: EUR 36m) are pledged as collateral for loans.

The gross value of inventories as of 31 December 2009 was EUR 810m (previous year: EUR 701m). Of these, inventories at a carrying amount of EUR 516m (previous year: EUR 477m) were recognised at fair value less costs to sell (net realisable value). Write-downs of EUR 164m (previous year EUR 119m) were made to net realisable value. In the reporting period new write-downs were made for EUR 15m (previous year: EUR 25m). Write-downs of EUR 2m made the previous year were reversed.

28 Trade receivables and other current receivables

in €m	31.12.2009	31.12.2008
Trade receivables		
Trade receivables from affiliated companies	102	115
Trade receivables from other equity investments	1	29
Trade receivables from third parties	1,937	1,919
	2,040	**2,063**
of which: from unfinished orders less advance payments received	(116)	(132)
Other receivables		
Receivables from affiliated companies	88	110
Receivables from other equity investments	0*	0*
Other receivables	905	842
	993	**952**
Total	**3,033**	**3,015**

* Rounded below EUR 1m.

Collateral received for trade receivables has a fair value of EUR 3m.

EUR 5m of trade receivables (previous year: EUR 6m) were pledged as collateral for loans.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 4m (previous year: EUR 2m).

Of the other receivables, EUR 30m (previous year: EUR 50m) serve as collateral for liabilities.

29 Deferred charges and prepaid expenses

Accrued income and payments made on account 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 0.2 to 0.9 per cent (previous year: 1.2 to 3.5 per cent). USD balances were invested at an average interest rate of 0.1 per cent (previous year: 0.4 per cent) and balances in Swiss francs at an average rate of 0.25 per cent (previous year: 1.5 per cent).

EUR 27m of the bank balances (previous year: EUR 21m) 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 2009 this item consisted of one Airbus A340-300, six Airbus A300-600s, 12 Canadair Regional Jet 200s, three ATR 42-500s and two Dash 8-300s. Impairment losses of EUR 46m were recognised on these assets.

At year-end 2008 the 10 per cent stake in Condor Flugdienst GmbH and the additional stake of 14.9 per cent already recognised as a receivable, which were only acquired with the sale of the shares in Thomas Cook AG, were shown as assets held for sale after Thomas Cook AG exercised the call option. In addition, five Airbus 300-600s and a stake in a joint venture that was sold in January 2009 were presented as held for sale. All assets were sold in financial year 2009, see "Note 44" on p. 195.

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 25 May 2005 authorised the Executive Board until 24 May 2010, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 200m by issuing new registered shares for payment in cash or in kind (Authorised Capital A). Existing shareholders are to be granted subscription rights. In the case of shares issued for payment in kind these rights may be ruled out, while in the case of shares issued for payment in cash they may be ruled out for residual amounts.

The Executive Board is further authorised, in the case of a capital increase for payment in cash, to rule out, subject to approval by the Supervisory Board, subscription rights for existing shareholders on condition that the new shares must not exceed 10 per cent of issued capital and that the issue price must not be significantly lower than the market price.

A resolution passed at the Annual General Meeting on 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. Existing shareholders were not allowed to subscribe to this issue. A total of 750,000 rights of conversion were issued that after the 2004 capital increase entitled the holders to convert them into up to 37,764,350 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 were redeemed. As of the balance sheet date there were therefore 50,139 conversion rights outstanding, convertible into up to 2,524,622 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 held on 24 April 2009 again authorised the Executive Board to purchase treasury shares until 23 October 2010. 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 28 October 2009 was revoked.

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. At the same Annual General Meeting the existing authorisation to increase issued capital (Authorised Capital B) which expired on 15 June 2009 was revoked.

In 2009 Deutsche Lufthansa AG bought back a total of 2,453,180 of its own shares at an average price of EUR 11.04. This is equivalent to 0.54 per cent of issued capital.

The shares were used as follows:

- 1,704,752 shares were offered to the staff of Deutsche Lufthansa AG and 31 other affiliated companies and equity investments as part of the profit-sharing scheme for 2008, at a share price of EUR 11.30.
- 748,030 shares were used as part of performance-related variable remuneration in 2009 for managers and non-payscale staff of Deutsche Lufthansa AG and 25 further affiliated companies and equity investments at a price of EUR 10.50.
- 372 shares were allocated to managers and non-payscale staff as part of the previous year's performance-related remuneration at a price of EUR 10.73.
- 26 shares were allocated to employees from the previous year's programme at a price of EUR 15.92.
- 445 shares were resold at an average price of EUR 9.40.

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 2009 and 2008, equity and total assets were as follows:

in €m	**31.12.2009**	31.12.2008
Shareholders' equity	6,202	6,919
in % of total assets	23.5	30.9
Liabilities	20,190	15,489
in % of total assets	76.5	69.1
Total capital	**26,392**	**22,408**

In the financial year 2009 the equity ratio fell year on year by 7.4 percentage points to EUR 23.5 per cent. This is principally due to the measurement change for unused miles required under

IFRIC 13 effective 1 January 2009, the increase in liabilities resulting from expanding the group of consolidated companies, and the loss after income taxes.

Lufthansa's Articles of Association do not require any particular amounts of capital. Obligations to issue shares still exist in connection with the convertible bond to the extent that the options have not yet been exercised. No conversion rights were exercised in 2009. The conversion rights still outstanding 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 13 January 2009

On 13 January 2009 Allianz SE, Munich, Germany, notified us in accordance with Section 21 Paragraph 1 WpHG that in the course of the sale of Dresdner Bank AG to Commerzbank AG its share of voting rights in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 12 January 2009 and at this time came to 0.056 per cent (258,668 voting shares). Of these, 0.052 per cent (237,538 voting shares) were attributed to Allianz SE in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG and 0.005 per cent (21,130 voting shares) in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

At the same time Allianz SE, Munich, Germany, notified us in accordance with Section 21 Paragraph 1 WpHG and Section 24 WpHG that the share of voting rights held by Allianz Finanzbeteiligungs GmbH, Munich, Germany, in Deutsche Lufthansa AG fell below the 3 per cent threshold on 12 January 2009 and at this point came to 0 per cent (0 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 21 January 2009

On 21 January 2009 Barclays Global Investors UK Holdings Ltd, England, UK, notified us of the following in accordance with Sections 21 and 22 WpHG on behalf of its subsidiary Barclays Global Investors NA regarding its voting rights in Deutsche Lufthansa AG:

Notification on voting shares on behalf of and for the account of Barclays Global Investors NA

On 16 January 2009 Barclays Global Investors NA, San Francisco, USA, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 2.97 per cent of voting rights (13,582,029 voting shares) in Deutsche Lufthansa AG.

Of the total, 2.64 per cent of voting rights (12,093,072 voting shares) in Deutsche Lufthansa AG are attributable to Barclays Global Investors NA in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and 0.33 per cent of voting rights (1,488,957 voting shares) in Deutsche Lufthansa AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

Note

This notification is a translation of the notification published in English on 21 January 2009 in accordance with Section 26 Paragraph 1 WpHG provided as a service by Deutsche Lufthansa AG. Only the notification in English dating from 21 January 2009 is legally binding.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 16 March 2009

On 13 March 2009 ATON GmbH, Fulda, Germany, sent us notification in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 11 March 2009, and that at this date it held 2.66 per cent (12,203,792 voting shares).

On 16 March 2009, Dr Lutz M. Helmig, Germany, sent us notification in accordance with Section 21 Paragraph 1 WpHG that his share of voting rights in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 11 March 2009, and that at this date he held 2.66 per cent of voting rights (12,203,792 voting shares).

Of these voting rights, 2.66 per cent (12,203,792 voting shares) are attributed to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 22 May 2009

On 20 May 2009 Commerzbank AG, Frankfurt am Main, Germany, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG had fallen below the threshold of 3 per cent on 18 May 2009, and it now held 0 per cent of voting rights (0 voting shares).

At the same time Commerzbank AG, Frankfurt am Main, Germany, notified us in accordance with Section 21 Paragraph 1 WpHG and Section 24 WpHG that the share of voting rights held by Süddeutsche Industrie-Beteiligungs GmbH, Frankfurt am Main, Germany, in Deutsche Lufthansa AG fell below the 3 per cent threshold on 18 May 2009 and at this time came to 0 per cent (0 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 7 October 2009
On 5 October 2009 AXA Investment Managers Deutschland GmbH, Frankfurt, Germany, notified us of the following:

The voting rights of AllianceBernstein L.P., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 No. 6 WpHG.

The voting rights of AllianceBernstein Corporation, New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of Equitable Holdings LLC, New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of AXA Equitable Life Insurance Company, New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of AXA Equitable Financial Services LLC, formerly AXA Financial Services LLC, New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of AXA Financial, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of AXA S.A., Paris, France, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.55 per cent (11,694,845 voting shares). This 2.55 per cent (11,694,845 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 9 December 2009
On 7 December 2009 Black Rock, Inc., New York, USA notified us of the following:

The voting rights of BlackRock Jersey International Holdings L.P., St Helier, Jersey, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 1 December 2009 and on this date came to 3.13 per cent (14,340,499 voting shares). This 3.13 per cent (14,340,499 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock International Holdings, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 1 December 2009 and on this date came to 3.13 per cent (14,340,499 voting shares). This 3.13 per cent (14,340,499 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock Advisors Holdings, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 1 December 2009 and on this date came to 3.64 per cent (16,655,665 voting shares). This 3.64 per cent (16,655,665 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock Financial Management, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the thresholds of 3 per cent and 5 per cent on 1 December 2009 and on this date came to 5.27 per cent (24,132,873 voting shares). This 5.27 per cent (24,132,873 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock Holdco 2, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the thresholds of 3 per cent and 5 per cent on 1 December 2009 and on this date came to 5.27 per cent (24,132,873 voting shares). This 5.27 per cent (24,132,873 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the thresholds of 3 per cent and 5 per cent on 1 December 2009 and on this date came to 5.45 per cent (24,968,008 voting shares). This 5.45 per cent (24,968,008 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 18 January 2010

On 15 January 2010 Deka Investment GmbH, Frankfurt am Main, Germany, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG had fallen below the threshold of 3 per cent on 13 January 2010, and that it now held 2.9486 per cent of voting rights (13,502,624 voting shares). Of the total, 0.09 per cent (427,129 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 1 February 2010

On 29 January 2010 Deka International S.A., Luxembourg, Luxembourg, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG had exceeded the threshold of 3 per cent on 27 January 2010, and that on this date it held 3.0763 per cent of voting rights (14,087,425 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 10 February 2010

On 5 February 2010 BlackRock, Investment Management (UK) Limited, London, UK, notified us of the following: The voting rights of BlackRock Financial Management, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 5 per cent on 1 February 2010 and on this date came to 4.65 per cent (21,311,157 voting shares). This 4.65 per cent (21,311,157 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG. The voting rights of BlackRock Holdco 2, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 5 per cent on 1 February 2010 and on this date came to 4.65 per cent (21,311,157 voting shares). This 4.65 per cent (21,311,157 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG. The voting rights of BlackRock Advisors Holdings, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 1 February 2010 and on this date came to 2.29 per cent (10,476,214 voting shares). This 2.29 per cent (10,476,214 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG. The voting rights of BlackRock International Holdings, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 1 February 2010 and on this date came to 2.29 per cent (10,476,214 voting shares). This 2.29 per cent (10,476,214 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG. The voting rights of BR Jersey International LP, St Helier, Jersey, UK, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 1 February 2010 and on this date came to 2.29 per cent (10,476,214 voting shares). This 2.29 per cent (10,476,214 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and 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 2009, 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 2009:

Other comprehensive income

in €m	**2009**	2008
Other comprehensive income after income taxes		
Differences from currency translation	–18	127
of which reclassified through profit or loss	–	–
Subsequent measurement of available-for-sale financial assets		
Profit/loss for the period	117	–125
Reclassification adjustments	76	10
Subsequent measurement of cash flow hedges		
Profit/loss for the period	–110	503
Reclassification adjustments	–94	–694
Transfer to cost of hedged items	111	162
Other comprehensive income from investments accounted for using the equity method	–7	–7
Revaluation due to business combinations	–44	–
Other expenses and income recognised directly in equity	–13	9
Income taxes on items in other comprehensive income	17	5
Other comprehensive income after income taxes	35	–10

Note on income taxes recognised for other comprehensive income (OCI)

in €m	2009 Amount before income taxes	2009 Tax expense/ income	2009 Amount after income taxes	2008 Amount before income taxes	2008 Tax expense/ income	2008 Amount after income taxes
Differences from currency translation	–18	–	–18	127	–	127
Subsequent measurement of available-for-sale financial assets	193	–5	188	–115	6	–109
Subsequent measurement of cash flow hedges	–93	22	–71	–29	–1	–30
Other comprehensive income from investments accounted for using the equity method	–7	–	–7	–7	–	–7
Revaluation due to business combinations	–44	–	–44	–	–	–
Other expenses and income recognised directly in equity	–13	–	–13	9	–	9
Other comprehensive income	**18**	**17**	**35**	**–15**	**5**	**–10**

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 seconded abroad. For staff who joined the Group before 1995 the supplementary pension scheme for state employees (VBL) was initially retained as the Company's pension scheme. Following collective agreements in 2003 to harmonise retirement benefits for ground and flight staff, the pension scheme for ground and flight staff was also converted to an average salary plan for cockpit staff under the terms of the 4 December 2004 wage settlement. The retirement benefit commitment is now equal to that for staff who joined the Company after 1994. In each case, one salary component is converted into one pension component, retirement benefit being defined as the sum of the accumulated pension components. Under IAS 19 these pension obligations must be regarded as performance-related and therefore taken into account for the amount of obligations and as expenses.

Flight staff are additionally entitled to a transitional pension arrangement covering the period between the end of their active in-flight service and the beginning of their statutory/Company pension plans. Benefits depend on the final salary before retirement (final salary plans).

Defined contribution retirement benefit schemes also exist within the Group, funded entirely by contributions paid to an external pension provider. Lufthansa runs no financial or actuarial risks from these obligations. In 2009 contributions toward defined contribution pension plans amounted to EUR 345m (previous year: EUR 339m).

Company pension schemes and transitional pension arrangements for Germany are funded by plan assets and the additional amounts by pension provisions. Obligations are measured annually using the projected unit credit method. In the 2004 financial year work began on building up plan assets to fund future pension payments and transfer them to the Lufthansa Pension Trust. The aim was to outsource the pension obligations in full within 10 to 15 years. In 2009 a further EUR 283m was transferred for staff, taking the total transferred to the pension trust to EUR 3,766m.

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 %	**31.12.2009**	31.12.2008	31.12.2007
Interest rate in Germany	5.5	6.0	5.5
Projected salary increase in Germany	2.75	2.75	2.75
Projected pension increase in Germany	1.0 – 2.75	1.0 – 2.75	1.0 – 2.75
Interest rate abroad	3.3 – 5.9	3.9 – 6.7	3.4 – 6.0
Projected salary increase abroad	1.5 – 5.0	1.5 – 4.5	1.2 – 4.5
Projected pension increase abroad	0.0 – 3.5	0.0 – 2.8	0.5 – 3.2
Health care cost trend for pensioners abroad	12.0	10.0	11.0
Expected return on external plan assets in Germany*	5.2	5.2	5.75
Expected return on external plan assets abroad	2.8 – 8.3	3.5 – 8.3	3.75 – 8.0

* Post-tax interest from 2008.

Since 31 December 2005 biometric calculations have been based on the 2005 G Heubeck life-expectancy tables, the probability of fluctuation has been estimated on the basis of age and gender.

The projected return on plan assets is generally based on the plan's investment policy relating to the selection of asset classes. The projected return on equity investments takes into account historic interest rates, future inflation rates, expected dividends and economic growth. The projected return on fixed-interest instruments is based on current interest rates for long-term securities, subject to a risk discount if appropriate. The projected return on property assets corresponds to that of equity investments. For other assets, mainly bank balances, the interest paid on current deposits on the balance sheet date was applied.

An increase or decrease in the assumed health care costs for pensioners by 1 per cent would have the following effects:

in € thousand	Increase	Decrease
Service costs and interest expenses	+24	–23
Health care commitments	+398	–402

On the balance sheet date the present value of pension obligations and the fair values of plan assets were as follows:

in €m	**31.12.2009**	31.12.2008	31.12.2007	31.12.2006	31.12.2005
Present value of funded pension obligations in Germany	4,730	4,081	4,068	4,455	3,117
Plan assets in Germany	3,921	3,445	3,580	1,839	1,204
Deficit (+)/surplus (–)	**809**	**636**	**488**	**2,616**	**1,913**
Present value of funded pension obligations abroad	2,726	1,712	1,603	532	478
Plan assets abroad	2,212	1,476	1,648	469	398
Deficit (+)/surplus (–)	**514**	**236**	**–45**	**63**	**80**
Present value of unfunded pension obligations	**2,157**	**1,961**	**1,948**	**2,042**	**3,198**

On the balance sheet date for 2009 the portfolio of external plan assets was made up as follows:

	Plan assets Germany		Plan assets abroad	
	in €m	in %	in €m	in %
Shares	977	24.9	931	42.1
Fixed-income instruments, bonds	2,705	69.0	899	40.6
Property	–	–	189	8.6
Other	239	6.1	193	8.7
	3,921	**100.0**	**2,212**	**100.0**

In 2009 the effective gain on plan assets came to EUR 392m (previous year: loss of EUR 725m).

Change in present value of pension obligations

in €m	2009	2008
Carried forward 1.1.	7,754	7,619
Currency translation differences carried forward	–13	112
Additions from company acquisitions	901	–
Other changes in the group of consolidated companies	–	0*
Current service costs	299	305
Past service costs	–73	–12
Interest expenses	444	386
Contributions by plan participants	29	30
Actuarial gains/losses	557	–450
Pension payments	–268	–241
Plan cuts/settlements	–17	–4
Other**	–	9
Balance on 31.12.	**9,613**	**7,754**

Change in fair value of plan assets

in €m	2009	2008
Carried forward 1.1.	4,921	5,228
Currency translation differences carried forward	–3	103
Additions from company acquisitions	479	–
Other changes in the group of consolidated companies	–	–
Projected return on plan assets	261	281
Actuarial gains/losses	133	–1,006
Contributions by plan participants	29	30
Employer contributions	380	338
Pension payments	–67	–53
Other**	–	0*
Balance on 31.12.	**6,133**	**4,921**

* Rounded below EUR 1m.
** The amounts in 2008 are almost exclusively for benefit obligations which were measured in accordance with IAS 19 for the first time as of 31.12.2007.

The carrying amount of pension provisions is lower than the present value of pension obligations due to unrecognised actuarial losses:

Funding status

in €m	2009	2008
Present value of unfunded pension obligations	2,157	1,961
Present value of funded pension obligations abroad	2,726	1,712
Present value of funded pension obligations Germany	4,730	4,081
External plan assets abroad	–2,212	–1,476
External plan assets Germany	–3,921	–3,445
Unrecognised actuarial losses	–866	–466
Unrecognised past service costs	68	–
“Unrealised” asset surpluses	28	33
	2,710	**2,400**

The year-on-year changes in funding status mainly result from changes in assumptions, especially the fall in interest rates, as well as from partially funded additions due to company acquisitions.

In financial years 2009 and 2008 pension provisions developed as follows:

Pension provisions

in €m	2009	2008
Carried forward	2,400	2,461
Currency translation differences carried forward	–7	1
Changes in the group of consolidated companies	421	0*
Pensions payments	–201	–188
Additions	480	419
Allocation to plan assets/staff changes	–383	–293
Year-end total	**2,710**	**2,400**

* Rounded below EUR 1m.

The expenses recognised in the income statement for allocations to the pension provisions are made up as follows:

in €m	2009	2008
Current service costs	299	305
Recognised actuarial losses	21	11
Recognised actuarial gains	–	0*
Past service costs	–6	–12
Plan curtailments / settlements	–17	–4
Interest effect of projected pension obligations	444	386
Projected earnings from external plan assets	–261	–281
Net effect of adjustment for asset ceiling	–	14
	480	**419**

* Rounded below EUR 1m.

Current service costs and actuarial losses/gains are recognised as staff costs, while the interest effect of projected pension obligations, less projected external plan asset earnings, is recognised as interest expenses.

Adjustments to pension obligations and plan assets based on past experience were as follows:

Adjustments from past experience

in €m	2009	2008	2007	2006	2005
Pension obligations	–139	+122	+30	+7	–140
Plan assets	+132	–1 006	–77	0*	+95
Total	**+271**	**–1 128**	**–107**	**–7**	**+235**

* 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 2010 an estimated EUR 946m 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:

	31.12.2009			31.12.2008		
in €m	**Total**	**Non-current**	**Current**	Total	Non-current	Current
Obligations under partial retirement contracts	64	10	54	104	25	79
Other staff costs	284	214	70	106	52	54
Onerous contracts	142	73	69	117	19	98
Environmental restoration	30	25	5	29	23	6
Legal proceedings	77	15	62	83	8	75
Restructuring / severance payments	199	4	195	22	3	19
Fixed-price customer maintenance contracts	139	22	117	157	37	120
Maintenance of aircraft on operating leases	402	209	193	177	63	114
Warranties	30	–	30	26	–	26
Other provisions	375	48	327	317	61	256
Total	**1,742**	**620**	**1,122**	**1,138**	**291**	**847**

In accordance with IFRIC 13, obligations under bonus miles programmes shown the previous year in other provisions (31 December 2008: EUR 1,026m) are recognised in accruals and deferrals or other non-financial liabilities as of 1 January 2009. The figures for the previous year have been adjusted accordingly.

Provisions for staff costs mainly relate to staff anniversary bonuses, variable payment portions and other current obligations. Expected losses from incomplete 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 legal proceedings.

Changes in groups of individual provisions in 2009 were as follows:

in €m	Obligations under partial retirement contracts	Other staff costs	Onerous contracts	Environmental restoration	Legal proceedings	Restructuring/ severance payments
As of 1.1.2009	104	106	117	29	83	22
Changes in the group of consolidated companies	1	156	90	–	5	108
Currency translation differences	–	0*	–4	0*	–2	0*
Utilisation	–88	–31	–203	–3	–10	–13
Increase/additional provisions	41	50	56	3	32	88
Interest added back	8	5	1	1	0*	0*
Reversal	0*	–2	–22	0*	–30	–6
Transfers	–2	0*	107	–	–1	0*
As of 31.12.2009	**64**	**284**	**142**	**30**	**77**	**199**

in €m	Fixed-price customer maintenance contracts	Maintenance of aircraft on operating leases	Warranties	Other provisions	**Total**
As of 1.1.2009	157	177	26	317	**1,138**
Changes in the group of consolidated companies	–23	165	–	27	**529**
Currency translation differences	0*	1	0*	–1	**–6**
Utilisation	–88	–104	–15	–97	**–652**
Increase/additional provisions	90	126	19	210	**715**
Interest added back	4	8	–	2	**29**
Reversal	–1	–5	0*	–14	**–80**
Transfers	–	34	–	–69	**69**
As of 31.12.2009	**139**	**402**	**30**	**375**	**1,742**

* Rounded below EUR 1m.

The funding status for provisions for obligations to staff under partial retirement agreements is as follows:

Funding status

in €m	**2009**	2008
Present value of funded obligations under partial retirement agreements	219	253
External plan assets	–155	–149
	64	**104**

In 2005 EUR 97m was transferred to an external trust fund as insolvency insurance for employer's performance arrears, under partial retirement agreements under which the employee at first works full-time for less pay and then retires early on the same reduced pay. In 2007 a further EUR 39m was transferred. These assets, which fulfil the requirements for plan assets and therefore reduce the net amount of obligations accordingly, are measured at market value on the balance sheet date.

Obligations under partial retirement agreements were calculated on the basis of the following assumptions:

Assumptions

in %	**2009**	2008	2007
Interest rate	5.5	6.0	5.5
Projected earnings from external plan assets	3.2	6.0	6.0

The following cash outflows are estimated for the non-current portion of the other groups of provisions:

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.

At the end of 2008 the cash outflows were estimated as follows:

in €m	2010	2011	2012	2013 and thereafter
Onerous contracts	9	3	3	7
Environmental restoration	3	3	3	19
Restructuring/severance payments	1	1	1	0*
Fixed-price customer maintenance contracts	37	4	–	–
Maintenance of aircraft on operating leases	37	14	6	26
Other provisions	32	8	2	26

* Rounded below EUR 1m.

38 Financial liabilities by category

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	122	209	–
Trade payables	–	–	2,552
Other financial liabilities	–	–	1,331
Total	**122**	**209**	**10,685**

Financial liabilities in the balance sheet as of 31.12.2008

in €m	Liabilities at fair value through profit or loss	Derivative financial instruments which are an effective part of a hedging relationship	Other financial liabilities at cost
Borrowings	–	–	3,581
Derivative financial instruments	400	210	–
Trade payables	–	–	2,359
Other financial liabilities	–	–	1,318
Total	**400**	**210**	**7,258**

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 31.12.2009

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**

Borrowings 31.12.2008

in €m	**Total**	Non-current	Current
Bonds	610	610	–
Liabilities to banks	628	409	219
Leasing liabilities and other loans	2,343	2,142	201
	3,581	**3,161**	**420**

The following table shows the carrying amounts and market values for individual classes of borrowings. The market values given for the bonds are their quoted prices. The market values for other types of borrowing have been calculated using the applicable interest rates for the remaining term to maturity and repayment structures at the balance sheet date based on available market information (Reuters).

Borrowings	**31.12.2009**		31.12.2008	
in €m	**Carrying amount**	**Market value**	Carrying amount	Market value
Bonds	2,264	2,597	610	586
Liabilities to banks	1,909	1,961	628	626
Leasing liabilities and other loans	2,629	2,752	2,343	2,413
Total	**6,802**	**7,310**	**3,581**	**3,625**

Collateral was provided for EUR 1,095m of the liabilities to banks (previous year: EUR 269m).

There were no delays or defaults on payment obligations under these loan agreements in either 2009 or 2008.

Leasing liabilities and other loans relate exclusively to finance leases described in "Note 21" from p. 174 and aircraft financing arrangements described in "Note 18" on p. 171.

40 Other non-current financial liabilities

Other non-current financial liabilities

in €m	**31.12.2009**	31.12.2008
Liabilities to banks	–	–
Liabilities to affiliated companies	–	0*
Liabilities to other equity investments	–	–
Other financial liabilities	87	51
	87	**51**

* Rounded below EUR 1m.

The carrying amount for financial liabilities is equivalent to their fair value, as they pay interest at a floating or market standard rate.

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	**31.12.2009**	31.12.2008
Advance payments received	4	2
Deferred income	623	660
Other non-financial liabilities	373	362
	1,000	**1,024**

In accordance with IFRIC 13, obligations under bonus miles programmes are to be recognised in deferred income or other non-financial liabilities as of 1 January 2009, see also "Note 37" from p. 189.

Deferred income includes EUR 581m (previous year: EUR 611m) of deferred income for obligations under bonus miles programmes. Other non-financial liabilities include EUR 364m (previous year: EUR 349m) 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 4m (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 14m) is included in current other non-financial liabilities.

As part of the share-based remuneration agreements, Lufthansa and other participating Group companies offer a 30 per cent discount on staff investment in Lufthansa shares for the ongoing 2006 programme (Executive Board Programme 2006: 50 per cent) and an outperformance option over a term of three (for non-payscale staff) to four years (for managers and Executive Board members). Depending on the performance of the Lufthansa share compared with a fictitious index consisting of European competitors' shares, beneficiaries receive a cash payment for every percentage point of outperformance when the option is exercised. The cash payment is capped at an outperformance of 30 per cent.

in € per percentage point	1% – 10%	11% – 20%	21% – 30%	> 30% (cap)
Managers	250	350	450	max. 10,500
Executive Board*	500	700	900	max. 21,000

* Until 2006 Executive Board members took part in the option programmes for managers.

Non-payscale staff receive EUR 250 per option for an outperformance of 1 to 10 per cent, EUR 500 for 11 to 20 per cent, EUR 750 for 21 to 30 per cent and a maximum of EUR 1,000 per option above 30 per cent.

The 2007, 2008 and 2009 outperformance programmes offer a discount of 50 per cent on staff investment in Lufthansa shares and are open to Executive Board members, managers and non-payscale staff.

The previous outperformance option, which is linked to the performance of the Lufthansa share compared with a fictitious index composed of competitors' shares, has been supplemented by a performance option linked to the absolute performance of the Lufthansa share. If the share price goes up by more than 33 per cent, a cash payment is due. This is capped for share price increases of more than 49 per cent (48 per cent for staff outside payscales).

The cash payment from the outperformance option is capped at an outperformance of more than 20 per cent.

2007, 2008 and 2009 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

2007, 2008 and 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

The 2007, 2008 and 2009 programmes each run for three years.

All options can be exercised at a fixed time in the final year. The (out)performance is calculated on the principle of total shareholder return. The shares may not be sold until the option is exercised.

The 2006 outperformance option for Executive Board members and managers was exercisable for the first time in 2009, after a period of three years. The 2006 outperformance option for non-payscale staff also matured in 2009. A total of EUR 13m was paid out on the 2006 outperformance option. Over the financial years 2009/2008 the number of options changed as follows:

	2009		2008	
	Number of options/ option packages**	**Cash settlement in € thousand**	Number of options/ option packages**	Cash settlement in € thousand
Outstanding options on 1.1.	8,547	–	8,299	–
Options issued	3,464	–	3,249	–
Expired or unused options	80	–	912	–
Options exercised	2,047	12,562	2,089	12,802*
Outstanding options on 31.12.	8,547	12,802	8,547	12,802

* Of which EUR 10m were only paid out in January 2009.
** The outperformance option and the performance option from the 2009 and 2008 programmes are known as an option package.

On 1 January 2009 members of the Executive Board, managers, captains and non-payscale staff held 1,821,078 shares under the various programmes, and on 31 December 2009 they held 2,483,781 shares.

The fair values of eleven options programmes still running were calculated using Monte Carlo simulations. This involves simulating the future returns of the shares in the index and of 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*		
2006 outperformance option	1,000	13,923
Options 2007	2,000	12,709
Options 2008	2,000	8,929
Options 2009	2,000	11,506
Managers		
2006 outperformance option	2,500	6,962
Options 2007	2,000	5,084
Options 2008	2,000	3,571
Options 2009	2,000	4,602
Non-payscale staff		
Options 2007	1,000	644
Options 2008	1,000	453
Options 2009	1,000	581

* Until 2006 Executive Board members took part in the option programmes for managers.

The weighted average share prices at the calculation date were used in the Monte Carlo simulation. As stated in the terms of the programme, these are 100-day averages (2007, 2008 and 2009 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	Outperformance option 2006	Options 2007	Options 2008	Options 2009
Lufthansa	15.34	19.54	13.54	11.57
Air France-KLM	21.17	25.52	15.14	11.51
British Airways	396.46	389.77	191.45	209.98
Iberia	2.05	3.41	1.82	2.00
Alitalia	0.85	–	–	–
Ryanair	7.75	5.26	2.46	3.33
easyJet	441.44	586.41	326.86	365.33
Air Berlin	11.23	11.73	3.46	3.78

Projected volatilities for:

in %	Option programmes 2006 to 2007	Options 2008	Options 2009
Lufthansa	38.52	41.64	36.94
Air France-KLM	51.11	53.94	48.11
British Airways	56.62	63.87	55.92
Iberia	41.68	53.24	47.89
Alitalia	0.00	–	–
Ryanair	45.46	59.94	65.86
easyJet	44.68	58.46	51.62
Air Berlin	48.89	65.56	58.71
Risk-free interest rate	0.73%–1.64% for euro zone, 0.57%–1.80% for UK		
Fluctuation	4.4%		

Staff costs include total expenses of EUR 10m (previous year: EUR 7m) for options programmes.

42 Trade payables and other current financial liabilities

in €m	31.12.2009	31.12.2008
Trade payables		
Trade payables to affiliated companies	105	47
Trade payables to other equity investments	12	34
Trade payables to third parties	2,435	2,278
	2,552	**2,359**
Other liabilities		
Liabilities to banks	58	58
Other liabilities to affiliated companies	185	183
Other liabilities to equity investments	–	–
Other financial liabilities	1,001	1,026
	1,244	**1,267**
Total	**3,796**	**3,626**

43 Current advance payments received, deferred income and other non-financial liabilities

in €m	31.12.2009	31.12.2008
Advance payments received	192	14
Net debit balance of advance payments received and receivables from unfinished contracts	81	167
Deferred income	344	345
Other non-financial liabilities	391	356
	1,008	**882**

Obligations under bonus miles programmes, see also "Note 37" from p. 189 and "Note 41" from p. 192, are recognised in deferred income with EUR 306m (previous year: EUR 315m) and in other non-financial liabilities with EUR 185m (previous year: EUR 179m).

In addition, deferred income includes EUR 7m (previous year: EUR 4m) for grants and subsidies received for capital expenditure, which are realised over the useful life of the assets.

Other liabilities include deferrals of EUR 199m (previous year: EUR 163m) for unused vacation and overtime and EUR 7m (previous year: EUR 14m) for the current portion of fair value obligations under share-based remuneration agreements, see "Note 41" from p. 192.

Other disclosures

44 Contingencies and events after the balance sheet date

Contingent liabilities

in €m	**31.12.2009**	31.12.2008
From guarantees, bills of exchange and cheque guarantees	855	861
From warranty contracts	897	901
From providing collateral for third-party liabilities	13	3

Guarantees include EUR 831m (previous year: EUR 838m) and warranty agreements include EUR 290m (previous year: EUR 312m) in contingent liabilities toward creditors of joint ventures. A total of EUR 1,114m (previous year: EUR 1,138m) relates to joint and several guarantees and warranties. This amount is offset by compensatory claims against the co-debtors for EUR 1,022m (previous year: EUR 1,040m). 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 163m (previous year: EUR 195m) for subsequent years. No further amounts are expected to be recovered on the contingent receivable in connection with the sale of an equity investment described in the consolidated financial statements for 2008. Signed contracts for the sale of six Airbus A300-600s are due to yield profits of EUR 12m for the financial year 2010. These sales, as well as other signed contracts for the sale of twelve Canadair Regional Jet 200s, will result in a total cash inflow of EUR 64m in 2010.

On 23 March 2009 Deutsche Lufthansa AG and the insurance companies involved agreed on a payment of EUR 40m in compensation for damages that occurred in Scandinavia and were described in the consolidated financial statements for 2008 as a contingent receivable under a D&O insurance policy. This settles all claims relating to the aforementioned damages.

On 4 February 2010 the Vienna Commercial Court registered the squeeze-out voted at the shareholders' meeting of Austrian Airlines AG held on 16 December 2009 in the Vienna Commercial Register. All the shares held by minority shareholders were thereby transferred to the main shareholder ÖLH Österreichische Luftverkehrs-Holding-GmbH. To the extent that securities were issued on the basis of these membership rights they now only confer the right to cash compensation. Official trading ceased when the squeeze-out was registered and the delisting procedure for Austrian Airlines AG was begun. In February 2010 the Executive Board and works council at Lufthansa Cargo agreed to extend the policy of reduced working hours for payscale and non-payscale ground staff in Germany until 28 February 2011, based on a reduction of 20 per cent. This enables Lufthansa Cargo to continue adjusting its staff capacities to developments in demand in the airfreight business. Executive Board members and managers contributed by voluntarily foregoing a percentage of their salaries.

On 19 February 2010 Lufthansa and Fraport reached a compromise on airport fees that gives planning certainty until 2015. In addition to the airport fee increase of 12.5 per cent that had already been agreed for the years 2010 and 2011, this provides for annual increases of 2.9 per cent over the period from 2012 to 2015. The agreement also takes account of future developments in passenger numbers at Frankfurt. As part of the ongoing collective bargaining dispute the Vereinigung Cockpit (VC) pilots' union balloted its members and called for strike action at Lufthansa, Lufthansa Cargo and Germanwings, which began on 22 February 2010. The companies affected adjusted their flight capacities with a special limited flight timetable. As the Company considers the strikes and the union's demands to be unreasonable, Lufthansa sought a court injunction. At the initial hearing before the Frankfurt Labour Court on 22 February 2010 an end to the strike action and a cooling-off period until 8 March 2010 were agreed at the recommendation of the court. VC paved the way for constructive talks on the general working agreement and the wage agreement for the German region by renouncing disputed demands relating to Lufthansa Italia.

45 Other financial obligations

As of 31 December 2009 there were purchase commitments for EUR 6.4bn (previous year: EUR 7.2bn) for capital expenditure on property, plant and equipment and for intangible assets.

There were also capital and shareholder loan commitments of EUR 49m towards equity investments (previous year: EUR 62m). Sales contracts and put options granted to third parties gave rise to purchase commitments for company shares amounting to EUR 15m (previous year: EUR 0.5bn). In the previous year a negative market value of EUR 312m was recognised in current derivative financial instruments in connection with the purchase of a put option granted to an equity investment.

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 Company policy to limit these risks by systematic financial management.

Price risk

The major price risks to which the Lufthansa Group is exposed are exchange rate fluctuations between the euro and other currencies, interest rate fluctuations in international money and capital markets, and price fluctuations in the oil and petroleum products markets. Hedging policy for limiting these risks is laid down by the Executive Board and documented by internal Group guidelines. It also provides for the use of financial derivatives. The corresponding financial transactions are concluded only with first-rate counterparties.

For US dollars, Lufthansa is mainly in a net payer position as regards currency risks from its operating business, as fuel payments are dollar-denominated. For other currencies there is generally a net surplus. The main risks in this respect stem from the pound sterling and the Japanese yen. Currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts. The average hedging level is 50 per cent.

At the end of 2009 exposure from operations for the next 24 months was as follows:

in million	USD	JPY	GBP
Exposure (currency)	–8,442	138,358	671
Exposure (EUR at spot rate)	–5,620	1,066	736
Hedges (currency)	3,670	–56,657	–185
Hedging level	43%	41%	28%

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 2009 exposure for capital expenditure was as follows:

in million	2010	2011	2012	2013	2014	2015	2016
Exposure from net capital expenditure (USD)	–2,214	–1,981	–1,256	–904	-686	–366	–280
Exposure from net capital expenditure (EUR at spot rate)	–1,474	–1,318	–836	–602	–457	–244	–186
Hedges (USD)	1,824	1,603	997	804	575	261	207
Hedging level	82%	81%	79%	89%	84%	71%	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 2009 the ratio of floating to fixed interest rates for long-term borrowing was as follows:

Exposure

in €m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fixed LH	1,361	1,140	970	743	570	477	402	343	263	194	115
Floating LH	5,279	4,893	4,312	3,782	3,119	1,762	1,430	481	362	234	99
Floating/fixed ratio	80%	81%	82%	84%	85%	79%	78%	58%	58%	55%	46%

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 2009 fuel costs accounted for 14.7 per cent of the Lufthansa Group's operating expenses (previous year: 20.8 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

		2010	2011
Fuel requirement	in 1,000 tonnes	8,699	8,829
Hedges	in 1,000 tonnes	5,851	2,275
Hedging level	in %	67.3	25.8

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 31.12.2009**	Market value 31.12.2008	**Market value 31.12.2009**	Market value 31.12.2008
Interest rate swaps	87	34	–	–0*
Spread options for fuel hedging	–	–	162	–10
Hedging combinations for fuel hedging	–	–	169	–152
Futures contracts for currency hedging	0*	0*	–228	290
Spread options for fuel hedging	–	–	59	103
Total	**87**	**34**	**162**	**231**

* Rounded below EUR 1m.

The market values stated for financial derivatives correspond to the price at which an independent third party would assume the rights and/or obligations from the financial instrument.

The fair values of interest rate derivatives correspond to their respective market values, which are measured using appropriate mathematical methods, such as discounting future cash flows. Discounting takes market standard interest rates and the residual term of the respective instruments into account.

Currency futures and swaps are individually discounted to the balance sheet date based on their respective futures rates and the appropriate interest rate curve. The market prices of currency options and the options used to hedge fuel prices are determined using acknowledged option pricing models.

From a current perspective, the fuel price and currency cash flow hedges will have the following effects on the result for the period and/or on the acquisition costs of hedged capital expenditure:

Financial year in €m	Result for the period	First-time measurement of acquisition costs [1]	**Total**
2010	216	–78	138
2011	124	–37	87
2012	32	–20	12
2013	0*	–17	–17
2014	–	–21	–21
2015	–	–20	–20
2016	–	–16	–16
Total	**372**	**– 210**	**162**

* Rounded below EUR 1m.
[1] Minus signs mean increased acquisition costs.

In 2009 EUR 160m for maturing fuel price hedges was booked from equity and added to fuel expenses. For currency hedges EUR 574m was booked from equity to other operating income, EUR 301m to other operating expenses and EUR 111m to additional purchase costs for aircraft.

Interest rate swaps to hedge cash flows will also affect the result for the period as follows, taking effect successively over the time to maturity:

Maturity financial year in €m	**Market value 31.12.2009**
2011	0*
Total	**0***

* Rounded below EUR 1m.

Changes in the market values of derivatives which do not qualify as effective hedging transactions under IAS 39 can be seen in the income statement "Note 13" on p. 166.

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%	–	+145
– 10%	–	–137
Currency – USD		
+ 10%	–120	+561
– 10%	+114	–441
Currency – JPY		
+ 10%	–10	–36
– 10%	+9	+29
Currency – GBP		
+ 10%	–5	–16
– 10%	+3	+14
Interest		
– 100 basis points	+18	+23
+ 100 basis points	–17	–24

* 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 1.1 per cent (EUR 1m) in the following ten days.

Liquidity risk

Complex financial planning systems enable Lufthansa to identify its future liquidity position at an early stage. Based on the results of the Group strategy and planning processes, a monthly rolling liquidity plan is drawn up with a planning horizon of 24 months. This planning method offers an up-to-date picture of anticipated liquidity developments as regards the Company and currencies.

Lufthansa holds a liquidity reserve of at least EUR 2.3bn that is available at short notice. As of 31 December 2009 the Lufthansa Group held confirmed unused lines of credit totalling EUR 1.7bn (previous year: EUR 1.8bn).

A maturity analysis for the borrowing stated in "Note 39" from p. 191 and the derivative financial instruments listed in "Note 26" on p. 180 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 2009. Due to the hedging transactions used, there is generally a direct connection between the cash inflows and outflows shown relating to derivative financial instruments.

Derivative financial instruments

in €m	Inflows	Outflows	**Net**
1st quarter	3,147	–3,131	**16**
Up to 1 year*	5,924	–5,855	**69**
1–5 years	8,104	–8,088	**16**
Later	1,313	–1,387	**–74**

* Without payments in 1st quarter.

Non-derivative financial instruments

in €m	Inflows**	Outflows	Net
1st quarter	3	–268	**–265**
Up to 1 year*	4	–588	**–584**
1–5 years	97	–4,757	**–4,660**
Later	0	–2,844	**–2,844**

* Without payments in 1st quarter.
** 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. Service contracts occasionally require collateral for miscellaneous transactions.

All other contractual relationships are subject to credit rules, which, depending on the type and volume of the contract involved, require collateral, credit ratings/references or historical data from prior dealings, particularly payment history, in order to avoid defaults.

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

If risks are identified receivables are written down accordingly.

As of 31.12.2009 the maximum credit risk from the potential insolvency of debtors for loans and receivables was EUR 3,539m, made up as follows:

in €m	31.12.2009	31.12.2008
Loans	132	162
Non-current receivables	374	313
Trade receivables and other current receivables	3,033	3,015
	3,539	**3,490**

Loans and receivables impaired developed as follows:

in €m	1.1.2009
Gross amount	200
Impairment charges	–175
Carrying amount 1.1.2009	**25**

in €m	31.12.2009
Gross amount	211
Impairment charges	–188
Carrying amount 31.12.2009	**23**

A further EUR 127m (previous year: EUR 120m) was already overdue, but not yet written down.

The term structure of overdue receivables is as follows:

in €m	
Less than 90 days	86
Between 90 and 180 days	14
More than 180 days	27

There is collateral of EUR 13m (previous year: EUR 10m) for the receivables that were impaired. There is no collateral for overdue receivables not yet written down.

There is a credit risk on available-for-sale financial assets in the amount of the securities which do not represent equity instruments. Securities classified as non-current and current are made up as follows:

in €m	31.12.2009
Debt instruments	3,507
Equity instruments	145
Total securities	**3,652**

Securities representing debt are rated as follows (Standard & Poor's):

in €m	
AAA	770
AAA–	690
AA+	87
AA	72
AA–	236
A+	463
A	462
A–	467
BBB+	164
BBB	57
Below BBB or unrated	39
Total	**3,507**

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 2009 the credit risk from derivative financial instruments, which are an effective part of a hedging relationship, was EUR 458m (previous year: EUR 475m). 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	76
AA–	27
A+	114
A	224
A–	0*
BBB+	10
Unrated	7
Total	**458**

* Rounded below EUR 1m.

The credit risk arising from financial derivatives shown at fair value through profit and loss amounted to EUR 37m as of 31 December 2009, and consisted of the total amount of business with contractual partners that on balance showed a positive market value.

The contractual partners have the following ratings (Standard & Poor's):

in €m	
AA	0*
AA–	1
A+	0*
A	35
BBB+	1
Total	**37**

* Rounded below EUR 1m.

47 Segment reporting

For the effects on segment reporting of IFRS 8 Operating Segments, applicable from 1 January 2009, we refer to the comments in the first chapter of the Notes to the consolidated financial statements entitled International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) applied.

The Lufthansa Group operates in five major business segments: scheduled passenger air traffic ("Passenger Airline Group") via Deutsche Lufthansa AG, Lufthansa CityLine GmbH, Swiss International Airlines AG, Austrian Airlines AG, British Midland Ltd., Air Dolomiti S.p.A., Eurowings Luftverkehrs AG and Germanwings GmbH; scheduled airfreight services ("Logistics") via the Lufthansa Cargo group; maintenance, repair and overhaul ("MRO") via the Lufthansa Technik group; information technology ("IT Services") via the Lufthansa Systems group; and catering ("Catering") via the LSG Lufthansa Sky Chefs group. The segment previously known as Passenger Transportation is therefore now shown under the new name of Passenger Airline Group, without the centralised Group functions.

Financial reporting no longer takes place for the former Service and Financial Companies segment, which gave an aggregated, summarised presentation of Lufthansa Commercial Holding GmbH, Lufthansa AirPlus Servicekarten GmbH, Lufthansa Flight Training GmbH and other equity investments that supplement the operating business of the Lufthansa Group, as it is not required by IFRS 8. The results for these companies are presented together with those for the central Group functions in the column "Other" 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. 163.

Segment information by operating segment for 2009

in €m	Passenger Airline Group 1)	Logistics 1)	MRO	IT Services	Catering 1)	Total reportable operating segments	Other	Reconciliation: Not allocated	Reconciliation: Consolidation	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*	**–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 2)	**78**	**–152**	**331**	**16**	**75**	**348**	**–94**	**55**	**–35**	**274**
Other financial result										–503
Profit before income taxes										–229
Segment assets 3)	13,612	798	2,843	241	1,184	18,678	1,372	11,366	–5,024	26,392
of which from investments shown at equity	127	30	110	–	49	316	4	–	–	320
Segment liabilities 4)	8,840	454	1,318	199	466	11,277	1,187	11,099	–3,373	20,190
Segment capital expenditure 5)	1,898	25	121	52	58	2,154	65	–	–	2,405
of which from investment accounted for using the equity method	65	5	–	–	–	70	–	–	–	70
Staff 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

* See page 63 of the management report for reconciliation between operating result and profit from operating activities.
1) Previous year's figures only partially comparable due to changes in the group of consolidated companies.
2) Profit from operating activities including result of investments shown at equity.
3) Intangible assets, property, plant and equipment, investments accounted for using the equity method, inventories, trade receivables and other assets constitute assets and are presented under the heading "Group".
4) All liabilities with the exception of financial debt, liabilities to Group companies, derivative financial instruments, other deferred income and tax obligations are presented under the heading "Group".
5) Capital expenditure for intangible assets, property, plant and equipment, and investments accounted for using the equity method.

Segment information by operating segment for 2008

in €m	Passenger Airline Group [1]	Logistics [1]	MRO	IT Services	Catering [1]	Total reportable operating segments	Other	Reconciliation Not allocated	Reconciliation Consol-idation	Group
External revenue	17,702	2,882	2,216	279	1,763	24,842	–	–	–	24,842
of which traffic revenue	16,825	2,767	–	–	–	19,592	–	378	–	19,970
Inter-segment revenue	663	25	1,501	378	562	3,129	–	–	–3,129	–
Total revenue	**18,365**	**2,907**	**3,717**	**657**	**2,325**	**27,971**	**–**	**–**	**–3,129**	**24,842**
Other operating income	700	101	156	52	92	1,101	1,265	–	–436	1,930
Total operating income	19,065	3,008	3,873	709	2,417	29,072	1,265	–	–3,565	26,772
Operating expenses	18,276	2,844	3,574	669	2,347	27,710	1,337	–	–3,555	25,492
of which cost of materials and services	11,510	2,010	1,828	79	1,059	16,486	70	–	–2,803	13,753
of which staff costs	3,025	332	1,010	232	824	5,423	285	–	–6	5,702
of which depreciation and amortisation	929	123	84	37	59	1,232	38	–	5	1,275
of which other operating expenses	2,812	379	652	321	405	4,569	944	–	–751	4,762
Operating result *	**789**	**164**	**299**	**40**	**70**	**1,362**	**–72**	**–**	**–10**	**1,280**
Other segment income	125	16	29	1	24	195	6	467	–451	217
Other segment expenses	7	–4	5	2	4	14	208	396	–430	188
of which impairment losses	14	–	–	–	1	15	–	–	–	15
Result of investments accounted for using the equity method	–50	17	6	–	4	–23	1	–	–	–22
Segment result [2]	**857**	**201**	**329**	**39**	**94**	**1,520**	**–273**	**71**	**–31**	**1,287**
Other financial result										–557
Profit before income taxes										730
Segment assets [3]	10,641	976	2,690	244	1,215	15,766	1,292	10,066	–6,644	22,408
of which from investments shown at equity	76	31	117	–	59	283	3	–	–	286
Segment liabilities [4]	7,594	521	1,193	200	475	9,983	864	9,672	–5,503	15,489
Segment capital expenditure [5]	1,390	22	122	58	116	1,708	208	573	–335	2,154
of which from investment accounted for using the equity method	–	–	1	–	3	4	10	–	–	14
Staff on balance sheet date	46,350	4,655	19,804	3,033	30,273	104,115	3,685	–	–	107,800
Average number of employees	46,462	4,619	19,199	3,002	31,215	104,497	3,626	–	–	108,123

* See page 63 of the management report for reconciliation between operating result and profit from operating activities.
[1] Previous year's figures only partially comparable due to changes in the group of consolidated companies.
[2] Profit from operating activities including result of investments shown at equity.
[3] Intangible assets, property, plant and equipment, investments measured using the equity method, inventories, trade receivables and other assets constitute all assets and are presented under the heading "Group".
[4] All liabilities with the exception of financial debt, liabilities to Group companies, derivative financial instruments, other deferred income and tax obligations are presented under the heading "Group".
[5] 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 2009 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.

By contrast, the result of the segment's investments accounted or using the equity method is part of the segment result, at Group level not belonging to the operating result, however, but to the financial result.

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.

Information about geographical areas for 2009

in €m	Europe	North America	Central and South America	Asia/Pacific	Middle East	Africa	**Total**
Traffic revenue [1]	11,527	2,738	193	2,338	502	306	**17,604**
Other revenue	2,361	894	128	794	271	231	**4,679**
Non-current assets [2]	14,082	150	11	155	0*	9	**14,407**
Capital expenditure for 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	8,673	146
Capital expenditure for non-current assets	1,409	28

* Rounded below EUR 1m.
[1] Traffic revenue is allocated according to the place of sale.
[2] Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

Information about geographical areas for 2008

in €m	Europe	North America	Central and South America	Asia / Pacific	Middle East	Africa	**Total**
Traffic revenue [1]	13,716	2,685	383	2,467	383	336	**19,970**
Other revenue	2,592	934	122	764	281	179	**4,872**
Non-current assets [2]	12,029	185	16	126	27	48	**12,431**
Capital expenditure for non-current assets	1,759	23	1	10	–	1	**1,794**

The figures for the main countries are as follows:

in €m	Germany	USA
Traffic revenue [1]	6,691	2,309
Other revenue	834	819
Non-current assets [2]	9,029	176
Capital expenditure for non-current assets	1,341	23

[1] Traffic revenue is allocated according to the place 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 place of sale, the allocation of other revenue is based on the geographical location of the customer, and the allocation of other segment income is based on the place where the service is provided. Items resulting from investments accounted for using the equity method are allocated to regions depending on the location of the registered office of the investment in question.

The regions are defined on a geographical basis. An exception is made for traffic revenue generated in the states of the former Soviet Union, in Turkey and in Israel, which is attributed to Europe.

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 in the management report include a presentation of traffic revenue generated in the Passenger Airline Group segment by traffic region, rather than by original place 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 2009	Volume of services rendered 2008	Volume of services received 2009	Volume of services received 2008
Non-consolidated subsidiaries				
Airline Accounting Center Sp. z o. o., Poland	1	1	5	6
Albatros Versicherungsdienste GmbH	6	7	47	46
Cargo Future Communications (CFC) GmbH	0*	0*	4	5
Delvag Luftfahrtversicherungs-AG	7	9	6	8
DLH Fuel Company mbH	3	15	370	684
Edelweiss Air AG, Switzerland	17	2	30	1
Global Tele Sales (PTY) Ltd., South Africa	1	1	11	9
Global Tele Sales Ltd., Ireland	1	0*	7	10
Global Telesales of Canada, Inc., Canada	0*	0*	6	6
GlobeGround India Private Ltd., India	0*	0*	5	7
Handling counts GmbH	1	0*	5	4
LRS Lufthansa Revenue Services GmbH	7	11	45	49
Lufthansa Cagri Merkezi ve Müsteri Hizmetleri A.S., Turkey	0*	0*	5	5
Lufthansa Engineering and Operational Services GmbH	5	5	31	26
Lufthansa Global Tele Sales GmbH	1	1	11	11
Lufthansa Service-Center Kassel GmbH	0*	0*	7	8
Lufthansa Systems FlightNav AG, Switzerland	2	4	13	15
Lufthansa Systems Hungaria Kft, Hungary	2	1	29	26
Lufthansa Systems Network Services GmbH	1	1	46	50
Lufthansa Systems Poland sp. z o.o., Poland	0*	0*	7	6
Lufthansa Technical Training GmbH	7	7	26	24
Lufthansa Technik Budapest Repülögép Nagyjavító Kft., Hungary	4	6	26	28
Lufthansa Technik Component Services LLC, USA	2	2	5	3
Lufthansa Technik Logistik of America LLC, USA	5	2	12	14
Lufthansa Technik Logistik Services GmbH	2	1	16	6
Lufthansa Technik Malta Limited, Malta	7	5	17	9
Lufthansa Technik Services India Private Limited, India	1	14	9	2
Lufthansa Technik Shenzhen Co., Ltd., China	5	6	5	4
Lufthansa Technik Sofia OOD, Bulgaria	2	3	24	1
Lufthansa Technik Tulsa Corporation, USA	1	3	5	6
Lufthansa Technik Turbine Shannon Limited, Ireland	3	3	20	19
LZ-Catering GmbH	10	9	16	15
Swiss Private Aviation AG, Switzerland	2	0*	15	0*
Joint ventures				
Aerologic GmbH	2	0*	8	0*
Aircraft Maintenance and Engineering Corp., China	9	4	13	12
Alitalia Maintenance Systems S.p.A., Italy	7	11	3	11
EFM - Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH	0*	0*	9	7
FraCareServices GmbH	11	5	2	1
LTQ Engineering Pty Limited, Australia	2	1	7	0*
Lufthansa Bombardier Aviation Services GmbH	7	2	0	0*
N3 Engine Overhaul Services GmbH & Co. KG	5	4	0*	0*
Shanghai Pudong International Airport Cargo Terminal Co. Ltd.	0*	0*	4	5
Spairliners GmbH	11	0*	–	–
Star Alliance Services GmbH	7	8	7	8
Terminal 2 Betriebsgesellschaft mbH & Co oHG	12	11	83	132
Terminal One Group Association, L.P., USA	0*	0*	9	8

* Rounded below EUR 1m.

Continued on page 206

in €m	Volume of services rendered 2009	2008	Volume of services received 2009	2008
Associated companies				
Airmail Center Frankfurt GmbH	0*	0*	6	7
AviationPower GmbH	0*	0*	19	17
BELAC LLC, USA	0*	0*	5	9
British Midland Ltd., UK	1	14	9	6
HEICO Aerospace Holdings Corp., USA	0*	–	16	23
Jade Cargo International Company Limited, China	5	7	126	46
LSG Lufthansa Service Hong Kong Ltd., Hong Kong	1	2	3	7

* 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. 213–215.

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. 192.

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.

The following remuneration was paid to individual Executive Board members in 2008:

in €	Basic salary	Variable remuneration	Payments from maturing options programmes	Change in fair value of option programmes	Other*	**Total**
Wolfgang Mayrhuber	726,250	1,354,000	252,000	602,043	191,345	3,125,638
Stephan Gemkow	518,750	947,800	42,000	371,545	148,419	2,028,514
Stefan Lauer	518,750	947,800	105,000	342,445	164,420	2,078,415
Effective remuneration for the 20098 financial year	**1,763,750**	**3,249,600**	**399,000**	**1,316,033**	**504,184**	**7,232,567**

* 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 2009 (2008) the members of the Executive Board hold the following shares from current option programmes:

	2006 programme		2007 programme		2008 programme		**2009 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	– (10,169)	– (90)	11,714 (11,714)	45 (45)	16,740 16,740	45 45	17,100 (–)	45 (–)
Christoph Franz (Executive Board member since 1.6.2009)	–	–	–	–	–	–	14,060 (–)	37 (–)
Stephan Gemkow	– (6,779)	– (60)	7,809 (7,809)	30 (30)	11,160 11,160	30 30	11,400 (–)	30 (–)
Stefan Lauer	– (6,779)	– (60)	7,809 (7,809)	30 (30)	10,788 10,788	29 29	11,400 (–)	30 (–)

See “Note 41” from p. 192 for the caps on payments.

The pro rata change for 2009 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 2009 option programme for Mr Mayrhuber on the date of issue was EUR 517,770. For Mr Franz the figure was EUR 425,722, for Mr Gemkow EUR 345,180 and for Mr Lauer EUR 345,180.

Serving members of the Executive Board will benefit from various contractual entitlements when their employment comes to an end.

Pensions and payments to surviving dependants were revised in 2006. For each Executive Board member a personal pension account has been set up with effect from 1 January 2006, into which Deutsche Lufthansa AG pays contributions amounting to 25 per cent of their contractually guaranteed annual salary and bonus during the time of their employment. Since 1 April 2007 the obligations have been funded by equivalent contributions to the Lufthansa Pension Trust. The investments guidelines for the pension account are based on the same investment concept as applies to staff members of Deutsche Lufthansa AG.

As of 31 December 2009 Mr Mayrhuber’s retirement benefit entitlement amounted to EUR 10.9m (previous year: EUR 10.0m). That of Mr Franz was EUR 0.1m, that of Mr Gemkow EUR 3.7m (previous year: EUR 3.3m) and that of Mr Lauer EUR 5.2m (previous year: EUR 4.7m).

If employment ends before an Executive Board member reaches retirement age, he or she retains the pension entitlement from the pension account, which is continued without further contributions. On reaching retirement age (65 or early retirement between 60 and 65) or in the event of disability the account holder will acquire a pension credit equivalent to the balance of the pension account at that time. Lufthansa guarantees a minimum payment equivalent to the contributions paid in. For Messrs Franz, Gemkow and Lauer a supplementary risk capital sum will be added to the pension credit in the event of a claim for a disability pension or a pension for surviving dependants. This sum will consist of the average contributions paid into the pension account over the past three years multiplied, when a disability pension entitlement arises, by the number of full years by which the claimant is short of the age of 60.

The pension credit is paid out in ten instalments. On application by the Executive Board member or his widow the pension credit will, subject to approval by the Company, be converted into a pension. On application by the Executive Board member or his surviving dependants a single payment or payment in fewer than ten instalments may also be made.

The widow's pension is 60 per cent of the deceased's pension entitlement. If the Board member dies while in the Company's employment his widow will be paid his full salary until the end of the financial year or for a period of at least six months.

The cost of pension entitlements accrued in 2009 for Mr Mayrhuber was EUR 0.3m (previous year: EUR 0.5m), for Mr Franz EUR 0.1m, for Mr Gemkow EUR 0.2m (previous year: EUR 0.4m) and for Mr Lauer EUR 0.3m (previous year: EUR 0.4m). The total cost of EUR 0.9m (previous year: EUR 1.3m), plus EUR 6.4m (previous year: EUR 7.2m) in overall remuneration as shown in the remuneration table, is listed under staff costs, amounting to EUR 7.3m (previous year: EUR 8.5m).

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. His transitional pension entitlement amounts to 45 per cent of his fixed basic salary, increasing by 3 percentage points up to a maximum of 60 per cent for each year of service commenced from 1 January 2007 as a full member of the Executive Board.

If Mr Gemkow's employment contract is terminated for reasons for which he is not responsible when he is over 58 he is entitled to a transitional pension until he becomes 60. His transitional pension entitlement amounts to 30 per cent of his fixed basic salary, increasing by 3 percentage points up to a maximum of 60 per cent for each year of service commenced from 1 February 2009 as a full member of the Executive Board.

In the event of their departure from the Executive Board, Messrs Mayrhuber, Lauer and Gemkow are entitled to compensation of 65 per cent of their last basic salary if Deutsche Lufthansa AG invokes the two-year non-competition clause that has been contractually agreed. During this time no benefits can be claimed.

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 38.3m (previous year: EUR 36.9m). They are included in pension provisions, see "Note 36" from p. 186.

Remuneration report for the Supervisory Board

In the 2009 financial year Supervisory Board remuneration included EUR 525,000 (previous year: EUR 522,000) in fixed payments for work on the Deutsche Lufthansa AG Supervisory Board. There were no variable remuneration payments for the financial year 2009 (previous year: EUR 1,174m), as these depend on the dividend paid for the financial year. The figures for the individual Supervisory Board members are shown in the table on p. 209.

Other remuneration, mainly attendance fees, amounted to EUR 76,000 (previous year: EUR 109,000). Other remuneration in the previous year also included concessionary travel in line with IATA guidelines.

In addition, Dr Schlede was paid EUR 27,000 in 2009 (previous year: EUR 32,000) for consultancy services in connection with the integration of Swiss International Airlines into the Lufthansa Group.

The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 50,000 (previous year: EUR 39,000) for work on supervisory boards of Group companies.

	2009				2008			
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	60,000	15,000	–	75,000	60,000	15,000	168,750	243,750
Frank Bsirske, Deputy Chairman	30,000	5,000	–	35,000	30,000	5,000	78,750	113,750
Jacques Aigrain	20,000	–	–	20,000	20,000	–	45,000	65,000
John Allan (from 29.4.2008)	20,000	–	–	20,000	13,470	–	30,308	43,778
Dr Clemens Börsig (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Dr Werner Brandt (from 29.4.2008)	20,000	5,000	–	25,000	13,470	3,368	37,884	54,722
Bernd Buresch (from 29.4.2008)	20,000	5,000	–	25,000	13,470	3,368	37,884	54,722
Manfred Calsow (until 29.4.2008)	–	–	–	–	6,530	1,632	18,366	26,528
Jörg Cebulla (from 29.4.2008)	20,000	–	–	20,000	13,470	–	30,308	43,778
Michael Diekmann (until 29.4.2008)	–	–	–	–	6,530	1,632	18,366	26,528
Dipl.-Vwt. Jürgen Erwert	20,000	5,000	–	25,000	20,000	3,368	52,577	75,945
Robert Haller (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Dr Jürgen Hambrecht (from 29.4.2008)	20,000	5,000	–	25,000	13,470	3,368	37,884	54,722
Ulrich Hartmann	20,000	10,000	–	30,000	20,000	10,000	67,500	97,500
Dominique Hiekel (from 29.4.2008)	20,000	–	–	20,000	13,470	–	30,308	43,778
Steffen Kühhirt (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Dr Otto Graf Lambsdorff (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Dr Nicola Leibinger-Kammüller (from 29.4.2008)	20,000	–	–	20,000	13,470	–	30,308	43,778
Eckhard Lieb (from 29.4.2008)	20,000	5,000	–	25,000	13,470	3,368	37,884	54,722
Wolf Liebetrau (from 29.4.2008 until 31.12.2008)	–	–	–	–	13,470	–	30,308	43,778
Simon Reimann (from 29.4.2008)	20,000	–	–	20,000	13,470	–	30,308	43,778
Willi Rörig (until 29.4.2008)	–	–	–	–	6,530	1,632	18,366	26,528
Marlies Rose (from 1.1.2009)	20,000	–	–	20,000	–	–	–	–
Dr Klaus G. Schlede	20,000	15,000	–	35,000	20,000	15,000	78,750	113,750
Werner Schmidt (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Thomas von Sturm (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Dr Herbert Walter (from 29.4.2008)	20,000	–	–	20,000	13,470	–	30,308	43,778
Patricia Windaus (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Dr Hans-Dietrich Winkhaus (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Matthias Wissmann (from 29.4.2008)	20,000	–	–	20,000	13,470	–	30,308	43,778
Sabine Wolbold (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Dr Michael Wollstadt	20,000	5,000	–	25,000	20,000	5,000	56,250	81,250
Stefan Ziegler (from 29.4.2008)	20,000	–	–	20,000	13,470	–	30,308	43,778
Dr Klaus Zumwinkel (until 29.4.2008)	–	–	–	–	6,530	–	14,693	21,223
Total	**450,000**	**75,000**	**–**	**525,000**	**450,000**	**71,736**	**1,173,904**	**1,695,640**

* Individual amounts rounded to the nearest euro.

50 Declaration of compliance in accordance with Section 161 German Stock Corporation Act (AktG)

The declaration of compliance with the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) was issued by the Executive Board and Supervisory Board, and made available to shareholders on the internet at

i http://investor-relations.lufthansa.com/de/corporate-governance.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	**2009**	2008
Annual audit	2.8	3.0
Other certification or valuation services	0.7	0.7
Tax advisory services	0.8	0.5
Other services	1.7	0.9
Total	**6.0**	**5.1**

The following fees paid to overseas companies in the global PricewaterhouseCoopers federation were also recognised as expenses:

in €m	**2009**	2008
Annual audit	2.4	1.8
Other certification or valuation services	0.3	0.3
Tax advisory services	0.4	0.4
Other services	0.1	0.1
Total	**3.2**	**2.6**

Executive Board, 2 March 2010

Wolfgang Mayrhuber
Chairman of the
Executive Board

Christoph Franz
Deputy Chairman of the
Executive Board and
CEO Lufthansa
German Airlines

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

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, 2 March 2010

Wolfgang Mayrhuber
Chairman of the
Executive Board

Christoph Franz
Deputy Chairman of the
Executive Board and
CEO Lufthansa
German Airlines

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

Auditors' report

We have audited the consolidated financial statements prepared by Deutsche Lufthansa Aktiengesellschaft, Cologne, comprising the balance sheet, the income statement and 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 2009 to 31 December 2009. 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. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's 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 full IFRS and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Dusseldorf, 2 March 2010

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
Former President
of the Management Board
Schweizerische Rückver-
sicherungs-Gesellschaft

John Allan
Chairman DSG International plc.
(until 31.12.2009)

Dr Werner Brandt
Member of the Executive Board
SAP AG

Bernd Buresch
Coordinator Enterprise
Operation Center
Employee representative

Jörg Cebulla
Flight captain and member
of the Cockpit pilots' union
Employee representative

Dipl.-Vwt. Jürgen Erwert
Administrative staff member
Employee representative

Dr Jürgen Hambrecht
Chairman of the
Executive Board BASF SE

Ulrich Hartmann
Chairman of the
Supervisory Board
E.ON AG

Dominique Hiekel
Purser
Employee representative

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

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

Christoph Franz
Deputy Chairman
of the Executive Board
CEO Lufthansa German Airlines
(from 1.6.2009)

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

Supervisory Board Committees

Steering Committee
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber (Chairman)
Frank Bsirske (Deputy Chairman)
Bernd Buresch
Dr Jürgen Hambrecht

Two meetings in 2009

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
Eckhard Lieb
Dr Michael Wollstadt

Four meetings in 2009

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. 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
Ulrich Hartmann
Dr Klaus G. Schlede
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber

Two meetings in 2009

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.

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 2009

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 2009

Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber
a) Allianz Lebensversicherungs-AG
Bayer AG
Voith AG
Willy Bogner GmbH & Co. KGaA
(Chairman of the Supervisory Board)
b) LP Holding GmbH
(Chairman of the Supervisory Board)
Tetra Laval Group

Frank Bsirske
a) IBM Central Holding GmbH
RWE AG (Deputy Chairman
of the Supervisory Board)

Jacques Aigrain
b) SWISS International Air Lines AG

John Allan
b) ISS Holding A/S
ISS Equity A/S
ISS A/S
National Grid plc
3i plc

Dr Werner Brandt
a) Heidelberger Druckmaschinen AG
b) QIAGEN N.V.

Bernd Buresch
a) Lufthansa Systems AG

Dr Jürgen Hambrecht
a) Daimler AG

Ulrich Hartmann
a) E.ON AG
(Chairman of the Supervisory Board)
b) Henkel AG & Co. KGaA
(Proprietors' Committee)

Dr Nicola Leibinger-Kammüller
a) Claas KGaA mbH
Siemens AG
Voith AG

Dr Herbert Walter
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 2009

Wolfgang Mayrhuber
a) BMW AG
Fraport 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

Christoph Franz
a) DF Deutsche Forfait 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.
JetBlue Airways Corp.
WAM Acquisition S.A.

Stefan Lauer
a) LSG Lufthansa Service Holding AG*
Lufthansa Cargo AG*
Lufthansa Flight Training GmbH*
(Chairman of the Supervisory Board)
Lufthansa Technik AG*
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 31.12.2009	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		
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	95.40	95.40		
AUA LNR/LNS/LNT/LNU Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
Austrian Airlines AG, Vienna Airport, Austria	95.40	95.40		
Austrian Airlines Lease and Finance Company Ltd., Guernsey, Channel Islands	95.40	95.40		
British Midland Airways Ltd., Donington Hall, UK	100.00	100.00		
British Midland Ltd., Donington Hall, UK	100.00	100.00		
Eurowings Luftverkehrs AG, Nuremberg	100.00	100.00 [1]		
Germanwings GmbH, Cologne	100.00	100.00		
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 5 KG, Grünwald	100.00	83.33		
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 7 oHG, Grünwald	100.00	66.67		
Lauda Air Luftfahrt GmbH, Vienna Airport, Austria	95.40	95.40		
LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dortmund	100.00	100.00 [1]		
LHBD Holding Limited, London, UK	100.00	100.00 [2]		June
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 GmbH & Co. Fox-Alfa oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Bravo oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Charlie oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Delta oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Echo oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Golf oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Hotel oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Quebec oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Romeo oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Sierra oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Tango oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Uniform oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Victor oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Yankee oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Golf-Lima oHG, Grünwald	100.00	66.67		
Lufthansa Leasing GmbH & Co. Golf-Mike oHG, Grünwald	100.00	66.67		
Lufthansa Malta Aircraft-Leasing Ltd., St. Julians, 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]		

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
ÖLP Österreichische Luftverkehrs-Privatstiftung, Vienna Airport, Austria	0.00	0.00[4)]	
Suriba Beteiligungsverwaltungs GmbH, Vienna Airport, Austria	100.00	100.00	
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	
TRAVIAUSTRIA Datenservice für Reise und Touristik Gesellschaft m.b.H. & Co. Nfg. KG, Vienna, Austria	65.83	65.83	
Tyrolean Airways Tiroler Luftfahrt GmbH, Innsbruck, Austria	95.40	95.40	
UIA Beteiligungsgesellschaft mbH, Vienna Airport, Austria	95.40	95.40	
Logistics segment			
Jettainer GmbH, Raunheim	100.00	100.00	
Lufthansa Cargo AG, Kelsterbach	100.00	100.00	
Lufthansa Cargo Charter Agency GmbH, Kelsterbach	100.00	100.00	
Lufthansa Leasing GmbH & Co. Echo-Zulu oHG, Grünwald	100.00	66.67	
MRO segment			
AirLiance Materials LLC, Roselle, IL 60172, USA	50.21	50.21	
BizJet International Sales & Support, Inc., Tulsa, USA	100.00	100.00	
Lufthansa Technik Maintenance International GmbH, Frankfurt/M.	100.00	100.00	
Hamburger Gesellschaft für Flughafenanlagen mbH, Hamburg	100.00	100.00	
Hawker Pacific Aerospace Inc., Sun Valley, USA	100.00	100.00	
Hawker Pacific Aerospace Ltd., Kestrel Way, Hayes, UK	100.00	100.00	
JASEN Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 SPE	
Lufthansa Technik AERO Alzey GmbH, Alzey	100.00	100.00	
Lufthansa Technik AG, Hamburg	100.00	100.00	
Lufthansa Technik Aircraft Services Ireland Limited, Shannon, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Holdings Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Leasing Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Logistik GmbH, Hamburg	100.00	100.00	
Lufthansa Technik North America Holding Corp., Wilmington, USA	100.00	100.00	
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Philippines, Inc., Manila, Philippines	51.00	51.00	
Lufthansa Technik Switzerland GmbH, Basel, Switzerland	100.00	100.00	
Shannon Aerospace Ltd., Co. Claire, Ireland	100.00	100.00	
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 - Ukraine, Boryspil, Ukraine	100.00	100.00	
AIRO Catering Services Eesti OÜ, Tallinn, Estonia	100.00	100.00	
Airo Catering Services Latvija SIA, Marupe, Latvia	100.00	100.00	
AIRO Catering Services Sweden AB, Stockholm-Arlanda, Sweden	100.00	100.00	
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	
Arlington Services, Inc., Wilmington, USA	100.00	100.00	
AVIAPIT-SOCHI OOO, Sochi, Russia	100.00	100.00	

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Major subsidiaries as of 31.12.2009 (continued)	**Equity stake**	**Voting share**	**Different reporting period**
Name, registered office	in %	in %	
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, Hong Kong	100.00	100.00	
Cater Suprimento de Refeicoes, Ltda., Rio de Janeiro, Brazil	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	
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, Dar es Salaam, Tanzania	61.99	61.99	
In-Flight Management Solutions GmbH, Neu-Isenburg	100.00	100.00	
International Food Services Ltd., Hong Kong, Hong Kong	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 (Thailand) Ltd., Bangkok, Thailand	100.00	100.00	
LSG Catering China Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Catering Guam, Inc., Guam, USA	100.00	100.00	
LSG Catering Hong Kong Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Catering Saipan, Inc., Saipan, Micronesia	100.00	100.00	
LSG Holding Asia Ltd., Hong Kong, Hong Kong	86.88	86.88	
LSG Lufthansa Service – Sky Chefs do Brasil Catering, Refeicoes Ltda., São Paulo, Brazil	100.00	100.00	
LSG Lufthansa Service Asia Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Lufthansa Service Cape Town (Pty) Ltd., Cape Town, South Africa	100.00	100.00	
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Enterprises Ltd., Hong Kong, Hong Kong	100.00	100.00	
LSG Lufthansa Service Europa / Afrika GmbH, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Guam, Inc., Guam, USA	100.00	100.00	
LSG Lufthansa Service Holding AG, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Hong Kong Ltd., Hong Kong, Hong Kong	41.62	47.90 [5]	
LSG Lufthansa Service Saipan, Inc., Saipan, Micronesia	100.00	100.00	
LSG Sky Chefs (India) Private Ltd., Mumbai, India	100.00	100.00	
LSG Sky Chefs (Qingdao) Co., Ltd., Laixi City, China	100.00	100.00	
LSG Sky Chefs (Thailand) Ltd., Bangkok, Thailand	64.30	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 de Venezuela C.A., Caracas, Venezuela	99.99	99.93	
LSG Sky Chefs Deutschland GmbH, Neu-Isenburg	100.00	100.00	
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 In-Flight Logistics Asia Pacific Ltd., Hong Kong, Hong Kong	100.00	100.00	

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
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 Rus, Moscow, Russia	100.00	100.00	
LSG Sky Chefs S.p.A., Case Nuove di Somma Lombardo, Italy	100.00	100.00	
LSG Sky Chefs Schweiz AG, Rümlang, Switzerland	100.00	100.00	
LSG Sky Chefs Solutions Asia Limited, Hong Kong, Hong Kong	100.00	100.00	
LSG Sky Chefs South Africa (Proprietary) Ltd., Johannesburg, South Africa	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 UK Ltd., Feltham, UK	100.00	100.00	
LSG Sky Chefs USA, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs/GCC Ltd., Feltham, UK	50.00	50.00	
LSG South America GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Europe Holdings Ltd., Horley, UK	100.00	100.00	
LSG-Food & Nonfood Handel GmbH, Frankfurt/M.	100.00	100.00	
LSG-Sky Food GmbH, Alzey	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, 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 S.r.l., Fiumicino, Italy	51.00	51.00	
UAB Airo Catering Services Lietuva, Vilnius, Lithuania	100.00	100.00	
Western Aire Chef, Inc., Wilmington, USA	100.00	100.00	
ZAO AeroMEAL, Yemelyanovo, Russia	55.00	55.00	
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	

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Major subsidiaries as of 31.12.2009 (continued)	**Equity stake**	**Voting share**		**Different reporting period**
Name, registered office	in %	in %		
Lufthansa Systems Infratec GmbH, Kelsterbach	100.00	100.00		
Lufthansa Systems Passenger Services GmbH, Kelsterbach	100.00	100.00		
Other				
AirPlus International AG, Kloten, Switzerland	100.00	100.00		
AirPlus International, Inc., Springfield, USA	100.00	100.00		
AirPlus International Limited, London, UK	100.00	100.00		
AirPlus International S.r.l., Rome, Italy	100.00	100.00		
Lufthansa AirPlus Servicekarten GmbH, Neu-Isenburg	100.00	100.00		
Lufthansa Commercial Holding GmbH, Cologne	100.00	100.00		
Lufthansa Flight Training Berlin GmbH, Berlin	100.00	100.00		
Lufthansa Flight Training GmbH, Frankfurt/M.	100.00	100.00		
Lufthansa Malta Finance p.l.c., St. Julians, Malta	100.00	100.00		
MARDU Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE	
MUSA Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE	
Quinto Grundstücksgesellschaft mbH & Co. oHG, Grünwald	99.73	49.75	SPE	
Lufthansa SICAV-FIS-Fonds, Luxembourg, Luxembourg	100.00	100.00		
TGV DLH, Dusseldorf	100.00	100.00	SPE	
AirPlus Payment Management Co., Ltd., Shanghai, China	100.00	100.00		
Lufthansa Training & Conference Center GmbH, Seeheim-Jugenheim	100.00	100.00		
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	65.13	65.13		
AirPlus Holding GmbH, Vienna, Austria	97.30	97.30		

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 31.12.2009*	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			
Global Logistics System Europe Company for Cargo Information Services GmbH, Frankfurt/M.	46.85	42.86	
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., Shanghai, China	29.00	22.22	
Aerologic GmbH, Leipzig	50.00	50.00	
MRO segment			
Aircraft Maintenance and Engineering Corp., Beijing, China	40.00	42.86	
Alitalia Maintenance Systems S.p.A., Rome, Italy	40.00	40.00	
Catering segment			
Gansu HNA LSG Sky Chefs Co., Ltd., Lanzhou, China	49.00	40.00	
Other			
Diners Club Spain S.A., Madrid, Spain	25.00	25.00	

* Accounted for using the equity method.

Major associated companies as of 31.12.2009*	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	
Ukraine International Airlines, Kiev, Ukraine	21.47	21.47	
Logistics segment			
Jade Cargo International Company Limited, Shenzhen, China	25.00	28.57	
time:matters Holding GmbH, Dusseldorf	48.31	48.31	
MRO segment			
BELAC LLC, Florida 34677, USA	21.05	21.05	
HEICO Aerospace Holdings Corp., 33021 Florida, USA	20.00	20.00	
Catering segment			
CateringPor – Catering de Portugal, S.A., Lisbon, Portugal	49.00	49.00	
Hongkong Beijing Air Catering Ltd., Hong Kong, Hong Kong	45.00	45.00	
Hongkong Shanghai Air Catering Ltd., Hong Kong, Hong Kong	45.00	45.00	
Inflight Service Production Sweden AB, Sigtuna, Sweden	25.00	25.00	
Inflite Holdings (Cayman) Ltd., Grand Cayman, Cayman Islands	49.00	49.00	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, Russia	49.00	49.00	

* Accounted for using the equity method.

Ten-year overview

		2009	2008	2007
Income statement Lufthansa Group				
Revenue	€m	22,283	24,842	22,420
Result				
Operating result	€m	130	1,280	1,378
Profit/loss from operating activities [1]	€m	271	1,309	1,586
Profit/loss before income taxes [1][8]	€m	−229	730	2,125
Income taxes [8]	€m	−129	178	365
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG	€m	−112	542	1,655
Main cost items				
Staff costs	€m	5,996	5,692	5,498
Fees and charges	€m	3,762	3,499	3,174
Fuel for aircraft	€m	3,645	5,377	3,860
Depreciation, amortisation and impairment	€m	1,475	1,289	1,204
Net interest	€m	−325	−172	−194
Balance sheet Lufthansa Group				
Asset structure				
Non-current assets [4]	€m	17,696	14,975	14,076
Current assets [4]	€m	8,696	7,433	8,244
of which liquid assets	€m	4,439	3,278	3,607
Capital structure				
Shareholders' equity [2]	€m	6,202	6,594	6,900
of which issued capital [3]	€m	1,172	1,172	1,172
of which reserves	€m	5,034	4,817	4,018
of which profit/loss for the period	€m	−112	542	1,655
of which minority interests	€m	108	63	55
Liabilities	€m	20,190	15,814	15,420
of which pension provisions	€m	2,710	2,400	2,461
of which borrowing	€m	6,802	3,581	3,345
Total assets	€m	26,392	22,408	22,320
Other financial data Lufthansa Group				
Capital expenditure	€m	2,304	2,152	1,737
of which on tangible and intangible assets	€m	2,177	1,798	1,621
of which on financial investments	€m	127	354	116
Cash flow from operating activities	€m	1,991	2,473	2,862
Free cash flow	€m	251	612	2,688
Indebtedness				
gross	€m	6,860	3,639	3,369
net [7]	€m	2,195	−125	−768
Deutsche Lufthansa AG				
Net profit/loss for the year	€m	−148	276	1,123
Loss carried forward	€m	–	–	–
Transfer to/from reserves	€m	148	44	−551
Dividends proposed/paid	€m	–	320	572
Dividend per share proposed/paid	€	–	0.7	1.25

2006	2005	2004	2003	2002	2001	2000
19,849	18,065	16,965	15,957	16,971	16,690	15,200
845	577	383	36	718	28	1,042
1,078	719	954	−176	1,544	−378	1,456
1,129	875	541	−814	904	−807	1,189
232	263	133	164	182	−202	503
803	453	404	−984	717	−633	689
5,029	4,853	4,813	4,612	4,660	4,481	3,625
2,824	2,543	2,542	2,290	2,239	2,311	2,250
3,355	2,662	1,819	1,352	1,347	1,621	1,499
1,051	1,398	1,112	1,930	1,243	1,714	1,022
−254	−248	−331	−341	−415	−398	−256
12,969	12,318	11,543	10,885	12,103	13,244	11,082
6,492	6,954	6,527	5,847	7,034	4,962	3,728
2,538	3,598	3,788	2,721	3,638	1,182	970
4,903	4,522	4,014	2,696	4,172	3,528	4,165
1,172	1,172	1,172	977	977	977	977
2,648	2,707	2,398	2,660	2,431	3,154	2,448
803	453	404	−984	717	−633	689
280	190	40	43	47	30	51
14,558	14,750	14,056	14,036	14,965	14,678	10,645
3,814	4,022	4,132	4,327	4,020	3,701	3,354
2,956	3,563	3,306	3,240	4,713	4,446	2,408
19,461	19,272	18,070	16,732	19,137	18,206	14,810
1,929	1,829	1,783	1,155	880	2,979	2,446
1,380	1,221	1,647	992	646	2,549	1,769
549	608	136	163	234	430	677
2,105	1,956	1,881	1,581	2,312	1,736	2,140
584	815	1,061	1,024	2,813	−796	444
2,971	3,605	3,370	3,312	4,771	4,995	2,444
−101	−143	−418	591	1,133	3,812	1,475
523	455	265	−1,223	1,111	−797	445
–	–	–	–	−797	–	–
−202	−226	−128	1,223	−85	–	−216
321	229	137	–	229	–	229
0.70	0.50	0.30	–	0.60	–	0.60

Continued on page 224

Ten-year overview (continued)

		2009	2008	2007
Operational ratios Lufthansa Group				
Return on sales (Profit/loss before income taxes [1) 8)] / revenue)	%	−1.0	2.9	9.5
Return on capital employed (Profit/loss before income taxes [1) 8)] plus interest on liabilities/total assets)	%	−0.9	3.3	11.2
Return on equity (Profit/loss after income taxes/shareholders' equity [2)])	%	−1.6	8.4	25.5
Return on equity (Profit/loss before income taxes [1) 8)] / shareholders' equity [2)])	%	−3.7	11.1	30.8
Equity ratio (Shareholders' equity [2)] / total assets)	%	23.5	29.4	30.9
Gearing [6)] (Net indebtedness plus pension provisions/shareholders' equity [2)])	%	79.1	34.5	24.5
Leverage (Net indebtedness/total assets)	%	8.3	−0.6	−3.4
Internal financing ratio (Cash flow/capital expenditure)	%	86.4	114.9	164.8
Dynamic gearing (Net indebtedness/cash flow)	%	110.2	−5.1	−26.8
Revenue efficiency (Cash flow/revenue)	%	8.9	10.0	12.8
Net working capital (Current assets less current liabilities) [4)]	€bn	−0.1	−0.6	0
Non-current asset ratio (Non-current assets/total assets)	%	67.1	66.8	63.1
Depreciation ratio for aircraft/reserve engines (Accumulated acquisition costs/accumulated depreciation)	%	54.2	58.9	58.0
Staff ratios				
Average number of employees		112,320	108,123	100,779
Revenue/employee	€	198,384	229,757	222,467
Staff costs/revenue	%	26.9	22.9	24.5
Traffic figures Lufthansa Group [5) 9)]				
Total available tonne-kilometres	millions	35,263.8	34,960.2	30,339.3
Total revenue tonne-kilometres	millions	24,785.9	24,972.5	22,612.8
Cargo load factor	%	70.3	71.4	74.5
Available seat-kilometres	millions	206,268.7	195,430.8	169,108.4
Revenue seat-kilometres	millions	160,647.2	154,155.5	135,011.3
Passenger load factor	%	77.9	78.9	79.8
Passengers carried	millions	76.5	70.5	62.9
Revenue passenger tonne-kilometres	millions	16,082.1	15,462.6	13,569.4
Freight/mail	tonnes	1,712,355	1,914,925	1,910,846
Freight/mail tonne-kilometres	millions	8,703.8	9,509.9	9,043.4
Number of flights	number	893,235	830,832	749 431
Flight kilometres	millions	1,177.9	1,124.6	979.3
Aircraft utilisation (block hours)	number	1,949,857	1,855,842	1,629,416
Aircraft in service	number	722	524	513

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.

2006	2005	2004	2003	2002	2001	2000
5.7	4.8	3.2	−5.1	5.3	−4.8	7.8
8.2	7.0	5.8	−1.7	7.6	−1.7	10.5
18.3	13.5	10.2	−36.3	17.3	−17.1	16.5
23.0	19.3	13.5	−30.2	21.7	−22.9	28.5
25.2	23.5	22.2	16.1	21.8	19.4	28.1
75.7	85.8	92.5	182.4	123.5	213.0	115.9
−0.5	−0.7	−2.3	3.5	5.9	20.9	10.0
109.1	106.9	105.5	136.9	262.7	58.3	87.5
−4.8	−7.3	−22.2	37.4	49.0	219.6	68.9
10.6	10.8	11.1	9.9	13.6	10.4	14.1
−0.2	0	0.9	−0.3	−0.4	−1.5	−1.0
66.6	63.9	62.2	65.1	61.2	70.8	72.5
57.9	55.7	53.4	55.5	53.8	49.5	47.4
93,541	90,811	92,743	94,798	94,135	87,975	69,523
212,196	198,930	182,925	168,326	180,284	189,713	218,633
25.3	26.9	28.4	28.9	27.5	26.8	23.8
26,666.8	26,485.6	25,950.3	23,237.3	22,755.6	23,941.3	23,562.8
19,215.7	18,726.6	18,445.0	16,226.5	16,080.8	16,186.9	16,918.0
72.1	70.7	71.1	69.8	70.7	67.6	71.8
146,719.6	144,181.9	140,647.7	124,026.6	119,876.9	126,400.4	123,800.8
110,329.5	108,184.5	104,063.7	90,708.2	88,570.0	90,388.5	92,160.4
75.2	75.0	74.0	73.1	73.9	71.5	74.4
53.4	51.3	50.9	45.4	43.9	45.7	47.0
11,112.3	10,897.5	10,484.0	9,137.9	8,922.8	9,105.4	9,251.9
1,758,968	1,735,771	1,752,900	1,580,430	1,624,983	1,655,870	1,801,817
8,103.4	7,829.1	7,961.0	7,088.6	7,158.0	7,081.5	7,666.1
664,382	653,980	647,785	543,549	517,922	540,674	550,998
794.6	794.1	798.7	703.6	668.1	687.9	678.0
1,341,810	1,340,948	1,351,932	1,172,034	1,112,062	1,157,982	1,154,442
430	432	377	382	344	345	331

[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 2009 including the discontinued business segment Leisure Travel.
[9] Lufthansa Passenger Airlines, Lufthansa Regional (including Air Dolomiti's own traffic), Lufthansa Cargo, SWISS, 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.

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.

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-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. 149).

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 chapter "Value-based management and targets" on p. 45).

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.

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 chapter "Value-based management and targets" on p. 45).

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 Company pension commitments exist for employees in Germany and those seconded to other countries which are financed largely by means of pension provisions. In 2004 Lufthansa set up a dedicated fund of plan assets to finance future pension payments. The goal is to fund all the pension obligations within 10 to 15 years. The pension provisions previously reported in the balance sheet were reduced by the value of the Trust's assets as of the reporting date. Lufthansa intends to transfer an average of EUR 565m each year to the Trust.

Net indebtedness/net liquidity Financial indicator denoting non-current borrowing less cash, cash equivalents and current securities.

Operating result Measure of profitability denoting the operating result calculated as the result of operating activities, adjusted for book gains and losses, write-backs of provisions, exchange rate gains and losses on the measurement of non-current borrowing as of the reporting date and income and expenses relating to other periods, see p. 62.

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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Frank Hülsmann (Editor)
Johannes Hildenbrock
Anna-Maria Wehenkel

Deutsche Lufthansa AG, Investor Relations

Photos
Deutsche Lufthansa AG
Armin Brosch, Munich
Jens Görlich, Oberursel

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Contact

Frank Hülsmann
Head of Investor Relations
+49 69 696–28001

Johannes Hildenbrock
+49 69 696–28003

Jobst Honig
+49 69 696–28011

Gregor Schleussner
+49 69 696–28012

Deutsche Lufthansa AG
Investor Relations
LAC, Airportring
60546 Frankfurt am Main
Germany
Telephon: +49 69 696–28008
Telefax: +49 69 696–90990
E-mail: investor.relations@dlh.de

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Financial calendar 2010 / 2011

2010

11 March	Press Conference and Analysts' Conference on 2009
29 April	Annual General Meeting Berlin
5 May	Release of Interim Report January – March 2010
29 July	Release of Interim Report January – June 2010
28 Oct.	Press Conference and Analysts' Conference on interim result January – September 2010

2011

17 March	Press Conference and Analysts' Conference on 2010 results
3 May	Annual General Meeting 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

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Information published in the Annual Report 2009, with regard to the future development of the Lufthansa Group and its subsidiaries consists purely of forecasts and assessments and not of definitive historical facts. Its purpose is exclusively informational identified by the use of such cautionary terms as "believe", "expect", "forecast", "intend", "project", "plan", "estimate" or "intend". These forward-looking statements are based on all discernible information, facts and expectations available at the time. They can, therefore, only claim validity up to the date of their publication.

Since forward-looking statements are by their nature subject to uncertainties and imponderable risk factors – such as changes in underlying economic conditions – and rest on assumptions that may not or divergently occur, it is possible that the Group's actual results and development may differ materially from those implied by the forecasts. Lufthansa makes a point of checking and updating the information it publishes. It cannot, however, assume any obligation to adapt forward-looking statements to accommodate events or developments that may occur at some later date. Accordingly, it neither expressly nor conclusively accepts liability, nor gives any guarantee, for the actuality, accuracy and completeness of this data and information.

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